

# **Jiangling Motors Corporation, Ltd.**



## **2005 Annual Report**

**Important Note**

The Board of Directors and its members, the Supervisory Committee and its members, and the senior executives are jointly and severally liable for the truthfulness, accuracy and completeness of the information disclosed in the report and undertake that the information disclosed herein contains no false statement, misrepresentation or major omission in this report.

Chairman Wang Xigao, President Yuan-Ching Chen, CFO Joseph Verga and Chief of Finance Department, Wu Kai, ensure that the Financial Report in this Annual Report is truthful and complete.

All financial data in this report are prepared under International Financial Reporting Standards ('IFRS') unless otherwise specify.

The Annual Report is prepared in Chinese and English. In case of discrepancy, the Chinese version will prevail.

**Abbreviations:**

EVP	Executive Vice President
CFO	Chief Financial Officer
VP	Vice President

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## Chapter I Brief Introduction

**Company's Chinese name:** 江铃汽车股份有限公司

**English name:** Jiangling Motors Corporation, Ltd.

**Abbreviation:** JMC

**Company legal representative:** Mr. Wang Xigao

**JMC's Board secretary:** Mr. Wan Hong (Tel: 86-791-5235675)

**Person for financial information disclosure:**

Mr. Joseph Verga (Tel: 86-791-5232888 extension 6503)

**JMC's securities affairs representative:**

Mr. Quan Shi (Tel: 86-791-5232888 extension 6178)

**Contact address:** No. 509, Northern Yingbin Avenue, Nanchang City,  
Jiangxi Province, P.R.C

**Switchboard:** 86-791-5232888

**Fax:** 86-791-5232839

**E-mail:** relations@jmc.com.cn

**Company registered address & headquarters address:**

No. 509, Northern Yingbin Avenue, Nanchang City, Jiangxi Province, P.R.C

**Postal Code:** 330001

**JMC's website:** <http://www.jmc.com.cn>

**Newspapers for information disclosure:** China Securities, Securities Times, Hong Kong  
Commercial Daily

**Website designated by CSRC for publication of JMC's Annual Report:**

<http://www.cninfo.com.cn>

**Place for archiving Annual Report:**

Securities Department, Jiangling Motors Corporation, Ltd.

**Place of listing:** Shenzhen Stock Exchange

**Share's name:** G Jiangling            Jiangling B

**Share's code:**    000550            200550

**Other Information:**

1. JMC was registered with Nanchang Municipal Bureau of Industrial & Commercial

Administration on November 28, 1993. The company registration was changed with Jiangxi Provincial Bureau of Industrial & Commercial Administration on January 8, 1997, on October 25, 2003, on September 23, 2004 and on January 11, 2006.

2. Business License Registration Number: 002473.

3. Taxation Registration Number: 360100612446943.

4. Accounting Firm appointed by JMC for audit under both Chinese Accounting Standards ('CAS') and International Financial Reporting Standards ('IFRS'):

Name: PwC Zhong Tian CPAs Co., Ltd.

Headquarters address: 325, ShenJiaNong, PuDong New Zone, Shanghai City, P.R.C

## Chapter II Operating Highlight

### I. Certain Financial Indexes of the Reporting Year

Unit: RMB'000

Profit Before Tax	601,514
Net Profit	490,872
Gross Profit	1,269,035
Other Operating Income	54,832
Profit From Operations	577,921
Investment Income	4,173
Subsidy Income	0
Net Income Outside of Core Business	-2,294
Net Cash Flows from Operating Activities	1,001,152
Net Increase in Cash and Cash Equivalent	597,983

Impact of IFRS adjustments on the net profit:

Unit: RMB '000

	Net Assets December 31, 2005	Net profit 2005
As Prepared per CAS #	2,873,286	495,431
Adjustment per IFRS:		
Deferred Tax Asset	58,698	12,002
Pension Defined Benefit	-97,236	16,091
Minority Interest	1,774	-3,279
Deferred Income	-26,112	-26,112
Employee Bonus and Welfare Fund of Jiangling Isuzu JV appropriated from Profit after Tax	-	-4,479
Others	-	1,218
As Restated in Conformity with IFRS	2,810,410	490,872

# Based on the financial statements audited by PwC Zhong Tian CPAs per CAS.

II. Main accounting data and financial ratios of the past three years.

Unit: RMB'000

Item	2005	2004	2003
Sales	6,280,636	5,770,676	5,094,897
Net Profit	490,872	415,134	382,255
Total Assets	4,722,421	4,179,331	3,821,005
Shareholders' Equity (Excluding Minority Interests)	2,810,410	2,449,019	2,163,366
Earnings Per Share (RMB)	0.57	0.48	0.44
Net Assets Per Share (RMB)	3.26	2.84	2.51
Net Cash Flow Per Share from Operating Activities (RMB)	1.16	0.87	0.92
Return on Net Asset Ratio	17.47%	16.95%	17.67%

### Chapter III Share Capital Changes & Shareholders

I. Table of the changes of shareholding structure

	Before the change		Change (+, -)					After the changed	
	Shares	Proportion of total shares (%)	New shares	Bonus Shares	Reserve-converted shares	Others	Subtotal	Shares	Proportion of total shares (%)
I. Unlisted shares									
1. Issuer's shares	354,176,000	41.03%						354,176,000	41.03%
Including:									
State-owned shares	354,176,000	41.03%						354,176,000	41.03%
2. Other legal-person shares	47,438,000	5.50%						47,438,000	5.50%
II. Listed shares									
1. A shares	117,600,000	13.62%						117,600,000	13.62%
2. B shares	344,000,000	39.85%						344,000,000	39.85%
III. Total	863,214,000	100%						863,214,000	100%

JMC did not issue shares or derivative securities during the past three years as of December 31, 2005. JMC's total shares and the share structure remained the same in 2005.

As of February 14, 2006, after the implementation of Full Circulatory Share Reform, table of the changes of shareholding structure is shown as follows:

	Before the change		Change (+, -)					After the changed	
	Shares	Proportion of total shares (%)	New shares	Bonus Shares	Reserve-converted shares	Others	Subtotal	Shares	Proportion of total shares (%)
I. Shares with conditional subscription									
1.State-owned shares									
2. State-owned legal person shares	354,176,000	41.03%						354,176,000	41.03%
3. Other domestic shares									
Including:									
Domestic legal person shares	47,438,000	5.50%						47,438,000	5.50%
Domestic nature person shares (Management Shares)	6,060	-						6,060	-
II. Shares with unconditional subscription									
1. A shares	117,593,940	13.62%						117,593,940	13.62%
2. B shares	344,000,000	39.85%						344,000,000	39.85%
III. Total	863,214,000	100%						863,214,000	100%

## II. Shareholders

1. Total shareholders, top ten shareholders, and top ten circulation-share holders as of December 31, 2005

Total shareholders	JMC had 49,303 shareholders, including 37,701 A-share holders and 11,602 B-share holders, as of December 31, 2005.				
Top ten shareholders					
Name	Shareholder type	Ratio in the total capital stock (%)	Shares	Including: unlisted shares	Shares due to mortgage or frozen
Jiangxi Jiangling Holdings Limited ('Jiangling Holdings')	State Shareholder	41.03	354,176,000	354,176,000	0
Ford Motor Company ('Ford')	Foreign-investment shareholder	30	258,964,200	0	0
Shanghai Automotive Co., Ltd.	Other	3.01	25,970,000	25,970,000	0
China Baoan Group Co., Ltd.	Other	1.39	12,000,000	12,000,000	0
Guotai Junan Securities Hong Kong Limited	Other	0.63	5,431,434	0	0
National Social Security Fund—Portfolio 103	Other	0.46	3,983,368	0	0

Deutsche Bank Ag London	Other	0.41	3,504,047	0	0
Jingfu Securities Investment Fund	Other	0.40	3,440,068	0	0
Lion Equilibrium Securities Investment Fund	Other	0.40	3,422,294	0	0
Southern Securities Investment Fund	Other	0.35	2,980,523	0	0
Top ten circulation-share holders					
Name		Shares		Share Type	
Ford Motor Company		258,964,200		B share	
Guotai Junan Securities Hong Kong Limited		5,431,434		B share	
National Social Security Fund—Portfolio 103		3,983,368		A share	
Deutsche Bank Ag London		3,504,047		B share	
Jingfu Securities Investment Fund		3,440,068		A share	
Lion Equilibrium Securities Investment Fund		3,422,294		A share	
Southern Securities Investment Fund		2,980,523		A share	
Rongtong Industry Securities Investment Fund		2,969,550		A share	
Everbright Securities Co., Ltd.		1,913,127		A share	
Lion Stock Securities Investment Fund		1,679,521		A share	
Notes on association among above-mentioned shareholders		Everbright Securities Co., Ltd. is a shareholder of Jingfu Securities Investment Fund; Nuoan Equilibrium Securities Investment Fund and Nuoan Stock Securities Investment Fund are related funds.			

## 2. Controlling Shareholders

The controlling shareholders of JMC are Jiangling Holdings and Ford.

Jiangling Motors Company (Group), the former major shareholder of JMC, transferred its 354.176 million JMC State-owned shares to Jiangling Holdings as capital contribution. Shenzhen Branch of China Securities Depository and Clearing Corporation Limited had confirmed and completed the registration for the state-owned share transfer as of December 8, 2005. Jiangling Holdings now holds 354.176 million State-owned shares in JMC, representing 41.03% of total shares of the Company, and becomes the largest shareholder of the Company. The aforesaid state-owned share transfer had been disclosed in China Securities, Securities Times and Hong Kong Commercial Daily respectively on February 24, on May 12, on July 7 and on December 10, 2005.

Jiangling Holdings was founded on November 1, 2004 and its registered capital is RMB 1 billion. Jiangling Motors Company (Group) and Chongqing Changan Automobile Corporation Ltd. held 50% of total equity of Jiangling Holdings respectively. And its legal

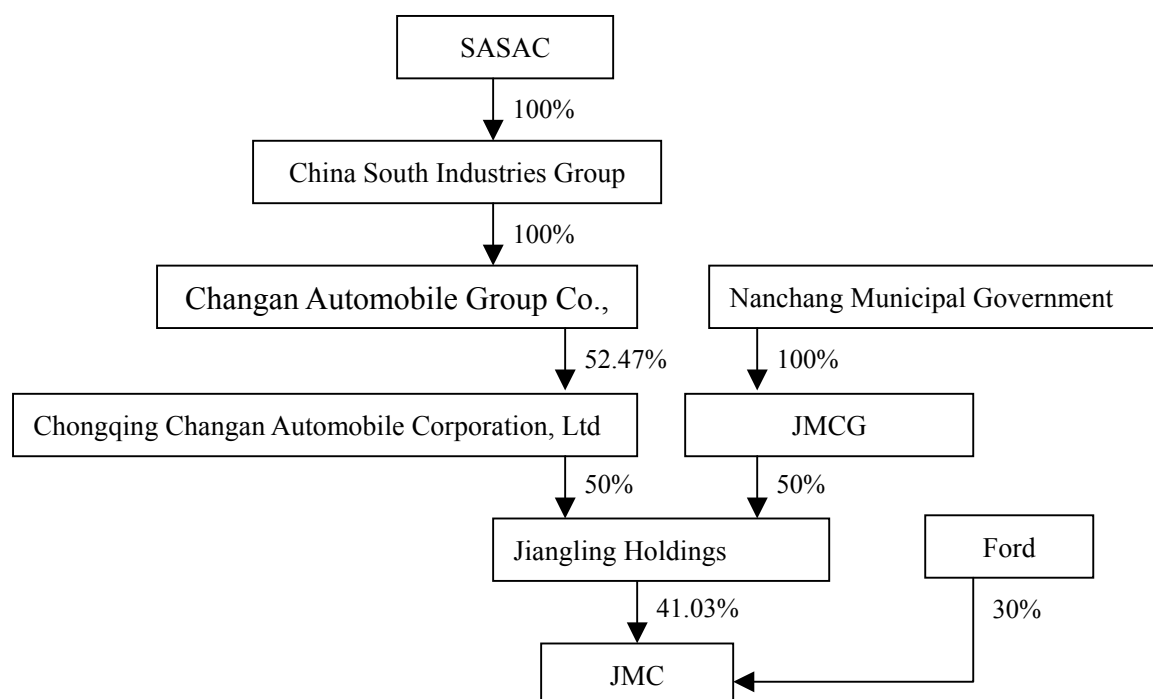
representative is Mr. Yin Jiayu. Main scope of business: manufacturing of automobiles, engines, chassis, and automotive components and parts, sales of self-produced products, as well as related after-sales services; industrial investment; management & agent for merchandise and technology export & import; property management; sales of household articles, mechanical & electronic equipment, artistic handicrafts, agricultural by-products and steel; consulting business in enterprise management.

Ford, founded in 1903, is a US-based listed company. Its ownership interest is US\$ 16.045 billion. Chairman & CEO: William Clay Ford, Jr. Main scope of business: design, manufacturing, assembly and sales of cars, trucks, parts and components, financing, leasing of vehicles and equipment, and insurance business.

### 3. Actual Controlling Parties

The actual controlling party of Jiangling Holdings is China South Industries Group. China South Industries Group was founded on June 29, 1999 with its registered capital of RMB 12,645,210,000 and was subordinate to the State-owned Assets Supervision and Administration Committee of the State Council ('SASAC'). Its legal representative is Mr. Xu Bin. Business scope and major products: investment and management of state-owned assets, manufacturing of armaments, engineering prospecting, designing, contracting, construction supervision, equipment installation, etc.

