# 重慶長安民生物流股份有限公司
# CMA Logistics Co., Ltd.*

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 8217)


**2005** Annual Report

* For identification purposes only

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*The directors of CMA Logistics Co., Ltd collectively and individually accept full responsibility of this report. This report includes particulars given in compliance with the GEM Listing Rules of the Stock Exchange of Hong Kong for the purpose of giving information with regard to CMA Logistics Co., Ltd. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Yin Jiaxu *(Chairman)*
Huang Zhangyun
Lu Xiaozhong
Shi Chaochun
James H McAdam

## NON-EXECUTIVE DIRECTORS

Lu Guoji *(Vice Chairman)*
Zhang Baolin
Koay Peng Yen
Cao Dongping
Wu Xiaohua
Lau Man Yee, Vanessa

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Xu
Peng Qifa
Chong Teck Sin

## SUPERVISORS

Hua Zhanbiao
Tang Yizhong
Dai Baiming
Ye Guangrong
Chen Haihong

## SENIOR MANAGEMENT

Shi Chaochun, Li Xiwen, Huang Yong,
Huang Ming, Hu Dahua,
Huang Xuesong, Sun Yuping,
Zhao Yuhang, Guo Yi, Zhang Jianping,
Lam Lai Sha, Deng Zaiming, Tang Bing,
Wang Xingya, Wu Bangping,
Shi Jianfeng, Huang Chengxun,
Yang Ming, Tan Chaohu

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Yang Chuen Liang, Charles *CPA, ACA*

## AUDIT COMMITTEE

Peng Qifa *(Chairman)*
Wang Xu
Chong Teck Sin

## COMPLIANCE OFFICER

Huang Zhangyun

## AUTHORISED REPRESENTATIVES

Huang Zhangyun
Shi Chaochun

## REPRESENTATIVE FOR THE ACCEPTANCE AND SERVICE OF PROCESS

Lam Lai Sha

## AUDITORS

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central, Hong Kong

## COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place, Central
Hong Kong

## PRINCIPAL BANKERS

China Minsheng Bank Limited, Chongqing Branch
Merchants Bank of China Limited, Chongqing Branch
Construction Bank of China Limited, Chongqing Branch