Ownership and control relations between the Company and the actual controlling parties is shown as follows:



### III. Trading of JMC's share

#### 1. Jiangling A shares

Year	First transaction price (RMB)	Highest price of the year (date)	Lowest price of the year (date)	Closing price at the year end (RMB)	Total transaction days	Total volume (million shares)	Total amount (RMB million)
2003	7.4	14.28(05/26)	7.16(01/03)	10.43	240	7.10	79.08
2004	10.40	12.47(02/18)	4.92(10/26)	5.18	236	7.93	61.68
2005	5.12	7.10(08/19)	3.52(05/10)	5.99	227	7.55	40.50

#### 2. Jiangling B shares

Year	First transaction price (HK\$)	Highest price of the year (date)	Lowest price of the year (date)	Closing price at the year end (HK\$)	Total transaction days	Total volume (million shares)	Total amount (HK\$ million)
2003	3.55	6.95(11/04)	3.51(01/02)	6.65	239	325.10	18.01
2004	6.60	7.15(03/10)	2.84(11/02)	2.89	236	162.94	8.33
2005	2.89	3.60(08/15)	2.45(04/26)	3.32	235	136.37	4.19

## Chapter IV Directors, Supervisors, Senior Management and Employees

### I. Directors, Supervisors and Senior Management

#### 1. Basic Information

Position	Name	Gender	Age	Term of office	Shares as of Dec. 31, 2004	Shares as of Dec. 31, 2005	Share change in Year 2005	Cause of share change
<b>Directors :</b>								
Chairman	Wang Xigao	Male	56	2005.6 ~ 2008.6	0	0	0	
Vice Chairman	Mei Wei Cheng	Male	56	2005.6 ~ 2008.6	0	0	0	
Director	Yin Jiaxu	Male	50	2005.11 ~ 2008.6	0	0	0	
Director	Howard Welsh	Male	48	2005.6 ~ 2008.6	0	0	0	
Director & President	Yuan-Ching Chen	Male	54	2005.6 ~ 2008.6	0	0	0	
Director & EVP	Tu Hongfeng	Male	58	2005.6 ~ 2008.6	0	0	0	
Independent Director	Zhang Zongyi	Male	42	2005.6 ~ 2008.6	0	0	0	
Independent Director	Pan Yuexin	Male	48	2005.6 ~ 2008.6	0	0	0	
Independent Director	Lok Kim Chai	Male	59	2005.6 ~ 2008.6	0	0	0	
<b>Supervisors :</b>								
Chief supervisor	Wu Yong	Male	56	2005.6 ~ 2008.6	4,860	4,860	0	
Supervisor	Alvin Qing Liu	Male	49	2005.6 ~ 2008.6	0	0	0	
Supervisor	Zhu Yi	Male	36	2005.6 ~ 2008.6	0	0	0	
Supervisor	Zhang Jianguo	Male	49	2005.6 ~ 2008.6	0	0	0	
Supervisor	Jin Wenhui	Male	39	2005.6 ~ 2008.6	0	0	0	
<b>Senior Management:</b>								
EVP	Xiong Chunying	Female	42	2005.6 ~ 2008.6	1200	1200	0	
EVP	Liu Nianfeng	Female	44	2005.6 ~ 2008.6	0	0	0	
CFO	Joseph Verga	Male	46	2006.2 ~ 2008.6	0	0	0	

VP & Board Secretary	Wan Hong	Male	45	2005.6 ~ 2008.6	0	0	0
VP	Zhong Wanli	Male	43	2005.6 ~ 2008.6	0	0	0
VP	Zhou Yazhuo	Male	43	2005.6 ~ 2008.6	0	0	0

## 2. Positions at the shareholder entities held by the JMC directors and the supervisors:

Name	Shareholder entity	Title	Term of office	Compensation paid by shareholder entity (Y/N)
Wang Xigao	Jiangling Holdings	Vice Chairman	2004.11—	N
Mei Wei Cheng	Ford	Vice President	1999.1—-	Y
Yin Jiaxu	Jiangling Holdings	Chairman	2004.11—	N
Wu Yong	Jiangling Holdings	Chief supervisor	2004.11—	N
Zhu Yi	Jiangling Holdings	Board member	2004.11—	N

## 3. Particulars about working experience of directors, supervisors and senior management in the recent five years

### Directors:

Mr. Wang Xigao, born in 1950, senior engineer equivalent to professor, holds a Bachelor's Degree in Thermodynamics from Tsinghua University and a Bachelor's Degree in Economic Management from Fudan University. In the recent five years, Mr. Wang Xigao held various positions including General Manager & Chairman of Jiangxi Boiler & Petroleum Machining Joint Company, Ltd., Vice-Chairman, Chairman of JMCG, and Chairman of Jiangling-Isuzu Motors Company, Ltd. Since March 2004, Mr. Wang Xigao took the post of the chairman of JMC.

Mr. Mei Wei Cheng, born in 1950, holds a Bachelor's Degree in industrial engineering/operations research from Cornell University. He has MBA Degree from Rutgers University and is a graduate of Dartmouth's Amos Tuck Executive Program and MIT's Program for Senior Executives. In the recent five years, Mr. Mei Wei Cheng held various positions including Vice President of Ford, Chairman & CEO of Ford Motor (China), Ltd. and Vice Chairman of Changan-Ford Automobile Company, Ltd. Since June 1999, Mr. Mei Wei Cheng took the post of Vice Chairman of JMC.

Mr. Yin Jiaxu, born in 1956, is a master & senior engineer equivalent to the professor. In the recent five years, Mr. Yin Jiaxu used to be Deputy General Director of Southwest Industries Bureau of China Industries Company, General Manager & Chairman of Changan Auto Group Co., Ltd., Chairman of Chongqing Changan Automobile Co., Ltd., General Manager & Executive Director of South Automobile Corporation, Ltd. and Vice General Manager of China South Industries Group. Mr. Yin Jiaxu was appointed as a Director of

JMC on November 2005.

Mr. Howard Welsh, born in 1957, holds a Bachelor's Degree in Engineering from Pennsylvania State University and a MBA from University of Pittsburgh. In the recent five years, Mr. Howard Welsh held various positions including Northern America Controller of Ford Customer Service Division, Northern America Business Strategy Manager of Ford, and Vice President & CFO of Ford Motor (China), Ltd. Mr. Howard Welsh was appointed as a Director of JMC on December 2004.

Mr. Yuan-Ching Chen, born in 1952, holds mechanical engineering Degree from National Cheng Kung University of China Taiwan. In the recent five years, Mr. Yuan-Ching Chen held various positions including Chief Technical Officer of Ford Lio Ho Motor Company, Chief Marketing & Sales Officer of Ford Lio Ho Motor Company, and Vice President of Ford (China) in charge of business operating & planning, and the President, Director of JMC. Mr. Yuan-Ching Chen was appointed as a Director of JMC on June 2005.

Mr. Tu Hongfeng, born in 1948, senior engineer, holds a College Degree. In the recent five years, Mr. Tu Hongfeng held various positions including Vice General Manager of JMCG, Director, EVP of JMC, and Director, General Manager of Jiangling-Isuzu Motors Company, Ltd. Mr. Tu Hongfeng was appointed as a Director of JMC on June 2005.

Mr. Zhang Zongyi's resume:

Mr. Zhang Zongyi, born in 1964, is a professor, professor of doctorate program and holds a Doctor Degree in Engineering of Chongqing University as well as a Doctor Degree in Economics of University of Portsmouth, U.K. In the recent five years, Mr. Zhang Zongyi held various positions including Dean of the Economic and Business Administration School of Chongqing University, Vice President of Chongqing University and Dean of the Graduate School of Chongqing University. Mr. Zhang Zongyi was appointed as an Independent Director of JMC on June 2005.

Mr. Pan Yuexin, born in 1958, lawyer, is a graduate of Chinese Academy of Social Sciences in Economic Laws. In the recent five years, Mr. Pan Yuexin held various positions including a partner of Junhe Law Firm, General Secretary of Education Committee of Chinese Lawyer Association, Independent Director of the second Board of Directors of Sino-Chem International Co., Ltd., Vice General Manager of Sino-Chem International Co., Ltd. Mr. Pan Yuexin has been an Independent Director of JMC since June 2002.

Mr. Lok Kim Chai, born in 1947, is a senior member of the following professional bodies: the Institute of Chartered Accountants of New Zealand, the Malaysian Institute of Accountants and the Institute of Chartered Secretaries and Administrators, UK. In the recent five years, Mr. Lok served a Fortune 500 USA company as the vice chairman and vice president of its China subsidiary. Prior to this, he also served the same USA company as a senior finance manager of its Malaysian subsidiary and the regional IT manager for its Asia region. Mr. Lok Kim Chai has been an Independent Director of JMC since September

2003.

Supervisor:

Mr. Wu Yong, born in 1951, senior counselor for politics work, holds a Bachelor's Degree in Business Management. In the recent five years, Mr. Wu Yong held various positions including Director, Vice Secretary of the Party Committee, Secretary of discipline inspection committee of the Communist Party, the Chairman of the Labor Union of JMCG, and Chairman of the Supervisory Committee of Jiangling Holdings. Mr. Wu Yong has been the Chief Supervisor of JMC since 1993.

Mr. Alvin Qing Liu, born in 1957, has a Jurisprudence Doctor Degree and a Master Degree in International Economics from Marquette University, U.S.A. and is a member of American Bar Association and admitted to practice in the U.S. Federal Court for the Eastern District of Wisconsin. In the recent five years, Mr. Alvin Qing Liu was counsel of Asia Pacific Region, Chrysler Corporation, U.S.A., counsel of Mergers and Acquisitions Group and Northeast Asia Operations, Daimler-Chrysler A.G., Germany, an International Counsel in the Office of General Counsel, Ford Motor Company and Vice President of Ford Motor (China), Ltd. Mr. Alvin Qing Liu has been a Supervisor of JMC since June 2002.

Mr. Zhu Yi, born in 1970, accountant, holds a Bachelor's Degree in Business Management. In the recent five years, Mr. Zhu Yi used to be the Chief of JMCG Asset & Finance Department and Assistant General Manager of JMCG. Mr. Zhu Yi has been a Supervisor of JMC since June 2002.

Mr. Zhang Jianguo, born in 1957, senior engineer, holds a Bachelor's Degree in Casting. In the recent five years, he used to be the Manager of Jiangling Casting Plant of JMC, Chief of Purchasing Center of JMC and General Manager of Jiangling Nonferrous Compression Casting Co., Ltd. Mr. Zhang Jianguo has been a Supervisor of JMC since June 2002.

Mr. Jin Wenhui, born in 1967, senior engineer, holds a Bachelor's Degree in Mechanical Manufacture from Huazhong University of Science and Technology. In the recent five years, he used to be the Chief of Die Centre of JMC and Chief of Manufacturing Department of JMC. Mr. Jin Wenhui held the post of supervisor of JMC since June 2002.

Senior management:

Ms. Xiong Chunying, born in 1964, senior engineer, graduated from Jiangsu Engineering College, holds an Bachelor's Degree in Automotive Engineering. In the recent five years, Mrs. Xiong used to be Vice President, Executive Vice President of JMC.

Ms. Liu Nianfeng, born in 1961, holds a Bachelor of Science Degree in Engineering from ZheJiang University and MBA from the University of Texas at Arlington. In the recent five years, Ms. Liu used to be Deputy Plant Manager of JMC Engineering Plant, Plant Manager of Jiangling Framing Plant in JMC and Executive Vice President of JMC.

Mr. Joseph Verga, born in 1960, is the Chief Financial Officer of JMC and holds a Master's Degree in Engineering from the University of the Witwatersrand, South Africa and MBA from the University of Michigan, U.S.A. In the recent five years, Mr. Joseph Verga held various positions including Finance Manager in charge of Product Development and Powertrain Operations of Ford Motor Company, and China Product Development Controller of Changan Ford Motor Co., Ltd.

Mr. Wan Hong, born in 1961, engineer, holds a College Degree in Management Engineering. In the recent five years, Mr. Wan Hong used to be the Chief of Human Resource and Enterprise Management of JMC and Assistant to President of JMC, Vice President and Board Secretary of JMC.

Mr. Zhong Wanli, born in 1963, holds a Bachelor's Degree from Nanchang Aeronautical Institute and a Master's Degree from Jiangxi Finance and Economics University. In the recent five years, Mr. Zhong Wanli used to be the President of Zhongtian Hi-tech Special Vehicle Co., Ltd., Deputy Director of China Sourcing Office of Ford (China) and Vice President of JMC.

Mr. Zhou Yazhuo, born in 1963, senior engineer, graduated from the Central China Engineering College, holds a Bachelor's Degree in Forging. In the recent five years, Mr. Zhou Yazhuo used to be Assistant to President and Chief of Manufacturing Department of JMC, and Vice President of JMC.

4. Particulars about positions and concurrent positions in other entities other than shareholder entities:

Name/Title in the Company	Entity	Relationship with the Company	Title
Wang Xigao/Chairman	JMCG	JMCG holding 50% equity of Jiangling Holdings	Chairman
	Jiangling-Isuzu Motors Company, Ltd.	Shareholding Subsidiary	Chairman
Mei Wei Cheng/Vice Chairman	Ford Motor (China) Ltd.	Ford wholly-owned subsidiary	Chairman & CEO
	Changan-Ford Automobile Company, Ltd.	Ford holding 50% equity	Vice Chairman
Yin Jiaxu/Director	China South Industries Group	See the figure in Chapter III	Vice General Manager
	Changan Automobile Group Co., Ltd.		Chairman
	Chongqing Changan Automobile Co., Ltd.		Chairman
	South Automobile Corporation, Ltd.	No relationship	General Manager & Executive Director

Howard Welsh/Director	Ford Motor (China) Ltd.	Ford wholly-owned subsidiary	Vice President & CFO
Zhang Zongyi/Independent director	Chongqing University	No relationship	Vice President of Chongqing University and Dean of the Graduate School
Pan Yuexin/Independent director	Sino-Chem. International (Holdings) Co., Ltd.	No relationship	Vice General Manager
Wu Yong/Chief Supervisor	JMCG	JMCG holding 50% equity of Jiangling Holdings	Director
Alvin Qing Liu/Supervisor	Ford Motor (China) Ltd.	Ford wholly-owned subsidiary	General Counsel
Zhu Yi/Supervisor	JMCG	JMCG holding 50% equity of Jiangling Holdings	Assistant General Manager
Yuan-Ching Chen/President	Jiangling-Isuzu Motors Company, Ltd.	Shareholding Subsidiary	Director
Tu Hongfeng/EVP	Jiangling-Isuzu Motors Company, Ltd.	Shareholding Subsidiary	Director & General Manager
Joseph Verga/CFO	Jiangling-Isuzu Motors Company, Ltd.	Shareholding Subsidiary	Director

#### 5. Annual Compensation

The directors and the supervisors who did not concurrently hold other management positions in JMC were not paid by JMC. Director Wang Xigao, Supervisors Wu Yong and Zhu Yi were paid by JMCG. Directors Mei Wei Cheng, Howard Welsh and Supervisor Alvin Qing Liu were paid by Ford. Director Yin Jiaxu was paid by China South Industries Group.

(1) The compensation for the Chinese-side senior management, according to the Senior Executives Compensation Plan of JMC (provisional) approved by the Board, consists of three parts: base salary, position allowance and year-end bonus. In 2005, the Company paid annual compensation of approximately RMB 930 thousand to Mr. Tu Hongfeng, Director & EVP of JMC, paid Ms. Xiong Chunying and Ms. Liu Nianfeng, EVPs of JMC approximately RMB 720 thousand per person, paid VP & Board Secretary Wan Hong and VP Zhou Yazhuo approximately RMB 540 thousand per person. Two employee-representative supervisors, Mr. Zhang Jianguo and Mr. Jin Wenhui, were paid about RMB 210 thousand and RMB 220 thousand respectively. The total compensation for the aforesaid persons paid by JMC was about RMB 3.88 million in the reporting period.

(2) JMC pays Ford annual compensation for Ford-seconded senior management personnel in line with the Personnel Agreement signed between Ford and JMC, and Ford pays the senior management and other foreign personnel seconded to JMC. Subject to the Amendment to Personnel Agreement approved by the Board, in 2005, JMC should pay US\$ 208.3 thousand to Ford for Director & President Yuan-Ching Chen, US\$ 41.7 thousand for former senior EVP Gordon Spaulding, US\$ 250 thousand for former CFO

Manto Wong, US\$ 187.5 thousand for former VP Kevin Whipp, US\$ 62.5 thousand for former VP Ali İhsan Kamanlı and approximately RMB 190 thousand for VP Zhong Wanli, including salary, insurance, and other personnel-related expenses.

(3) In term of the resolutions of JMC 2003 Annual Shareholder's Meeting, the annual compensation for the JMC independent directors is RMB 80 thousand per person, and JMC bears their travel-related expenses related to JMC's business.

## 6. Changes of Directors, Supervisors and Senior Management

### Directors Changes:

Due to expiration of the three-year term for the fourth Board, the Board was re-elected in accordance with the regulations of the Articles of Association of JMC.

Upon the approval of JMC 2004 Annual Shareholders' Meeting, Mr. Wang Xigao, Mr. Mei Wei Cheng, Mr. Lu Shuifang, Mr. Howard Welsh, Mr. Yuan-Ching Chen and Mr. Tu Hongfeng were elected as directors of JMC, and Mr. Zhang Zongyi, Mr. Pan Yuexin and Mr. Lok Kim Chai were appointed as independent directors. Mr. Zhou Ming and Mr. Gordon Spaulding resigned as directors of JMC, and Mr. Xu Wenguang resigned as independent director.

Upon the approval of JMC 2005 Second Special Shareholders' Meeting on November 22, 2005, Mr. Lu Shuifang's resignation from director position in the Company due to work reasons was accepted and Mr. Yin Jiayu was elected as a director of JMC.

### Supervisors Changes:

Due to expiration of the three-year term for the fourth Supervisory Committee, the Supervisory Committee was re-elected in accordance with the regulations of the Articles of Association of JMC.

Upon the approval of JMC 2004 Annual Shareholders' Meeting, Mr. Wu Yong, Mr. Alvin Qing Liu and Mr. Zhu Yi were elected as supervisors of JMC. Mr. Zhang Jianguo and Mr. Jin Wenhui were elected in the meeting of employee representatives as members of the new Supervisory Committee of JMC.

### Senior Management changes:

The Board of Directors accepted Mr. Lu Shuifang's resignation from the President position due to work reasons and Mr. Eric Hoile's resignation from VP position. And the Board of Directors appointed Mr. Yuan-Ching Chen as the President of the Company and Mr. Tu Hongfeng as an EVP on January 19, 2005.

The Board of Directors agreed to Mr. Gordon Spaulding's resignation from the Senior Executive Vice President position and appointed Mr. Zhong Wanli as a VP of the Company on March 23, 2005.

Due to re-election of the Board of Directors, the first session of the new Board held on June 28 and June 29, 2005 approved the following resolutions: appointed Mr. Yuan-Ching Chen as the President of the Company; based on the Chairman's nomination, appointed Mr. Wan Hong as the Board Secretary; based on the President's nomination, appointed Mr. Tu Hongfeng, Ms. Xiong Chunying and Ms. Liu Nianfeng as EVPs, Mr. Manto Wong as CFO, Mr. Wan Hong, Mr. Zhong Wanli, Mr. Zhou Yazhuo and Mr. Kevin Whipp as VPs.

The Board of Directors agreed to Mr. Kevin Whipp's resignation from VP position and appointed Mr. Ali Ihsan Kamanli as a VP of the Company on October 24, 2005.

Subsequent Event:

The Board of Directors accepted Mr. Manto Wong's resignation from the Chief Financial Officer position due to work reasons and appointed Mr. Joseph Verga as the Chief Financial Officer of the Company on January 23, 2006.

The Board of Directors accepted Mr. Ali Ihsan Kamanli's resignation from VP position in the Company due to work reasons on March 28, 2006.

## II. Employees

At the end of 2005, JMC had a total of 7,079 employees, of which 5,008 were production workers, 277 sales personnel, 917 technical personnel, 65 finance personnel, 812 administrative staff. The employees with polytechnic school degrees or above accounted for 28% of the total. There were 673 persons with junior technical titles, 491 with intermediate technical titles and 120 with senior technical titles, altogether accounting for 18% of the total. There were 1,066 early-retired employees and 51 lay-offs. JMC had a total of 1,120 retired employees with Company funded retirement benefits.

## **Chapter V Corporate Governance**

### 1. Status of the Corporate Governance in JMC

The Company continued to improve its corporate governance in compliance with Company law, Governance Rules for Listed Companies, the Rules for Listing Shares in Shenzhen Stock Exchange, the Rules on Strengthening the Protection for Public Shareholders' Rights and Interests, Guidelines on Implementing Full Circulatory Share Reform in Listed Companies, as well as the relevant laws and regulations. The measures included the following items:

- (1) completed Full Circulatory Share Reform for JMC, aligning the interests of all shareholders;
- (2) revised the Articles of Association of JMC correspondingly, and formulated the Rules on the Board of Directors Meeting and Decision Making Procedures, the Meeting Rules of the Supervisory Committee and Executive Committee Operating Rules, which further regulated the administration and operation of the Company; and
- (3) improved compensation & evaluation mechanism for senior management, and formulated Senior Executive Compensation Plan of JMC (Provisional).

## 2. Status of Independent Directors in Execution of Duty

JMC has appointed three independent directors so far. The independent directors exercised their fiduciary duties regarding routine work and major decision-making of the Board of Directors. They studied every proposal reviewed by the Board of Directors thoroughly and raised their opinions, inquired about major events which required the opinions from the independent directors and issued their written opinions, and actively engaged in the affairs of Compensation Committee and Audit Committee in the reporting period, to protect the interests of the Company and all shareholders.

### I. Particulars about independent directors' attendance to the Board meeting:

Name	Required Board attendance	Actual presence in person	Proxied presence	Absence
Zhang Zongyi	9	9	0	0
Pan Yuexin	15	15	0	0
Lok Kim Chai	15	14	1	0

### II. Disagreements for JMC related matters

The independent directors of the Company did not object to any proposal and issue of the Company reviewed at Board meetings in the reporting period.

## 3. Separation between JMC and the Controlling Shareholders in respect of Personnel, Assets and Finance, and Independence concerning the Organization and the Business:

(1) With respect to personnel matters, the positions of chairman and president are held by different individuals; JMC's senior management do not hold positions other than director positions with its controlling shareholders; JMC senior management personnel are paid by JMC; the labor, personnel matters and compensation management of JMC are completely independent.

(2) With respect to assets, JMC assets are complete. The assets utilized by JMC, including production system, supporting production system and peripheral facilities, and non-patent technology, are owned and/or controlled by JMC.

(3) With respect to finance, JMC has an independent finance department and independent accounting system, and has a uniform and independent accounting system and financial control system for its branches and subsidiaries. JMC has its own bank accounts, and there are no bank accounts jointly owned by JMC and its controlling shareholders. JMC pays taxes independently.

(4) With respect to organization, JMC's organization is independent, complete and scientifically established with an efficient operating mechanism. The establishment and the operation of JMC's corporate governance are strictly carried out per the Articles of Association of JMC. Production and administrative management are independent from the controlling shareholders. JMC has established an organization structure that meets the need for ongoing development.

(5) With respect to business, JMC has independent purchasing, production and sales systems. The purchasing, production and sales of main materials and products are carried out through its own purchasing, production & sales functions. JMC is independent from the controlling shareholders in respect to its business, and has independent and complete business and self-sufficient operation capability. Controlling shareholders basically did not engage in production or sales of similar products to compete with JMC.

4. Compensation & Incentive Mechanism for Senior Management in the Reporting Period  
In the reporting period, the Board of Directors reviewed and approved Senior Executives Compensation Plan of JMC (Provisional) on March 23, 2005. According to the Plan, compensation of the senior management consists of base salary, position allowance and year-end bonus, and compensation is based on an evaluation mechanism for senior management. This plan was applicable only to the Chinese-side senior management in 2005.

## **Chapter VI Shareholders' Meeting**

The 2005 first special shareholders' meeting of JMC was held in the conference center on the second floor of the Administration Building of JMC on February 21, 2005. Public announcement on resolutions of the special shareholders' meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on February 22, 2005.

The 2004 annual shareholders' meeting of JMC was held in the conference room on the fourth floor of the Administration Building of JMC on June 28, 2005. Public announcement on resolutions of the annual shareholders' meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on June 29, 2005.

The 2005 second special shareholders' meeting of JMC was held in the conference center on the second floor of the Administration Building of JMC on November 22, 2005. Public announcement on resolutions of the special shareholders' meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on November 23, 2005.

## **Chapter VII Report of the Board of Directors**

### **I. Management Discussion and Analysis**

#### **1. Operating Results**

JMC's core business is production and sales of light vehicles and related components. Its major products include JMC series light truck and pickup, and Transit series commercial bus. The Company also produces engine, casting and other components.

In 2005, JMC sales volume reached a record of 73,292 units including 29,032 light trucks and minibuses, 22,058 pickups, 3,913 Baowei SUV and 18,289 Ford Transit commercial vehicles. Total sales volume was up 9% from last year. Total production volume was 74,522 units, including 28,716 light trucks and minibuses, 27,086 pickups and SUV, and

18,720 Transits.

The Company's sales increase is primarily attributed to Transit price reduction and introduction of a new model Baowei SUV, which increased Transit sales volume by 43% compared with last year and Baowei sales increased by 330%.

In 2005, the Company achieved a share of about 1.3% of the Chinese automotive market, about the same as 2004. JMC light trucks (including pickup) accounted for 6% of the light truck market, down about 1 percent from year ago. Transit, along with the JMC brand Yunba microbus, achieved about 15% of the traditional light bus market, about 4 percent higher than last year. (Data source for above analysis: China Association of Automobile Manufacturers and the Company sales records)

The Detailed Table of Revenue & Cost of Goods Sold from Core Business.

Unit: RMB'000

Product	Turnover	Cost in core business	Gross margin	Year-on-year changes of turnover (%)	Year-on-year changes of costs in core business (%)	Year-on-year changes of gross margin (point)
I. Vehicle	5,723,796	4,455,577	22.2%	10.0%	10.5%	-0.3
II. Components	556,840	444,834	20.1%	-2.0%	-13.0%	10.2
Total	6,280,636	4,900,411	22.0%	8.8%	7.8%	0.7
Including: Related party transaction	652,946	538,083	17.6%	24.8%	21.7%	2.1

Particulars about main business classified according to region:

Unit: RMB'000

Region	Turnover	Year-on-year changes (%)
North-east China	293,840	12.6
North China	582,611	-0.5
East China	3,287,925	11.7
South China	1,149,763	1.8
Central China	353,000	11.6
North-west China	230,468	6.3
South-west China	383,029	20.0

## 2. Operating Results of Subsidiaries

Name of Subsidiaries	Business	Main Products	Registered Capital	Assets (RMB'000)	Turnover (RMB'000)	Operating Profit (RMB'000)	Net Profit (RMB'000)
Jiangling-Isuzu Motors Company, Ltd.	Manufacture	N series Light Truck, T series Pickup, Microbus, SUV	\$ 30 million	1,210,876	3,700,444	115,624	89,576

### 3. Main Suppliers and Customers

The total amount of the purchase from the top 5 suppliers was RMB 1,277 million, accounting for 27% of JMC's total annual purchasing amount. The total sale amount to the top 5 customers was RMB 1,255 million, accounting for 20% of JMC's total turnover.

### 4. Operational Challenges and Resolutions

In 2005, the Company continued to face competitive challenges, intensifying cost pressures, and slowing pace of market growth, while simultaneously initiating new product development.

Regarding competition, the Company continued to experience market share pressure from lower price competitors in all its segments. In response, we lowered prices for all Transit models in January and for the Long Wheel Base light truck in February. We also accelerated our implementation plan to launch Transit brand-specific dealerships to provide sales focus and enhance customer purchase experience. Additionally, we introduced new Transit and Pickup models in the Fourth quarter. As a result, Transit sales grew 43%, and Light Truck (including Pickup) remained competitive and maintained similar market share compared with 2004. The combination of pricing action in October last year and introduction of the updated 2005 model promoted Baowei volume growth by 330% compared with 2004.

In the area of cost management, the Company continued to deal with raw material price increases and costs incurred to meet regulatory requirements. To maintain acceptable profit margins, the Company placed high priority in cost management and formed a dedicated team to lead vigorous cost reduction and waste elimination activities for the entire enterprise. We also moved upstream in the product development process to reduce costs during the design stage, in addition to tightening cost control on models currently in production and daily operating expenses.

The company anticipated continuous market pressures including competitive pricing reduction, government policy revision, more stringent regulatory requirements and new vehicle entries in selected market segments.

To address the issue of slowing pace of market growth, the Company's management remains focused on (1) leveraging existing product platforms to generate new revenue

stream, and (2) introducing brand new products. Three major projects were approved in the Fourth Quarter with the support of our technology partners in order to bring competitive and profitable products into the light commercial vehicle market place as soon as possible. These programs are the V348 project, the N900 project, and a JX4D24 engine manufacturing project to support our vehicles with locally produced engines which will meet future regulatory requirements.

Finally, the company is continuing efforts to ensure sustainable growth, including studying project opportunities for adding incremental products and creating a team to expand export and OEM sales.

#### 5. Investment in the reporting period

(1) In 2005, JMC did not raise equity funding, nor did it use equity funding raised in previous years.