## H SHARES REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

## REGISTERED OFFICE

Liangjing Village, Yuanyang Town
Yubei District
Chongqing, the PRC

## OFFICE AND ADDRESS OF CORRESPONDENCE

3rd Floor, No.26, Liyu Pond Second Village
Jiangbei District, Chongqing, the PRC

## HEAD OFFICE IN HONG KONG

16/F, 144-151 Singga Commercial Centre
Connaught Road West
Hong Kong

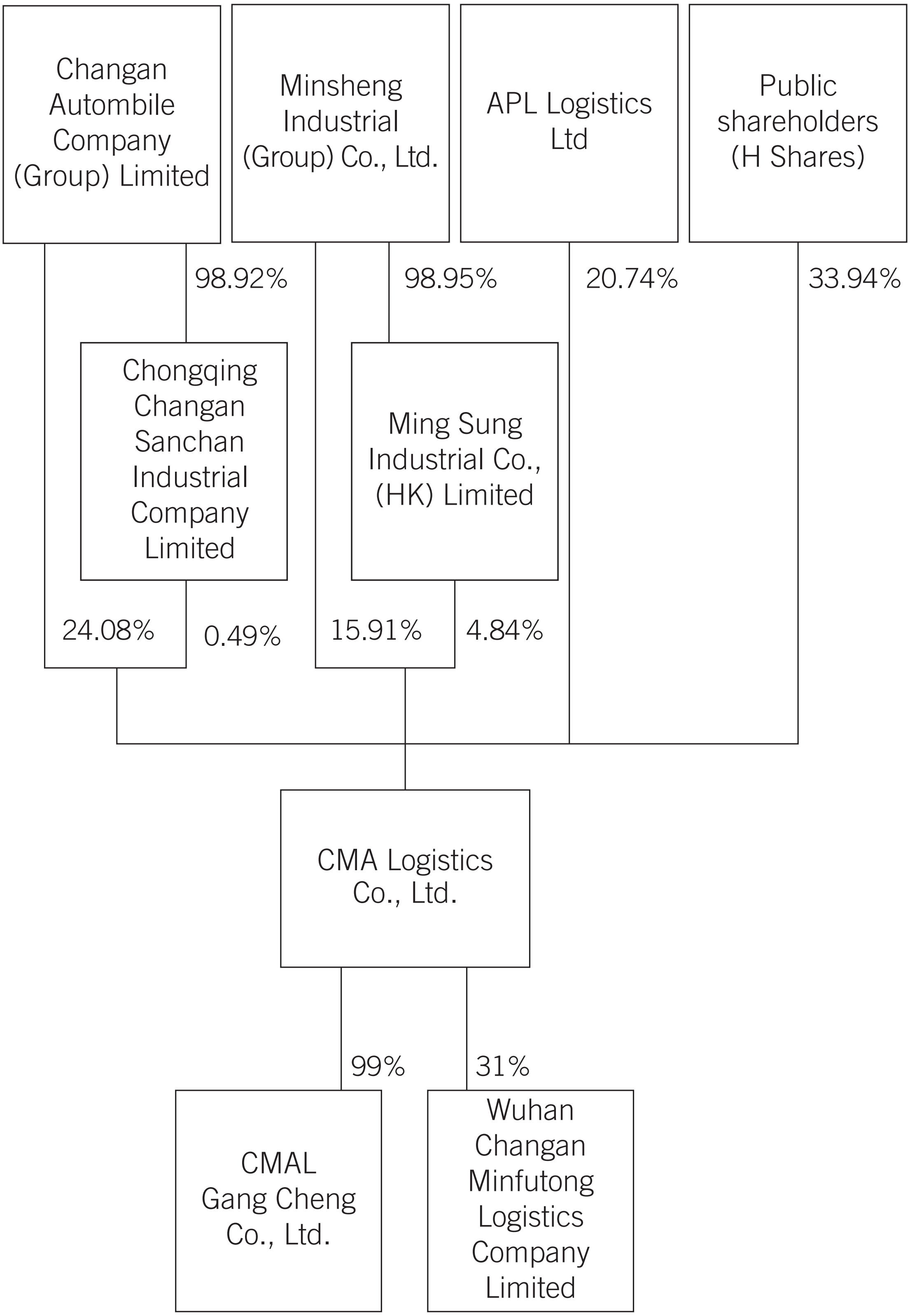
## STOCK CODE

8217

## WEBSITE

http://www.camsl.com

# COMPANY'S SHAREHOLDING STRUCTURE



## RESULTS

Set out below is the summary of the Group's consolidated results for the three years ended 31 December 2005 (as extracted from the Group's audited consolidated income statement):

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2005** | 2004 | 2003 |
| | **RMB'000** | RMB'000 | RMB'000 |
| Turnover | **882,176** | 823,504 | 486,130 |
| Profits before taxation | **63,660** | 42,595 | 21,208 |
| Income tax | **5,799** | — | — |
| Profits after tax but before minority interests | **57,861** | 42,595 | 21,208 |
| Minority interests | **—** | — | — |
| Profit attributable to shareholders of the Company | **57,861** | 42,595 | 21,208 |

## ASSETS AND LIABILITIES

Set out below is the summary of the Group's balance sheet for the three years ended 31 December 2005 (as extracted from the Group's audited balance sheet):

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2005** | 2004 | 2003 |
| | **RMB'000** | RMB'000 | RMB'000 |
| Non-current assets | **141,559** | 113,402 | 88,184 |
| Current assets | **325,565** | 282,071 | 164,348 |
| Total assets | **467,124** | 395,473 | 252,532 |
| Non-current liabilities | **—** | — | 18,560 |
| Current liabilities | **306,944** | 248,370 | 135,535 |
| Minority interests | **50** | — | — |
| Total liabilities and minority interests | **306,994** | 248,370 | 154,095 |
| Net assets | **160,180** | 147,103 | 98,437 |

# FINANCIAL SUMMARY

## KEY PERFORMANCE INDICATORS

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2005** | 2004 | 2003 |
| | **RMB** | RMB | RMB |
| Earnings per share *(Note 1)* | **0.52** | 0.40 | 0.32 |
| Dividends per share (including tax) | **0.11** *(Note 2)* | 0.25 | N/A *(Note 3)* |
| Net assets per share *(Note 4)* | **1.43** | 1.38 | 1.48 |

*Notes:*

1. Earnings per share is calculated by dividing the profit attributable to the shareholders of the Company for the years ended 31 December 2003, 2004 and 2005 by the weighted average number of 66,647,000, 106,439,000 and 112,064,000 shares in issue for the years ended 31 December 2003, 2004 and 2005 respectively.