(2) Self funded major projects:

<b>Project Name</b>	<b>Total Investment Estimate (RMB Mils)</b>	<b>Progress (Occurred) (RMB Mils)</b>	<b>Planned Job#1 Date</b>
V348	909	141	Second Half, 2007
JX4D24 Engine	350	0	First Half, 2008
N900	250	7	Second Half, 2008
Euro III	173	79	Second Half, 2006 ~ First Half, 2007
Paint Line	183	73	Second Half, 2006
A3 Press Line	90		Completed

#### 6. Financial Results

Revenue in 2005 was RMB 6,281 Million, up 9% from previous year. This increase primarily reflected higher vehicle sales volume, partially offset by price reduction and unfavorable mix of lower margin products. Components sales profit improvement is primarily derived by better product mix.

Under International Accounting Standards, net profit was RMB 491 Million, up 18% from last year. Higher profit derived from volume increases and cost reductions was partially offset by price reduction, unfavorable mix, cost increases driven by steel price and regulatory actions.

Cash flow from operations was positive RMB 1,001 million, reflecting profitability and operating-related changes. Cash flow from investing activities was negative RMB 184 million, reflecting primarily spending for capital goods such as facilities, equipment and tooling. Financing cash flow was negative RMB 219 million, reflecting mainly bank loan

pay down and dividend payment for 2004.

At the end of 2005, the Company had total of RMB 1,959 million cash and cash equivalents, up RMB 598 million from the end of 2004. The balance of bank borrowing was RMB 135 million, down RMB 76 million from end of 2004 (reduced 36%).

Total assets were RMB 4,722 million, up 13% from RMB 4,179 million at year-end 2004, primarily reflecting higher cash balance. The assets structure remains unchanged from 2004.

Total liabilities, including minority interest, were RMB 1,912 million, up 10% from year end 2004, primarily reflecting higher accounts payable due to higher production volumes and higher customer advances. Lower bank borrowing and welfare payables partially offset the above increases.

Shareholder equity was RMB 2,810 million at December 31, 2005, up RMB 361 million from year-end 2004. This increase is explained by net profit earned in the reporting period. Dividend payments for 2004 partially offset the equity increase.

## 7. 2006 Year Plan

The Company is projecting revenue in the range of RMB 7,000 to 7,500 million for 2006. Intensified competition resulting from new market entries and the launch of news models will require increased levels of marketing expense to support expanded market share. Additionally, R&D and capital expenditures are projected to be higher as we progress with new product programs and capacity expansion actions.

In 2006, the Company continues to focus on generating cash and profits, enhance formulation of new product development strategies, and execute plans for future growth. Specific actions include:

- (1) Accelerate efforts to strengthen our brands through enhancing the Company's distribution network, including brand-specific dealership expansion and JMC Cares service strategy deployment.
- (2) Work with our technology partners to execute the V348, N900 and JX4D24 projects; spending for presently approved projects will be funded from cash reserves.
- (3) Increase cost reduction efforts by focusing on customer value and eliminating waste.
- (4) Develop product plans to add new products for introduction in the Chinese market.
- (5) Expand the export and OEM component sales business.

## II. Routine Work of the Board of Directors

### 1. Board Meetings and Resolutions in 2005

The sixth session of the fourth Board of Directors was held in the conference center on the second floor of the Administration Building of JMC on January 18 and January 19, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on January 21, 2005.

The Board of Directors approved in form of paper meeting the following resolution on February 6, 2005: approved maximum of no more than RMB 200 million in Central Bank Note and Government Bond and authorized CFO to handle relevant issues.

The seventh session of the fourth Board of Directors was held in the conference center on the second floor of the Administration Building of JMC on March 23, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on March 26, 2005.

A Board Meeting was held in form of paper meeting from March 25, 2005 to April 7, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on April 9, 2005.

The Board of Directors approved in form of paper meeting the following resolution on April 22, 2005: approved JMC 2005 First Quarter Report.

A Board Meeting was held in form of paper meeting from May 18, 2005 to May 25, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on May 27, 2005.

The first session of the fifth Board of Directors was held in the conference center on the second floor of the Administration Building of JMC on June 28 and June 29, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on July 1, 2005.

A Board Meeting was held in form of paper meeting from August 8 to August 17, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on August 19, 2005.

The second session of the fifth Board of Directors was held in the conference center on the second floor of the Administration Building of JMC on September 29 and September 30, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on October 11, 2005.

A Board Meeting was held in form of paper meeting from October 15 to October 24, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on October 25, 2005.

The Board of Directors approved in form of paper meeting the following resolutions on October 26, 2005:

- i. approved Y2005 Company Performance Incentive Program, and
- ii. approved the Temporary Annual Company Performance Incentive Plan, which should be implemented commencing from Y2006.

A Board Meeting was held in form of paper meeting on November 18, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on November 22, 2005.

A Board Meeting was held in form of paper meeting from November 23 to December 2, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on December 3, 2005.

The Board of Directors approved in form of paper meeting the following resolutions on December 5, 2005:

- i. agreed to collect in public voting right proxies at the coming related shareholders' meeting regarding the review and approval of the Full Circulatory Plan for JMC, from JMC's circulation A-share holders registered in the records of China Securities Depository and Clearing Corporation Ltd. Shenzhen branch as of 3:00 p.m. on December 30, 2005, and approved the Report of the Board of Directors of Jiangling Motors Corporation, Ltd. on Collecting Voting Rights;
- ii. approved the Notice on Holding the Related Shareholders' Meeting Regarding Full Circulatory Share Reform.

The third session of the fifth Board of Directors was held in the conference center on the second floor of the Administration Building of JMC on December 14, 2005. Public announcement on resolutions of the Board Meeting was published in China Securities, Securities Times and Hong Kong Commercial Daily on December 17, 2005.

## 2. Board of Directors' Executing the Resolutions of the Shareholders' Meeting

According to Y2004 profit distribution plan approved by the 2004 Annual Shareholders' Meeting, the Y2004 dividend distribution plan was published in China Securities, Securities Times and Hong Kong Commercial Daily on July 11, 2005, and it had been put into effect.

JMC did not convert capital reserve into share capital in 2005.

## 3. Proposal on Year 2005 Profit Distribution Plan

Details on the profit available for appropriation of the Company in 2005 prepared in accordance with Chinese Accounting Standards ('CAS') and International Financial Reporting Standard ('IFRS') are as follows:

	Unit: RMB'000	
	CAS	IFRS
Retained earning at Dec 31, 2004	603,747	542,653
2005 net profit	495,431	490,872
Reserve	-78,793	-74,315
Allocation of dividend for 2004	-129,482	-129,482

Retained earning at Dec 31, 2005	890,903	829,728
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The upper limit of profit available for distribution was based on the lower of the unappropriated profit calculated in accordance with CAS and that calculated in accordance with IFRS. Therefore, the Company's retained earning at Dec 31, 2005 was RMB 829,728 thousand.

The Board approved to submit to the 2005 Annual Shareholders' Meeting the following proposal on year 2005 profit distribution:

- (1). to appropriate 10% of the 2005 net profit calculated in accordance with CAS as statutory surplus reserve;
- (2). to appropriate 5% of the 2005 net profit calculated in accordance with CAS as statutory public welfare fund;
- (3). to appropriate for dividend distribution from the net profit the year, based on the Company's total share capital and the standard of a dividend of RMB 0.15 per share; and,
- (4). the balance of the unappropriated profit will be converted forward to the following fiscal year.

Profit distribution proposal: A cash dividend of RMB1.5 (including tax) will be distributed for every 10 shares held. Based on the total share capital of 863,214,000 shares as of 31 December 2005, total cash dividend distribution amounts to RMB 129,482,100.

B share dividend shall be paid in Hong Kong Dollars as converted based on the HKD-to-RMB exchange rate published by the People's Bank of China on the first working day following the approval on the profit distribution proposal at JMC's Shareholders' Meeting.

The Board decided not to transfer capital surplus reserve to share capital at this time.

4. The independent directors' explanation and independent opinion on the Company's outside guarantee and the implementation of relevant regulations

JMC has no outside guarantee.

5. Others

JMC continues to designate China Securities, Securities Times and Hong Kong Commercial Daily as the newspapers for information disclosure.

## **Chapter VIII Report of the Supervisory Committee**

### **I. Work of the Supervisory Committee**

Pursuant to the relevant regulations in the Company Law, Securities Law and JMC Articles of Association as well as the spirit of being responsible to the shareholders, the Supervisory

Committee seriously fulfilled its duties stipulated by the laws and regulations and energetically worked to perform its functions fully in 2005. The Chief Supervisor attended all the board meetings as a non-voting attendee, and all the supervisors attended the annual Shareholders' Meeting. The committee held 6 meetings during the reporting period. The following is the information in regard to the meetings and the subjects at the meetings:

1. The Committee Meeting was held in the conference center on the second floor of JMC administrative building on January 21, 2005. The following resolution was reviewed and passed at the meeting: regarding 2004 Eight Accounting Provisions & Write-off proposal approved by the Board of Directors of the Company, the Supervisory Committee believed that it complied with JMC's actual needs & situation.

2. The Supervisory Committee reviewed and passed in form of paper meeting the following resolutions on April 7, 2005:

- i. reviewed and passed the 2004 annual work report of the Supervisory Committee; and
- ii. reviewed and passed 2004 Annual Report of JMC and the extracts from the annual report.

3. The Supervisory Committee reviewed and passed in form of paper meeting the following resolutions on May 25, 2005:

- i. approved the Meeting Rules of the Supervisory Committee of JMC.
- ii. Given the three-year term of the Fourth Supervisory Committee of JMC will soon expire pursuant to the provision of the Articles of Association of JMC, the Supervisory Committee approved submitting to the Shareholders' Meeting the nomination of the following personnel as candidates for the new Supervisory Committee:

Mr. Wu Yong and Mr. Zhu Yi are nominated by Jiangling Motors Company (Group) as supervisor candidates for the Fifth Supervisory Committee; and Mr. Alvin Qing Liu is nominated by Ford Motor Company as supervisor candidate for the Fifth Supervisory Committee.

- iii. approved the Notice on Holding 2004 Annual Shareholders' Meeting of JMC.

4. The Committee Meeting was held in the conference center on the second floor of JMC administrative building on June 28, 2005. The following resolution was reviewed and passed at the meeting: elected Mr. Wu Yong as a Chief Supervisor of JMC.

5. The Supervisory Committee reviewed and passed the following resolution in form of paper meeting on August 17, 2005: reviewed and passed 2005 Half-year Report of JMC and the extracts from the half-year report.

6. The Committee Meeting was held in the conference center on the second floor of JMC administrative building on December 15, 2005. The following resolution was reviewed and passed at the meeting: regarding 2005 Eight Accounting Provisions & Write-off proposal approved by the Board of Directors of the Company, the Supervisory Committee believed that it complied with JMC's actual needs & situation.

II. Supervisory Committee's independent opinion on the following matters during the reporting period:

1. JMC's operation in conformity with laws

JMC operated in conformity with the laws and regulations, such as Company Law, Securities Law and the Articles of Association in 2005. The decision-making procedure was standardized and legal, and a relative complete internal control system was established. No behaviors violating laws, regulations and the Articles of Association or harming JMC's interest by the Directors, President and other senior management in carrying out their duties were found.

2. JMC's financial status

PwC Zhong Tian audited JMC's 2005 financial statements and issued unqualified audit reports. We believe the reports reflect JMC's financial status, operating results and asset change objectively and truly.

3. In 2005, JMC's procedure for asset sale was legal and the prices were reasonable. There were no insider trading and deals or situations harmful to shareholders' interest or where a leak of JMC's assets was detected.

4. JMC's related transactions: the imported component purchasing applied negotiated arm-length prices. The pricing for localized components was determined through the process of inviting public bidding, discussion and business negotiation. The prices were adjusted periodically, were fair and reasonable.

## **Chapter IX Major Events**

1. JMC had no major litigation or arbitration issue in 2005.

2. Acquiring Behavior

The Board of Directors approved acquiring the 80% equity of Jiangxi Fujiang After-sales Service Co., Ltd. ('Fujiang Company') owned by Ford Motor Company, for RMB 60 million, and further approved, upon consummation of the aforesaid acquisition, canceling Fujiang's independent legal entity status and integrating Fujiang's operation and organization into the Company, which will exercise the relevant rights and bear the relevant liabilities of Fujiang Company.

Fujiang Company's audited total assets were RMB 35,320 thousand as of December 31, 2004. JMC adopted a Net Present Value Approach for evaluating Fujiang Company in this transaction. That is, based on Fujiang Company's historical data, Fujiang Company's future cash flow projections were forecasted in accordance with its financial status, market environment and future development prospects, and a reasonable interest rate was applied to discount the cash flow to establish Fujiang Company's fair market value at RMB 75 million. At fair market value, the acquisition of 80% equity of Fujiang Company is RMB 60 million. JMC paid cash for this acquisition.

This related party transaction impacted JMC as follows:

- i. By consolidating the parts business of Fujiang Company and that of the Company, the Company eliminated complexity resulting from two separate part distribution systems and enhanced operating efficiency. Additionally, the acquisition provides synergistic results, including simplified transaction structure and reduced transactional costs, which minimize overall operating cost;
- ii. By improving after-sales service satisfaction, the Company promotes vehicle sales;
- iii. The Company avoids duplicate investment for building a separate after-sales parts service systems for V348 program (V348 is a next generation commercial vehicle product to be introduced by the Company.); and,
- iv. Goodwill will be amortized over seven years, and will not significantly impact the Company's financial status and operating performance.

The aforesaid share transfer has been completed, prior to issuance of the annual report.

### 3. Major Related Transactions

#### (1) Routine related party transactions

A. JMC purchased certain raw materials, auxiliary materials and components from related parties. Transactions with annual value over RMB 30 million are listed as below:

Transaction parties	Pricing Principle	Settlement method	Amount (RMB'000)	As % of total purchases
JMCG	Contracted price	60 days after delivery	406,889	8.52
JMCG Interior Trim Factory	Contracted price	60 days after delivery	252,305	5.28
Nanchang Gear Co., Ltd	Contracted price	60 days after delivery	173,064	3.62
Ford	Contracted price	Letter of credit	155,763	3.26
Jiangling-Lear Interior Trim Factory	Contracted price	60 days after delivery	148,194	3.10
Jiangxi FuChang Climate System Co.	Contracted price	60 days after delivery	118,357	2.48
Nanchang Jiangling Huaxiang Auto Components Co.	Contracted price	60 days after delivery	62,269	1.30
JMCG Variant Vehicle Factory	Contracted price	Monthly Netting off payment of purchased goods	32,360	0.68
JMCG Industrial Company	Contracted price	60 days after delivery	30,068	0.63

Necessity and continuity: the purchase of the imported components will immediately stop when the respective localization is achieved, and these components will be substituted by localized ones; some components from other related parties were unique parts for JMC's Transit series, N series and T series, and other general components were purchased through open bidding.

B. The sales of products by JMC to related parties with annual value over RMB 30 million:

Transaction parties	Pricing Principle	Settlement method	Amount (RMB'000)	Ratio to the transactions of the same kind
JMCG Import and Export Co., Ltd.	Contracted price	30 days after delivery	340,654	5.42
Jiangling Land-wind Vehicle Co., Ltd.	Market price	30 days after invoicing	211,386	3.37
JMCG Industrial Company	Contracted price	Monthly Netting off payment of purchased goods	119,913	1.91
JMCG Interior Trim Factory	Contracted price	Consignment after receiving payment of purchased goods	67,400	1.07
Jiangling Chassis Company	Contracted price	Monthly Netting off payment of purchased goods	42,645	0.68
Jiangling Fuda Auto Component Co.	Contracted price	30 days after delivery	41,459	0.66
Jiangling Auto Component Co.	Contracted price	Consignment after receiving payment of purchased goods	37,049	0.59

Necessity and continuity: JMCG Import and Export Co., Ltd had mature network and human resources in import & export trade. JMC will continue to use its sales network to sell products to overseas markets. JMC will also continue supplying relevant components to Jiangling Land-wind Vehicle Co., Ltd. as long as an attractive margin is secured.

In the above mentioned pricing principle, market price means that it is based on the market price of similar products, and contracted price means that for unique products or services

for which comparable market data is difficult to obtain, prices are determined through the process of supplier quote, cost assessment and negotiations.

In the reporting period, the Company adhered to the 2005 Related Party Transaction Framework, and when necessary re-approved those transactions which were forecasted to exceed the agreed framework limits. The annual forecast amount of the related party transactions between the following entities and the Company were re-approved by the Board and shareholders' meeting where appropriate. JMCG Import & Export Co., Ltd was revised to RMB 418 million from RMB 187 million, JMCG Variant Vehicle Factory was revised to RMB 162 million from RMB 98 million, Jiangling Chassis Company was adjusted to RMB 53 million from RMB 34 million, Jiangling Auto Component Co. was adjusted to RMB 40 million from RMB 14 million. There were no other major changes between the actual amount and the amount at the beginning of the year for other related transactions.

The amendment to the annual forecast amount with JMCG Import & Export Co., Ltd was due to export volume increase, and the amendment to the annual forecast amount with JMCG Variant Vehicle Factory was due to higher modification value than originally forecast. The adjustments to the annual forecast amount for Jiangling Chassis Company and Jiangling Auto Component Co. were due to volume increases associated with material purchases.

Public announcements on the routine related party transaction framework of the Company were published in China Securities, Securities Times and Hong Kong Commercial Daily on January 21, July 1 and October 11, 2005.

#### C. Management Compensations

In 2005, JMC paid US\$ 2,573,618, plus RMB 328,056 to Ford for 13 expatriate secondees and 4 secondees of the Territory working in JMC in line with the Amendment to Personnel Agreement signed by JMC and Ford.

#### D. General Service

JMCG bears the middle school and primary school educational fees and retired employees expenses of JMC and its subsidiaries, and provides services such as security, fire control, road maintenance and cable television. The related costs were shared by JMC and its subsidiaries according to agreed percentages based on headcount ratio. In 2005, RMB 5.27 million of the above-mentioned costs was shared by JMC and its subsidiaries.

#### E. Purchasing Agency

Jiangling Import & Export Co., Ltd. was the import agent of JMC for acquiring import materials, equipment and technology services with a commission rate of 1.5% for existing business and 0.8% for new program business. In 2005, JMC paid Jiangling Import & Export Co., Ltd. commission totaling RMB 4.21 million.

(2) Related party transaction resulting from the transfer of assets or shares in 2005  
Please see the Article 2, Chapter IX for acquiring the equity of Fujiang Company.

(3) Creditor's rights, liabilities and guarantees between JMC and related parties.

A. non-operating funds transacted by major shareholders and their subsidiaries

Name	Balance of non-operating fund as of Dec 31, 2005	Balance of non-operating fund as of Dec 31, 2004	Cause	Explanation on the balance increase from 2004
JMCG Property Co.	113	79	Reimbursed expenses	Increase on reimbursed water & electricity charges
JMCG Interior Trim Factory	24	0	Reimbursed expenses	Increase on reimbursed water & electricity charges
Jiangxi FuChang Climate System Co.	9	6	Reimbursed expenses	Increase on reimbursed water & electricity charges as well as wages
JMCG	8	1	Reimbursed expenses	Increase on reimbursed water & electricity charges
Jiangxi Fujiang After-Sales Service Co., Ltd.	8	3	Reimbursed expenses	Increase on reimbursed water & electricity charges as well as wages
Nanchang Land-wind Sales Company	3	2	Reimbursed expenses	Increase on reimbursed water & electricity charges

Settlement: given the Company pays on behalf of its major shareholder and its affiliates their utility fees in the overall settlement of the utility costs resulting in occupation of the Company's fund, the Board agreed to authorize the Executive Committee to amend the current procedures in order to comply with the relevant laws and regulations, and the Board required the implementation of such new procedures commencing from June 2006.

B. Balance of accounts due to or due from major related parties with value over RMB 30 million:

Item	Related parties	Amount (RMB mils.)	Ratio to the balance of the item
Accounts and bills payable	JMCG	77,457	7.70%
Accounts and bills payable	Jiangling-Lear Interior Trim Factory	65,909	6.55%
Accounts and bills payable	Nanchang Gear Co., Ltd	39,555	3.93%

payable			
Accounts and bills payable	Jiangxi FuChang Climate System Co.	35,204	3.50%
Receivables	Jiangling Land-wind Vehicle Co., Ltd.	31,847	27.45%

#### C. Deposit

At the end of year 2005, JMC had deposit of RMB 63.06 million in JMCG Finance Co., Ltd. and charged interest according to same period bank deposit interest rate (HK\$ at 0.005%, RMB at 0.72% - 1.44%, US\$ at 0.75%). JMC received a total of RMB 2.03 million in interest from JMCG Financial Co., Ltd. in 2005.

#### D. Guarantee

JMCG provided guarantee for parts of JMC's bank loans, of which the maximum was US\$ 2.28 million, or RMB 18.89 million. As of Dec. 31, 2005, JMCG Finance Co. Ltd provided guarantee for JMC's bank loans of US\$ 1.342 million, or RMB 10.83 million.

#### (4) Other major related party transactions in 2005

According to the Joint Development Agreement and the 2<sup>nd</sup> Amendment Contract to the Joint Development Agreement signed by JMC and Ford, JMC is to pay technology development fee totaling US\$ 40 million to Ford. JMC bore the technology development fee of US\$ 4.55 million (equal to RMB 37.12 million) in year 2005 at 1.8% of Transit sales revenue.

#### 4. Major Contracts and Execution

(1) There was neither entrustment, contract or lease of assets from other companies, nor entrustment, contract or lease of JMC's assets to other companies through which profit was generated to exceed 10% of 2005 total profit in the reporting period.

(2) JMC had no outside guarantee in the reporting period.

(3) JMC did not entrust other people with cash asset management in the reporting period.

#### 5. Commitments on Full Circulatory Share Reform

Jiangling Holdings, Shanghai Automotive Co., Ltd., Shenzhen Tongqian Investment Corporation, Ltd., Shenzhen Nan-guang (Group) Corporation, Ltd., Qingdao Infrastructure Material Co., Ltd., Harbin Car Supermarket, Nanchang Hongyan Express Mail Company, Wuhan Yuanchen Group Company, Jiangxi Jiangxin Zhiye Company, Zhengzhou Yuzheng Mechanical and Electrical Equipment Company, Huangshi Auto Trading Company, Nanchang Auto Trading Company and Hebei Province Foreign-investment Material Company issued letters of commitment, and declared and promised the following:

- (1) according to the requirements of Rules on Implementing the Full Circulatory Share Reform of the Listed Companies, legal commitments will be fulfilled in accordance with provisions of the stock exchange laws and regulations;
- (2) the promisees ensure that they will compensate for losses of other shareholders resulting from partial or complete non-fulfillment of his promises; and
- (3) the promisees will fulfill their commitments faithfully and undertake relevant legal responsibility, and they will not transfer their shares unless the transferee agrees and

accepts liability to undertake the responsibility of the promise.

Jiangling Holdings promises specifically to pay the consideration on behalf of the unlisted-share holders who oppose the Share Reform or did not express their opinions. The above-mentioned unlisted-share holders should repay the consideration paid by Jiangling Holdings and the interest, or obtain written consent of Jiangling Holdings, if they want to list their shares.

Public announcement on implementing Full Circulatory Share Reform was published in China Securities, Securities Times and Hong Kong Commercial Daily on February 10, 2006, and it has been put into effect. Shares of the Company held by the unlisted-share holders were frozen in accordance with related requirements, and there is neither share transfer nor breach of promise.

#### 6. Appointment or Dismissal of Accounting Firms

JMC 2002 Annual Shareholders' Meeting approved to appoint PwC Zhong Tian CPAs as JMC's year 2002-2006 A & B share auditor. The firm has offered JMC audit services for five consecutive years.

The compensation paid to the accounting firm is as follows:

<b>Accountant Firm</b>	<b>Year 2005</b>	<b>Out of Pocket Expense</b>
PwC ZhongTian	RMB 1.1 million (Both A & B share)	Included in audit fee.

7. Neither JMC nor its Directors or senior management were punished by regulatory authorities in 2005.

#### 8. Other Major Events

##### (1). Amendment to Personnel Agreement

The seventh session of the fourth Board of the Directors approved the Amendment to Personnel Agreement signed by Jiangling Motors Company Group, Ford and the Company on March 23, 2005. The announcement on the related party transaction was published in China Securities, Securities Times and Hong Kong Commercial Daily on March 26, 2005

##### (2). Share Acquisition by Ford

Ford bought 321,400 B shares totally, representing 0.04% of total shares of the Company, in Shenzhen Stock Exchange on August 2, August 3 and August 5, 2005. With the completion of the share acquisition, Ford held 258,964,200 shares, representing 30% of total shares of the Company. The Extracts from Acquisition Report and the full version were published in China Securities, Securities Times and Hong Kong Commercial Daily on August 11, 2005 and September 22, 2005. The Board's Report of Acquiring Shares by Ford to All Shareholders was published in China Securities, Securities Times and Hong Kong Commercial Daily on October 11, 2005

#### Subsequent events

##### (1) 2005 Interim Dividend Distribution

The 2006 First Special Shareholders' Meeting approved a 2005 interim dividend

distribution plan. Public announcement on 2005 interim dividend distribution was published in China Securities, Securities Times and Hong Kong Commercial Daily on January 7, 2006, and it has been put into effect.

2005 interim dividend distribution proposal of the Company is as follows:

A cash dividend of RMB 3.59 (including tax) will be distributed for every 10 shares held. Based on the total share capital of 863,214,000 shares as at 30 September 2005, total cash dividend distribution amounted to RMB 309,893,826.

B share dividend is to be paid in Hong Kong Dollars exchanged from RMB based on the HKD-to-RMB exchange rate published by the People's Bank of China on the first working day after the dividend distribution proposal is approved at the Shareholders' Meeting of JMC.

The Board decided not to transfer capital surplus reserve to share capital at this time

## (2) Full Circulatory Share Reform

With the approval from State-owned Assets Supervision and Administration Committee of the State Council on Full Circulatory Share Reform for JMC on January 11, 2006, the Related Shareholders' Meeting Regarding Full Circulatory Share Reform of the Company approved the share reform plan on 16 January 2006.

On January 25, 2006, the Ministry of Commerce of the PRC approved the change of the nature of JMC shares involved in the share reform.

Public announcement on implementing Full Circulatory Share Reform plan approved by the shareholders' meeting was published in China Securities, Securities Times and Securities Daily on February 10, 2006, and it has been put into effect.

Explanations on Full Circulatory Share Reform for JMC was disclosed in the website (<http://www.cninfo.com.cn>) on December 14, 2005.

## **Chapter X Financial Report**

**Jiangling Motors Corporation, Ltd.**  
**Consolidated Financial Statements**  
**31 December 2005**

## Report of the Auditors

### PwC ZT Shen Zi 2006/SH-055/WCML/WL

To the shareholders of Jiangling Motors Corporation, Ltd.

We have audited the accompanying consolidated balance sheet of Jiangling Motors Corporation, Ltd. ("the Company") and its subsidiaries (hereafter collectively referred to as "the Group") as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year ended 31 December 2005. These consolidated financial statements set out on pages 2 to 31 are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Zhong Tian CPA's Limited Company

5 April 2006

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**Consolidated balance sheet**

(All amounts in RMB thousands)	Notes	<u>As at 31 December</u>	
		2005	2004
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	1,546,959	1,568,234
Land use right	9	146,766	147,703
Investments in associates	10	21,245	20,068
Deferred tax assets	11	58,698	46,696
		<b>1,773,668</b>	<b>1,782,701</b>
<b>Current assets</b>			
Inventories - net	12	625,869	558,144
Receivables and prepayments	13	363,429	477,014
Cash and cash equivalents	14	1,959,455	1,361,472
		<b>2,948,753</b>	<b>2,396,630</b>
<b>Total assets</b>		<b>4,722,421</b>	<b>4,179,331</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable the Company's equity holders</b>			
Ordinary shares	21	863,214	863,214
Share premium	21	816,609	816,609
Reserves	21,23	300,858	226,543
Retained earnings		829,729	542,653
		<b>2,810,410</b>	<b>2,449,019</b>
<b>Minority interest</b>	22	116,451	107,383
<b>Total equity</b>		<b>2,926,861</b>	<b>2,556,402</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	16	10,834	121,111
Retirement benefit obligations	18	79,576	94,327
		<b>90,410</b>	<b>215,438</b>
<b>Current liabilities</b>			
Trade and other payables	15	1,422,670	1,216,822
Current tax liabilities		11,130	11,585
Borrowings	16	124,070	90,000
Provisions	17	103,508	70,084
Deferred income		-	-
Retirement benefits obligations	18	26,112	-
		17,660	19,000
		<b>1,705,150</b>	<b>1,407,491</b>
<b>Total liabilities</b>		<b>1,795,560</b>	<b>1,622,929</b>
<b>Total equity and liabilities</b>		<b>4,722,421</b>	<b>4,179,331</b>

The notes on pages 6 to 32 are an integral part of these consolidated financial statements.

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**Consolidated income statement**

(All amounts in RMB thousands)	Notes	Year ended 31 December	
		2005	2004
Sales	1	6,280,636	5,770,676
Sales tax and surcharge		(113,112)	(84,807)
Net sales		<b>6,167,524</b>	<b>5,685,869</b>
Cost of sales		(4,898,489)	(4,543,845)
<b>Gross profit</b>		<b>1,269,035</b>	<b>1,142,024</b>
Other operating income		54,832	35,865
Distribution costs		(359,515)	(383,711)
Administrative expenses		(382,018)	(316,836)
Other operating expenses		(4,413)	(11,740)
<b>Profit from operations</b>	2	<b>577,921</b>	<b>465,602</b>
Finance income - net	3	19,420	8,135
Share of result of associates	10	4,173	4,228
<b>Profit before tax</b>		<b>601,514</b>	<b>477,965</b>
Income tax expense	5	(86,088)	(39,908)
<b>Group profit before minority interest</b>		<b>515,426</b>	<b>438,057</b>
Attributable to:			
Equity holders of the Company		490,872	415,134
Minority interest	22	24,554	22,923
		<b>515,426</b>	<b>438,057</b>
Earnings per share (RMB per share)	6	0.569	0.481

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**Consolidated statement of changes in shareholders' equity**

(All amounts in RMB thousands)	Notes	Attributable to equity holders Of the Company				Minority Interest	Total Equity
		Ordinary shares	Shares premium	Reserves	Retained earnings		
Balance at 1 January 2004		863,214	816,609	168,514	315,029	104,664	2,268,030
Net profit for the year		-	-	-	415,134	22,923	438,057
Statutory reserves transfer relating to 2004		-	-	58,029	(58,029)	-	-
Dividend relating to 2003		-	-	-	(129,481)	(20,204)	(149,685)
<b>Balance at 31 December 2004/ 1 January 2005</b>		<b>863,214</b>	<b>816,609</b>	<b>226,543</b>	<b>542,653</b>	<b>107,383</b>	<b>2,556,402</b>
Net profit for the year		-	-	-	490,872	24,554	515,426
Statutory reserves transfer relating to 2005		-	-	74,315	(74,315)	-	-
Dividend relating to 2004		-	-	-	(129,481)	(15,486)	(144,967)
<b>Balance at 31 December 2005</b>		<b>863,214</b>	<b>816,609</b>	<b>300,858</b>	<b>829,729</b>	<b>116,451</b>	<b>2,926,861</b>

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**Consolidated cash flow statement**

(All amounts in RMB thousands)	Notes	Year ended 31 December	
		2005	2004
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	1,080,579	824,468
Interest paid		(8,916)	(14,613)
Income Tax paid		(70,511)	(59,936)
		<hr/>	<hr/>
Net cash from operating activities		1,001,152	749,919
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(223,062)	(135,101)
Proceeds from sale of property, plant and equipment	24	6,079	2,134
Interest received		30,101	24,334
Proceeds from disposal of investment property		-	28,638
Dividends received		3,214	3,044
		<hr/>	<hr/>
Net cash used in investing activities		(183,668)	(76,951)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		124,693	60,000
Repayments of borrowings		(200,000)	(205,000)
Dividends paid to Equity holders of the Company		(127,905)	(128,445)
Dividends paid to minority interest	22	(15,486)	(20,203)
Other cash paid relating to financing activities		(715)	(2,049)
		<hr/>	<hr/>
Net cash used in financing activities		(219,413)	(295,697)
Effects of exchange rate changes		(88)	263
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		597,983	377,534
Cash and cash equivalents at beginning of the year		1,361,472	983,938
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>		<b>1,959,455</b>	<b>1,361,472</b>

The notes on pages 6 to 32 are an integral part of these consolidated financial statements.

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**(In the notes, all amounts are shown in RMB thousands unless otherwise stated)**

**General information**

Jiangling Motors Corporation, Ltd. (hereafter referred to as “the Company”) was established in the People’s Republic of China (hereafter referred to as “PRC”) under the Company Law of the PRC and under the approval Hongban (1992) No. 005 of Nanchang Revolution and Authorization Group of Company’s Joint Stock as a joint stock limited company to hold certain operational assets and liabilities of the automotive manufacturing business of Jiangxi Motors Manufacturing Factory. The Legal Representative’s Operating License is No.002473.

On 23 July 1993, with the approval of Zhengjianfashen [1993] No. 22 and Zhengjianhan [1993] No.86 of China Securities Regulatory Commission, the Company issued 494,000,000 A share to domestic public investors and PRC legal persons in Shenzhen Stock Exchange on 1 December 1993.

On 8 April 1994, with the approval of Board minutes and Ganzhengquan [1994] No. 02 of Jiangxi Securities Regulatory Team, the Company issued 25,214,000 A shares as bonus shares to the existing 494,000,000 shares in issue in July 1993. The bonus shares were issued as a distribution from the retained earning account within shareholders’ equity.

In 1995, with the approval Zhengjianfa [1995] No. 144 of China Securities Regulatory Commission and Shenzhengbanfu [1995] No. 92 of Shenzhen Securities Management Office, the Company issued 174,000,000 B shares and additional 170,000,000 B shares in 1998 with the approval Zhengjianfa [1998] No. 19 of China Securities Regulatory Commission.

As at 31 December 2005, the total issued shares of the Company are 863,214,000 shares.

The business scope of the Group includes the development, manufacture and sale of automobiles, engines and automobile related parts, dies and tools.

**Summary of significant accounting policies**

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

**A Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereafter referred to as “IFRS”). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates.

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**(In the notes, all amounts are shown in RMB thousands unless otherwise stated)**

**Summary of significant accounting policies (continued)**

**A Basis of preparation (continued)**

The accounting policies and methods of computation used in the preparation of the consolidated financial statements as at and for the year ended 31 December 2005 are consistent with those adopted for the preparation of financial statements as at and for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised IFRS and International Accounting Standards ("IASs") which are effective for accounting periods beginning on or after 1 January 2005.

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

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

The adoption of above IASs and IFRSs did not result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 has affected the presentation of minority interests and other disclosures;
- IAS 2, 8, 10, 16, 17, 21, 27, 28, 32, 33, 38, 39, IFRS 2, 3, 5 had no material effect on the Group's policies.

IAS 24 has affected the identification of related parties and some other related-party disclosures (note 25 (vii)).

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**(In the notes, all amounts are shown in RMB thousands unless otherwise stated)**

**Summary of significant accounting policies (continued)**

**B Consolidation**

**(1) Subsidiaries**

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

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

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

**(2) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

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

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**(In the notes, all amounts are shown in RMB thousands unless otherwise stated)**

**Summary of significant accounting policies (continued)**

**B Consolidation (continued)**

(2) Associates (continued)

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

**C Foreign currency translation**

(1) Functional and presentation currency

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

(2) Transactions and balances

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

**D Property, plant and equipment**

Property, plant and equipment are stated at historical cost or, in the case of assets injected into the Group at the time of its reorganisation, at valuation less accumulated depreciation representing the deemed cost to the Group, less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write off the cost or the revalued amount of each asset, to their residual values (0%-10%) over their estimated useful lives as follows:

Buildings	35 years
Plant and machinery	10 years
Equipment and Motor Vehicles	6 years
Moulds	5 years
Others	5-7 years

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

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**(In the notes, all amounts are shown in RMB thousands unless otherwise stated)**

**Summary of significant accounting policies (continued)**

**D Property, plant and equipment (continued)**

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Assets under construction comprises factories, office buildings, plant and machinery under construction including the related furniture, fixtures and equipment, are stated at cost less any impairment losses, and is not depreciated. Construction in progress is transferred to property, plant and equipment when it is ready for its intended use.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

**E Land use rights**

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various warehouses, container storage areas and buildings are situated for 50 years. Amortisation of land use right is calculated on a straight-line basis over the period of the land use right.

**F Intangible assets**

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

**G Impairment of assets**

Property, plant and equipment and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

**JIANGLING MOTORS CORPORATION, LTD.**  
**YEAR ENDED 31 DECEMBER 2005**

**(In the notes, all amounts are shown in RMB thousands unless otherwise stated)**

**Summary of significant accounting policies (continued)**

**H Investments**

The Group classified its investments in debt and equity securities as held-to-maturity investments. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-valuates this designation at every reporting date. Investments with a fixed maturity that management has the positive intention and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets.

**I Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises direct materials, direct labour and an attributable proportion of production overheads (based on normal operation capacity). Net realisable value is the estimated selling prices in the ordinary course of business, less the costs of completion and selling expenses.

**J Trade receivables**

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised in the income statement.

**K Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

**L Ordinary shares**

- (1) Ordinary shares with discretionary dividends are classified as equity.
- (2) Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

**M Borrowings**

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

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**Summary of significant accounting policies (continued)**

**N Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

**O Employee benefits**

**(1) Pension obligations**

The Group participates in defined contribution retirement schemes regarding pension and medical benefit required under existing PRC legislation. The contributions to the schemes are charged to the income statement as and when incurred. The Group's obligations include contributions to a defined contribution retirement plan administered by a government agency determined at a certain percentage of the salaries of the employees and contributions to a supplementary pension fund of a fixed monthly amount per employee. The Group accounts for these contributions on the accrual basis.

In addition, the Group provides certain retirees with post-retirement benefits and the cost of providing the aforementioned post-retirement benefits under the Group's defined benefit plan is actuarially determined and recognised over the employees' service period by using the projected unit credit method. Post-retirement benefit expenses recognised in the income statement, include, if applicable, current service cost, interest cost, the expected return on plan assets, amortised actuarial gains and losses, the effect of any curtailment or settlement and past service cost.

**(2) Early retirement benefits**

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

**P Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

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**Summary of significant accounting policies (continued)**

**Q Revenue recognition**

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time-proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group. Dividends are recognised when the right to receive payment is established.

**R Dividend distribution**

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

**S Segment Reporting**

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

**T Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

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**Financial risk management**

The financial assets of the Group include cash and bank balances, cash and time deposits with a related financial institution, investments, accounts and notes receivable, prepayments and other receivables, and amounts due from Jiangling Motors Company Group ("JMCG") and related companies. The financial liabilities of the Group include bank loans, accounts payable, receipts in advance, accruals and other payables, accrued staff welfare and benefits, amounts due to related companies, an amount due to minority shareholders of the company and an amount due to a minority shareholder of a subsidiary.

(1) Interest rate risk

The interest rates and terms of the repayment of bank loans of the Group are disclosed in note 16 to the financial statements, respectively.

(2) Credit risk

(i) Cash at bank and in hand

Substantial amounts of the Group's cash balances are deposited with the Bank of China, the Industrial and Commercial Bank of China, the Bank of Communications, the Agricultural Bank of China, the China Merchants Bank and the People's Construction bank of China. Cash and time deposits are also placed with Jiangling Motors Corporation Finance Co., Ltd. ("JMCF"), a subsidiary of JMCG.

(ii) Accounts receivable

The Group does not have a significant exposure to any individual customer or counter party. The major concentrations of credit risk arise from exposures to a substantial number of accounts receivable operating in one geographical region, i.e., the PRC.

(3) Fair values

The fair values of cash and bank balances, cash and time deposits with a related financial institution, investments, accounts and notes receivable, prepayments and other receivables amounts due from JMCG and related companies, accounts payable, receipts in advance, accruals and other payables, accrued staff welfare and benefits, amounts due to related companies, an amount due to minority shareholders and an amount due to a minority shareholder of a subsidiary, are not materially different from their carrying amounts.

The carrying values of short term bank loans are estimated to approximate their fair values based on the nature or short term maturity of these instruments.

The fair values of long term bank loans as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments approximate their carrying values.

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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**Notes to the consolidated financial statements**

**1 Sales**

The Group principally derives its turnover from the manufacture, assembly and sale of automobiles, related spare parts and components, and sales are made principally in the PRC. Considering the principal assets employed by the Group are also located in the PRC, no segmental analysis by business or geographical segments has been provided for the period.

**2 Profit from operations**

The following items have been included in arriving at operating profit:

	<b>2005</b>	<b>2004</b>
Depreciation on property, plant and equipment (note 8)	227,265	273,436
Impairment charge / (write-back of impairment)		
- property, plant and equipment (note 8)	2,537	4,859
- receivables and prepayments	(552)	(818)
- inventory	(1,064)	(6,173)
Loss on sale of property, plant and equipment (note 24)	286	4,646
Gain on sale of investment property (note 24)	-	(5,068)
Repairs and maintenance expenditure on property, plant and equipment	69,050	65,867
Amortisation		
- land use rights (note 9) (included in 'Administrative expenses')	3,962	3,410
- investment properties under operating leases (included in 'Administrative expenses')	-	182
Research and development expenditure	130,671	66,877
Inventory		
- costs of inventories recognised as expense (included in 'Cost of sales')	4,364,396	4,006,250
Staff costs (note 4)	252,880	218,618

**3 Finance income – net**

	<b>2005</b>	<b>2004</b>
Interest income (note 24)	28,156	24,334
Interest expense		
- Bank borrowings (note 24)	(8,779)	(14,364)
Net foreign exchange transaction gain/(loss)	710	(1,328)
Others	(667)	(507)
	<u>19,420</u>	<u>8,135</u>

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**4 Staff costs**

	<b>2005</b>	<b>2004</b>
Wages and salaries	203,368	168,019
Social security costs	11,127	8,790
Pension costs – defined contribution plan	23,295	19,566
Pension costs – defined benefit plan	2,503	17,856
Others	12,587	4,387
	<u>252,880</u>	<u>218,618</u>

The average number of employees in 2005 was 9,595 (2004: 10,290), including early retirees and retirees who are still responsibilities of the Group.

The employees of the Group participated in a retirement benefit plan organized by the municipal and provincial governments under which the Group was required to make defined contributions monthly to this plan.

In addition, the Group also paid certain pension subsidies to certain retired employees. In accordance with the Group's early retirement programs, the Group was also committed to make periodic benefit payments to certain early-retired employees until they reach their legal retirement ages.

**5 Income tax expense**

	<b>2005</b>	<b>2004</b>
Current tax	(98,090)	(67,929)
Deferred tax (note 11)	12,002	28,021
	<u>(86,088)</u>	<u>(39,908)</u>

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

	<b>2005</b>	<b>2004</b>
Profit before tax	<u>601,514</u>	<u>477,965</u>
Tax calculated at a tax rate of 15% (2004:10%)	(90,227)	(47,796)
Expense not deductible for tax purposes	(6,384)	(3,824)
Income not subject to tax	9,716	4,411
Effect of tax rate change	807	14,089
Effect of different tax rates for associates and consolidated subsidiaries	-	(6,788)
Tax charge	<u>(86,088)</u>	<u>(39,908)</u>

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**5 Income tax expense (continued)**

With the approval HongGuoshuiwaifa [2003] No.054 of tax authority in Nanchang, the applicable tax rate of the Company is 15%.

The income tax rate applicable to Jiangling Isuzu Motors Company Limited (hereafter refer to as "Jiangling Isuzu"), a subsidiary, is 15%.

**6 Earnings per share**

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

	<b>2005</b>	<b>2004</b>
Net profit attributable to shareholders	490,872	415,134
Weighted average number of ordinary shares in issue (thousands)	863,214	863,214
Basic earnings per share (RMB per share)	0.569	0.481

No diluted earnings per share is presented as there were no potential ordinary share outstanding during the year ended 31 December 2005 and 2004.

**7 Dividend per share**

The dividends paid in 2005 and 2004 were 129,481,000 (RMB 1.5 Yuan per ten shares) and 129,482,100 (RMB 1.5 Yuan per ten shares) respectively.

A dividend in respect of the nine months ended 30 September 2005 of RMB 3.59 Yuan per ten shares, amounting to a total dividend of RMB309,893,826 has been approved by the Shareholders' Meeting on 5 January 2006. These financial statements do not reflect this dividend payable.

A dividend in respect of 2005 of RMB 1.5 Yuan per ten shares, amounting to a total dividend of RMB129,482,100 is to be proposed at the Directors' Meeting on 5 April 2006. These financial statements do not reflect this dividend payable.

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**8 Property, plant and equipment**

	<b>Buildings</b>	<b>Plant &amp; machinery</b>	<b>Vehicles</b>	<b>Moulds</b>	<b>Assets under construction</b>	<b>Others</b>	<b>Total</b>
<b>Year ended 31 December 2004</b>							
Opening net book amount	509,940	589,897	25,977	104,121	177,360	300,380	1,707,675
Additions	648	4,763	3,469	59,547	69,784	7,423	145,634
Reclassification	(35)	14,944	(118)	59	-	(14,850)	-
Transfers	9,759	26,967	2,436	-	(76,696)	37,534	-
Disposals	(807)	(2,163)	(2,952)	-	-	(858)	(6,780)
Impairment charge	-	(1,892)	(25)	24	(488)	(2,478)	(4,859)
Depreciation charge	(15,725)	(119,455)	(5,116)	(67,614)	-	(65,526)	(273,436)
Closing net book amount	503,780	513,061	23,671	96,137	169,960	261,625	1,568,234
<b>At 31 December 2004</b>							
Cost	614,866	1,393,847	47,906	587,748	172,232	675,858	3,492,457
Accumulated depreciation	(111,086)	(880,786)	(24,235)	(491,611)	(2,272)	(414,233)	(1,924,223)
Net book amount	503,780	513,061	23,671	96,137	169,960	261,625	1,568,234
<b>Year 31 December 2005</b>							
Opening net book amount	503,780	513,061	23,671	96,137	169,960	261,625	1,568,234
Additions	-	2,551	1,715	804	207,844	8,592	221,506
Reclassification	-	-	-	-	-	-	-
Transfers	25,311	117,199	3,059	35,690	(199,263)	18,004	-
Disposals	(8,901)	(44)	(119)	-	(3,382)	(533)	(12,979)
Impairment charge (note 2)	-	(1,708)	(92)	(301)	-	(436)	(2,537)
Depreciation charge (note 2)	(16,708)	(122,018)	(4,650)	(41,147)	-	(42,742)	(227,265)
Closing net book amount	503,482	509,041	23,584	91,183	175,159	244,510	1,546,959
<b>At 31 December 2005</b>							
Cost	629,535	1,509,304	50,279	624,242	175,851	697,509	3,686,720
Accumulated depreciation	(126,053)	(1,000,263)	(26,695)	(533,059)	(692)	(452,999)	(2,139,761)
Net book amount	503,482	509,041	23,584	91,183	175,159	244,510	1,546,959

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**8 Property, plant and equipment (continued)**

In connection with the Group's reorganisation in 1993, the Group's property, plant and equipment were revalued on 31 December 1992 by Zhonghua (Shenzhen) Certified Public Accountants on a depreciated replacement value basis. The opening accumulated depreciation of the revalued assets was computed using depreciation rates as stipulated by the State regulations, which are generally consistent with those applied by the Group for the preparation of its financial statements. Since this was a special purpose valuation conducted for the purposes of the formation of a joint stock limited company, this became deemed costs of the Company's property, plant and equipment. Subsequent revaluations have not been performed and all further additions have been recorded at cost.

**9 Land use right**

	<b>2005</b>	<b>2004</b>
Opening net book amount	147,703	151,483
Amortisation charge (note 2)	(3,962)	(3,410)
Additions	3,025	(370)
	<hr/>	<hr/>
Closing net book amount	146,766	147,703
	<hr/>	<hr/>
Cost	175,560	172,535
Accumulated amortisation	(28,794)	(24,832)
	<hr/>	<hr/>
Net book amount	146,766	147,703
	<hr/>	<hr/>

**10 Investments in associates**

	<b>2005</b>	<b>2004</b>
At the beginning of the year	20,068	18,891
Share of results of associates	4,173	4,228
Dividends received	(3,214)	(3,044)
Increase in investment cost	218	-
Others	-	(7)
	<hr/>	<hr/>
At the end of the year	21,245	20,068
	<hr/>	<hr/>

The associates, which are unlisted, are:

	<b>Country of incorporation</b>	<b>% interest held</b>
Jiangxi Fujiang After-Sales Service Co., Ltd.	PRC	20%
Jiangxi Fuchang Climate System Co., Ltd.	PRC	19.15%

Jiangxi Fujiang After-Sales Service Co., Ltd (hereafter referred to "Jiangxi Fujiang") is a Sino-foreign equity joint venture with a registered capital of US\$ 4.4 million, of which Ford Motors Company ("Ford") has an 80% interest and the Company has the remaining 20% interest. Jiangxi Fujiang's principal activity includes after-sales services.

In March 1996, the Company entered into a Sino-foreign equity joint venture agreement with Visteon International Holding Co., Ltd. (hereafter referred to as "Visteon") to form Jiangxi Fuchang Climate Systems Co., Ltd. (hereafter referred to as "Jiangxi Fuchang"). The tenure of Jiangxi Fuchang is thirty years, and its principal activities include manufacture and sale of air-conditioners and spare parts for motor vehicles.

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**10 Investments in associates (continued)**

Jiangxi Fuchang has a registered capital of US\$5.6 million, of which Visteon has an 80.85% interest and the Company has the remaining 19.15% interest. The registered capital of Jiangxi Fuchang was paid up by the Company in the form of buildings, land use rights and electricity usage rights totalling RMB8,934,000, equivalent to approximately US\$1,072,000.

**11 Deferred tax assets**

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 15% (2004: 15%).

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

	<b>2005</b>	<b>2004</b>
At beginning of the year	46,696	18,675
Income statement credit (note 5)	12,002	28,021
At the end of the year	<u>58,698</u>	<u>46,696</u>

	<b>Provision of assets</b>	<b>Retirement benefits obligation</b>	<b>Accrued expenses</b>	<b>Welfare payable</b>	<b>Others</b>	<b>Total</b>
At 1 January 2004	7,403	11,272	-	-	-	18,675
Credited/(charged) to the income statement	(581)	5,727	20,921	1,954	-	28,021
At 31 December 2004	6,822	16,999	20,921	1,954	-	46,696
Credited/(charged) to the income statement	(1,032)	(5,730)	16,738	(1,954)	3,980	12,002
At 31 December 2005	<u>5,790</u>	<u>11,269</u>	<u>37,659</u>	<u>-</u>	<u>3,980</u>	<u>58,698</u>

The amounts shown in the balance sheet include the followings:

	<b>2005</b>	<b>2004</b>
Deferred tax assets to be recovered after more than 12 months	<u>14,410</u>	<u>20,971</u>

**12 Inventories - net**

	<b>2005</b>	<b>2004</b>
Raw materials	308,393	307,043
Work in progress	57,170	52,769
Finished goods	260,306	198,332
	<u>625,869</u>	<u>558,144</u>

**13 Receivables and prepayments**

	<b>2005</b>	<b>2004</b>
Trade receivables	71,365	107,878
Less: Provision for impairment of receivables	(3,279)	(3,532)
Trade receivables – net	68,086	104,346
Receivables from associates (note 25)	169	91
Receivables from related parties (note 25)	52,273	44,594
Notes receivables	150,961	216,795
Prepayments	78,607	93,295
Other receivables	13,333	17,893
	<u>363,429</u>	<u>477,014</u>

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**14 Cash and cash equivalents**

	<b>2005</b>	<b>2004</b>
Cash at bank and in hand	1,242,929	1,250,407
Short term bank deposit	716,526	111,065
	<u>1,959,455</u>	<u>1,361,472</u>

As at 31 December 2005, the Group had cash deposits of RMB 63,059,000 (2004: RMB 86,784,000) placed with JMCF. The cash deposits, which can be withdrawn at any time on demand, are interest-bearing at 0.72% to 1.44% per annum (2004: 0.0025% to 1.44% per annum).

**15 Trade and other payables**

	<b>2005</b>	<b>2004</b>
Trade payables	711,617	639,557
Amount due to associates (note 25)	35,205	25,039
Amount due to related parties (note 25)	301,997	248,600
Accrued expenses	155,669	142,247
Payroll and welfare payable	80,560	65,214
Other payables	137,622	96,165
	<u>1,422,670</u>	<u>1,216,822</u>

**16 Borrowings**

	<b>2005</b>	<b>2004</b>
<b>Non-current</b>		
Bank borrowings		
- secured	<u>10,834</u>	<u>121,111</u>
<b>Current</b>		
Bank borrowings		
- unsecured	<u>124,070</u>	<u>90,000</u>
<b>Total borrowings</b>	<u>134,904</u>	<u>211,111</u>

The interest rate of bank borrowings is ranging from 1.50% to 5.30% per annum (2004: from 1.50% to 5.49%).

As at 31 December 2005, secured bank borrowings comprise of RMB10,834,000 (2004: RMB11,111,000) guaranteed by JMCF (note 25 (v)).

The maturity of non-current borrowings is as follows:

	<b>2005</b>	<b>2004</b>
Between 1 and 2 years	-	110,000
Between 2 and 5 years	-	-
Over 5 years	10,834	11,111
	<u>10,834</u>	<u>121,111</u>

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**17 Provisions**

The Group gives warranties on vehicles sold and undertakes to repair or replace items that fail to perform satisfactorily within the period of the sooner of two years and fifty thousand kilometres. A provision of RMB103,508,000 (2004: RMB70,084,000) has been recognised at the year end for the expected warranty claims based on past experience of the level of repairs and returns. It is expected that RMB54,977,000 will be used during 2006, and RMB48,531,000 during 2007.

The movement on the provisions account is as follows:

	<b>2005</b>	<b>2004</b>
At beginning of the year	70,084	63,807
Additional provision	85,000	55,344
Payment for the year	(51,576)	(49,067)
At the end of the year	<u>103,508</u>	<u>70,084</u>
Current	54,977	47,000
Non-current	48,531	23,084
	<u>103,508</u>	<u>70,084</u>

**18 Retirement benefits obligations**

	<b>2005</b>	<b>2004</b>
At beginning of the year	113,327	112,722
Additional provision	2,503	17,856
Payment for the year	(18,594)	(17,251)
At the end of the year	<u>97,236</u>	<u>113,327</u>
Current	17,660	19,000
Non-current	79,576	94,327
	<u>97,236</u>	<u>113,327</u>

The material actuarial assumptions used in valuing these obligations are as follows:

- (1) Discount rate adopted: 3%-3.6%
- (2) Mortality: average life expectancy of residents in the PRC.

Based on the assessment and IAS 19, the Company estimated that, at 31 December 2005, a provision of RMB97,236,000 is sufficiently to cover all future retirement-related obligations.

Obligation in respect of retirement benefits of RMB97,236,000 is the present value of the unfunded obligations, of which the current portion amounting to RMB17,660,000 (2004: RMB19,000,000) has been included under current liabilities.

**19 Contingencies**

At 31 December 2005, the Company did not have any significant contingent liabilities.

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**20 Commitments**

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements, comprises purchases and leases of buildings, plant and machinery and investments in associates, are as follows:

	<b>2005</b>	<b>2004</b>
Contracted but not provided for:		
purchases and leases of buildings, plant and machinery	367,340	21,881
Equity investment	<u>60,000</u>	<u>-</u>

(b) Royalty fee payable to a shareholder

Pursuant to a joint development agreement entered into with Ford on 21 August 1995, and an amendment on 29 September 2000, Ford agreed to provide technical assistance to the Company for the production of automobiles. In return, the Company agreed to pay Ford the royalty fee with a total amount of US\$40,000,000, and it is calculated based on 1.8% of sale value of automobiles. As at 31 December 2005, the outstanding royalty fee committed, but not provided for, amounted to US\$21,179,000 (2004: US\$24,123,000).

**21 Ordinary share and share premium**

	<b>Number of shares (thousands)</b>	<b>Ordinary shares</b>	<b>Share premium</b>	<b>Capital reserve</b>	<b>Total</b>
At 1 January 2005	863,214	863,214	816,609	18,685	1,698,508
Addition	-	-	-	-	-
At 31 December 2005	<u>863,214</u>	<u>863,214</u>	<u>816,609</u>	<u>18,685</u>	<u>1,698,508</u>

The total authorised number of ordinary shares is 863,214,000 shares (2004: 863,214,000 shares) with a par value of RMB 1 per share (2004: RMB 1 per share). All issued shares are fully paid.

**22 Minority interests**

	<b>2005</b>	<b>2004</b>
At beginning of the year	107,383	104,664
Share of net profit of subsidiary	24,554	22,923
Dividend paid	<u>(15,486)</u>	<u>(20,204)</u>
At the end of the year	<u>116,451</u>	<u>107,383</u>

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**23 Statutory and discretionary reserves**

	Statutory reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
At 1 January 2004	119,489	30,340	-	149,829
- Reserves transfer relating to 2004	38,686	19,343	-	58,029
At 31 December 2004/ 1 January 2005	158,175	49,683	-	207,858
- Reserves transfer relating to 2005	49,543	24,772	-	74,315
At 31 December 2005	207,718	74,455	-	282,173

Transfers from the income statement 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 Jiangling Isuzu.

**Statutory reserve**

According to the Company's Articles of Association, the Company is required to transfer 10% of its profit after tax, 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 issuance 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.

**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.

**Discretionary surplus reserve**

The Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for discretionary surplus reserve.

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**24 Cash generated from operations**

	<b>2005</b>	<b>2004</b>
<b>Group profit before minority interest</b>	515,426	438,057
Adjustments for:		
Income Tax (note 5)	86,088	39,908
Depreciation (note 2)	227,265	273,436
Amortisation (note 2)	3,962	3,592
Impairment charge / (write-back of impairment) (note 2)	921	(2,132)
Loss on sale of property, plant and equipment (note 2)	286	4,646
Gain on sale of investment property (note 2)	-	(5,068)
Interest income (note 3)	(28,156)	(24,334)
Interest expense (note 3)	8,779	14,364
Other finance costs	(43)	1,835
Share of results of associates (note 10)	(4,173)	(4,228)
Changes in working capital:		
Inventories	(69,817)	50,562
Trade and other receivables	182,895	(162,955)
Trade and other payable, tax payable	139,813	189,903
Provisions	33,424	6,277
Pensions and other retirement benefits	(16,091)	605
<b>Cash generated from operations</b>	<b><u>1,080,579</u></b>	<b><u>824,468</u></b>

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

	<b>2005</b>	<b>2004</b>
Net book amount	6,365	6,780
Loss on sale of property, plant and equipment (note 2)	(286)	(4,646)
Proceeds from sale of property, plant and equipment	<u>6,079</u>	<u>2,134</u>

**25 Related party transactions**

Jiangxi Jiangling Holdings Limited ("Jiangling Holdings")(note 28), which owns 41.03% of the Company's shares, and Ford, which owns 30% of the Company's shares, are major shareholders of the Company as at 31 December 2005.

As described in note 28, JMCG (state-owned enterprise incorporated in the PRC) transferred the state-owned shares of 354,176,000 shares to Jiangling Holdings, representing 41.03% of the Company's total ordinary shares on 8 December 2005. In addition, JMCG holds 50% of Jiangling Holdings equity share.

The following is a summary of the significant transactions carried out between the Group, its associates, JMCG and its subsidiaries, Ford, Isuzu-Motors Corporation of Japan (hereafter referred to as "Isuzu") and their subsidiaries in the ordinary course of business during the period:

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**25 Related party transactions (continued)**

**i) Purchases of goods and services**

<b>Purchase of goods:</b>	<b>2005</b>	<b>2004</b>
JMCG	406,889	492,215
JMCG Interior Trim Factory	252,305	151,799
JMCG Variant Vehicle Factory	32,360	32,029
Jiangxi Radiator Plant	17,699	19,904
JMCG Industrial Co.	30,068	37,823
Jiangling Material Co.	16,696	12,455
Jiangxi Fuchang Air-condition Co., Ltd.	118,357	92,958
Jiangling Chassis Company	5,779	5,729
Jiangling Forging Co., Ltd.	15,569	12,863
Jiangling-Lear Interior Trim Factory	148,194	124,826
Jiangling Metal Casting Plant	15,137	9,600
Nanchang Gear Co., Ltd.	173,064	144,233
Jiangling Hua Xiang Auto Components Co.	62,269	50,772
Jiangling Auto Component Co.	6,438	3,163
Ford	155,763	95,665
JMCG Industry Co. Printing Plant	3,889	89
JMCG Special Purpose Vehicle Plant	985	219,378
Jiangling Industrial Company	1,911	-
Others	1,668	1,447
	<b>1,465,040</b>	<b>1,506,948</b>

<b>Purchases of Services:</b>	<b>2005</b>	<b>2004</b>
JMCG Import & Export Co., Ltd.		
- Commission expenses	4,205	4,998
JMCG Construction & Development Co.		
- services	12,626	12,755
Jiangxi Fujiang After-Sales Service Co., Ltd.		
- services	8,498	8,276
JMCG		
- services	5,270	8,422
- rental expense	2,539	2,539
JMCG Variant Vehicle Factory		
- rental expense	356	356
Ford Otosan Company		
- services	24,116	-
Ford Motor (China) Co., Ltd.		
- services	14,114	-
Ford Motor Company		
- services	-	749
JMCG Property Co.		
- services	1,609	110
Others	1,424	-
	<b>74,757</b>	<b>38,205</b>

<b>Purchases of buildings</b>	<b>2005</b>	<b>2004</b>
JMCG		
- buildings	<b>2,900</b>	-
	<b>2,900</b>	-

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**25 Related party transactions (continued)**

**ii) Sales of goods and provision of services**

<b>Sales of goods:</b>	<b>2005</b>	<b>2004</b>
JMCG Import & Export Co., Ltd.	340,654	148,285
Jiangling Land Wind Vehicle Co., Ltd.	211,386	105,525
JMCG Interior Trim Factory	67,400	68,145
JMCG Variant Vehicle Factory	7,159	18,992
JMCG Property Co.	6,573	2,725
JMCG Radiator Plant	1,172	1,392
JMCG Industrial Co.	119,913	89,736
Nanchang Jiangling Tractor Co., Ltd.	90	1,723
Jiangling New-power Auto manufacturing Co	2,138	3,041
Jiangling Chassis Company	42,644	27,476
JMCG Construction & Development Co.	442	2,809
Nanchang Gear Co., Ltd.	19,251	17,039
Jiangling Hua Xiang Auto Components Co.	18,795	15,520
Jiangling Auto Component Co.	37,049	13,283
Land Wind Sales company	1,730	1,142
Jiangling Fu Da Auto Component Co.	41,459	23,872
Jiangling Material utilization Co.Ltd	28,262	14,757
Jiangling-Lear Interior Trim Factory	889	1,165
JMCG Special Purpose Vehicle Plant	1,567	190,355
Jiangling Ze Guang Auto Component Co.	1,006	312
Others	915	898
	<b>950,494</b>	<b>748,192</b>

<b>Rental income:</b>	<b>2005</b>	<b>2004</b>
JMCG Variant Vehicle Factory	-	600
JMCG Industrial Co.	559	577
Other	228	285
	<b>787</b>	<b>1,462</b>

**iii) Year-end balances arising from sales/purchases of goods/services**

<b>Receivables from related parties:</b>	<b>2005</b>	<b>2004</b>
Jiangling Industrial Co.	6,353	3,121
JMCG Import & Export Co., Ltd.	4,028	4,202
Jiangling Land Wind Vehicle Co., Ltd.	31,847	26,765
Jiangling Fu Da Auto Component Co.	5,859	7,045
Jiangling Chassis Company	2,103	-
JMCG Property Co.	1,129	797
JMCG Construction & Development Co.	265	181
Others	858	2,576
	<b>52,442</b>	<b>44,687</b>

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**25 Related party transactions (continued)**

Prepayment for construction in progress:	<b>2005</b>	<b>2004</b>
JMCG Construction & Development Co.	1,000	173
JMCG Import & Export Co., Ltd.	2,165	2,004
	<b>3,165</b>	<b>2,177</b>
<b>Payables to related parties:</b>	<b>2005</b>	<b>2004</b>
JMCG Industrial Co.	6,650	8,604
Ford Motor Company	26,732	9,470
JMCG	77,460	68,211
JMCG Interior Trim Factory	36,268	18,452
JMCG Variant Vehicle Factory	13,236	6,404
JMCG Jiangxi Radiator Plant	3,149	4,683
Jiangxi Fuchang Air-condition Co., Ltd.	35,205	25,039
Jiangling Chassis Company	177	3,099
Jiangling Forging Co., Ltd.	2,738	1,754
JMCG Import & Export Co., Ltd.	5,787	453
Jiangling-Lear Interior Trim Factory	65,909	41,742
Jiangling Special Vehicles Factory	75	22,616
Nanchang Gear Co., Ltd.	39,555	35,431
Jiangling Hua Xiang Auto Components Co.	18,660	18,657
Jiangling Auto Component Co.	701	5,787
Jiangling Metal Casting Plant	2,428	1,960
JMCG Industrial Co. Shangrao Motor parts Plant	1,658	-
Others	814	1,277
	<b>337,202</b>	<b>273,639</b>

**iv) Service fee paid to Ford for management staff**

Pursuant to an agreement reached between the Company and Ford on 24 March 2005, 13 expatriates and 4 local employees of Ford were assigned to the Company as management staff. In 2005, the Company paid USD2,573,618 and RMB328,056 to Ford as service fee for these staff.

**v) Guarantee**

Certain bank loans of the Company were guaranteed by JMCF in 2005, with the limit of USD2,282,123, equivalent to RMB18,888,221. As at 31 December 2005, bank loans of USD1,342,425, equivalent to RMB10,833,638, were guaranteed by JMCF (note 16).

**vi) Directors' remuneration**

At 31 December 2005, the total remuneration of the directors was about RMB 243,333.

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**25 Related party transactions (continued)**

**vii) Transaction with other state-owned entities**

The Group's largest shareholder is Jiangling Holdings, which was established by state-owned enterprises, Chongqing Changan Automobile Corporation Ltd. ("Changan Auto") and JMCG, with the equity interests of 50% and 50%, respectively. Jiangling Holdings is controlled by Changan Auto, so the Group is considered to be indirectly controlled by the PRC Government, which controls a substantial number of entities in the PRC. In accordance with IAS 24 "Related Party Disclosure", state-owned enterprises and their subsidiaries, other than JMCG and its subsidiaries, directly or indirectly controlled by the PRC Government are also deemed as related parties of the Group ("other state-owned entities"). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned entities. Many state-owned entities have multi-layered corporate structure and the ownership structures change overtime. Nevertheless the Management believes that meaningful information relating to such kind of related parties transactions has been adequately disclosed.

**Transactions with other state-owned entities:**

	<b>2005</b>
Purchase of goods	1,334,376
Purchase of fixed assets	43,303
Purchase of services	27,523
Sales of goods	5,570
Sales of services	1,349
Interest income	16,078
Interest expense	8,434
Borrowing	124,693
Repay borrowing	200,000

**Year-end balances with other state-owned entities:**

	<b>2005</b>
Cash and cash equivalents	1,896,396
Borrowings	124,070
Receivables and prepayments	61,948
Trade and other payables	188,527

**26 Principal subsidiaries**

<b>Entity</b>	<b>Place and date of incorporation</b>	<b>Percentage of equity interest held</b>	<b>Principal activities</b>
Jiangling Isuzu Motors Company Limited	Nanchang, PRC 10 March 1993	75%	Manufacture and sale of automobiles and spare parts

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**27 Post balance sheet events**

- (1) With the approval from State-owned Assets Supervision and Administration Committee of Guozichanquan [2006] No. 36 on 11 January 2006, the Shareholders' Meeting of the Company approved the Equity Separation Reform scheme ("Scheme") on 16 January 2006.

On 25 January 2006, the change on the nature of the shares relating to the Scheme was approved by the Ministry of Commerce of the PRC of Shangzipi[2006] No. 387.

According to the approved Scheme, registered tradable A-share shareholders of the Company as at 13 February 2006 received cash consideration of RMB 13.40 per 10 shares on 14 February 2006, and subsequently the nature of previous non-tradable A shares changed to limited tradable A shares.

The share structures of the Company before and after the Scheme are listed as below:

Share Types	Before Shares	Percentage	Share Types	After Shares	Percentage
Non-tradable A shares	401,614,000	46.53%	Limited tradable A shares	401,620,060	46.53%
Promoters' share	354,176,000	41.03%	State-owned shares	354,176,000	41.03%
Legal-entities' shares	47,438,000	5.50%	Legal-entities' shares	47,438,000	5.50%
			Management shares	6,060	-
Tradable shares	<u>461,600,000</u>	53.47%	Unlimited tradable shares	461,593,940	53.47%
Management shares	<u>6,060</u>	-	A shares	<u>117,593,940</u>	<u>13.62%</u>
A shares	117,593,940	13.62%	B shares	344,000,000	39.85%
B shares	<u>344,000,000</u>	39.85%			
Grand total	<u>863,214,000</u>	100%	Grand total	<u>863,214,000</u>	<u>100%</u>

**28 Other significant matters**

Pursuant to an agreement dated 28 October 2004 entered into between JMCG and Chongqing Changan Automobile Corporation Ltd., each party injected cash of RMB50 million to form Jiangling Holdings. Jiangling Holdings was registered on 1 November 2004 with the registered capital of RMB100 million. The registered address is No. 319, Northern Yingbin Avenue, Nanchang City, Jiangxi Province, P.R.C.

On 6 December 2004, JMCG, Chongqing Changan Automobile Corporation Ltd. and Jiangling Holdings entered into an agreement, upon which JMCG would contribute its 354,176,000 JMC State-owned shares into Jiangling Holdings as capital investment.

On 8 December 2005, China Securities Depository and Clearing Corporation Limited, Shenzhen Branch confirmed and completed the registration of the share transfer, under which JMCG transferred its 354,176,000 JMC state-owned shares to Jiangling Holdings as capital contribution. Jiangling Holdings became the major shareholder of the Company, which owns the stated-owned shares of 354,176,000 shares, representing 41.03% of total ordinary shares of the Company.

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**Impact of IFRS adjustments on the consolidated profit after tax and shareholders' equity**

	Net assets	Net profit
As reported in the accounts of the Group under PRC accounting principles	2,873,286	495,431
1. Deferred Tax asset	58,698	12,002
2. Pension defined benefit	(97,236)	16,091
3. Minority interest	1,774	(3,279)
4. Deferred income	(26,112)	(26,112)
5. Staff bonus and welfare fund of Jiangling Isuzu appropriated from profit after tax	-	(4,479)
6. Others	-	1,218
As restated in conformity with IFRS	<u>2,810,410</u>	<u>490,872</u>

## **Chapter XI Catalog on Documents for Reference**

1. Originals of 2005 financial statements signed by legal representative and Chief Financial Officer.
2. Originals of the Auditors' Reports signed by registered accountants and stamped by the accounting firm.
3. Originals of all the documents and public announcements disclosed in newspapers designated by CSRC in 2005.
4. The Annual Report in CAS.

Board of Directors

Jiangling Motors Corporation, Ltd.

March 25, 2006