2. This is the final dividend for the year ended 31 December 2005 which the Board proposed to distribute (excluding the dividend distributed as realization of profits from January to April 2005), pending approval at the annual general meeting.

3. The Company was a limited liability company in 2003 and the capital of the Company was not divided into shares. There was no concept of dividends per share when appropriating the dividends.

4. Net assets per share is calculated by dividing the net assets of the Group as at 31 December 2003, 2004 and 2005 by the weighted average number of 66,647,000, 106,439,000 and 112,064,000 shares in issue for the years ended 31 December 2003, 2004 and 2005 respectively.

I am pleased to present the annual report for the year ended 31 December 2005 of CMA Logistics Co., Ltd. (the "Company") and its subsidiary (hereinafter referred to as "the Group") to all shareholders.

## ANNUAL RESULTS

The Group's core business, vehicle logistics services, has performed well in 2005 and achieved a steady growth in profitability. For the year ended 31 December 2005, the Group's turnover was RMB882.2 million, up 7.1% from the same period in 2004. Both of our two major business categories, transportation of finished vehicles and supply chain management services for car components and parts, recorded continued growth in turnover during the year. Profits attributable to shareholders were RMB57.9 million, up 35.9% from the same period in 2004.

## ANNUAL REVIEW

In 2005, China continued to implement macro-economic austerity measures. The Group's major business, vehicle logistics business, was also impacted by the fact that the overall development of the automotive industry in China was slower than expected. However, through the joint efforts of all our staff, the Group still achieved a steady growth in turnover and profitability and further improvement in the domestic service network. In order to keep pace with the continued development of the automotive industry in China and to increase its standard of services and competitiveness, the Company made a series of preparations during the year before its listing and the Company's governance structure was enhanced. The listing of the Company's H shares in Hong Kong was also approved by the China Securities Regulatory Committee. Looking back on the year, the Company believes it has achieved its objectives satisfactorily, laying a solid foundation for realizing sustained development.

## OUTLOOK AND PROSPECTS

We believe that the economy in the PRC will continue to grow steadily in 2006. With the expansion of the automotive industry in China, we believe the prospects for the future development of the vehicle logistics market in China are bright. The Company is very optimistic about developing the vehicle logistics business which is at the high end of the logistics industry. The Company will seek to continue to strengthen its relationship with vehicle manufacturers and will be committed to developing new customers. The Company will also seek to take advantage of every opportunity to expand its scale so as to strengthen its business and customer base.

The board of directors and I are very optimistic about the future development of the Group. All staff will also continue to work hard and contribute to the Group's development.

I would like to take this opportunity to express my heartfelt thanks to members of the board of directors and all staff for their highly effective work and unremitting efforts. As in the past, the Company will reward all shareholders for their great support.

*Chairman*

**Yin Jiaxu**

Chongqing, China
24 March 2006

## BUSINESS REVIEW

### Overview

The principal businesses of the Group are finished vehicle transportation and related logistics services, car components and parts supply chain management services and non-vehicle commodities transportation services. The Group's major customers include Chongqing Changan Automobile Co., Ltd. ("Changan Automobile"), Changan Ford Automobile Corporation Ltd. ("Changan Ford"), Hebei Changan Automobile Co., Ltd. ("Changan Hebei"), Nanjing Changan Automobile Produce Company Limited ("Changan Nanjing"), Chongqing Changan Suzuki Automobile Co., Ltd, Qingdao Haier Logistics Company Limited and Chengdu Baogang West Trade Company Limited.

The growth of the automobile market in China has slowed down in 2005. However, benefiting from an increase in the business volume from customers with a faster growth in vehicle production and sales, in particular Changan Ford, Changan Hebei and Changan Nanjing, and a growth in the number of vehicle parts manufacturer customers, the Group recorded a turnover of approximately RMB882.2 million for the year ended 31 December 2005, up 7.1% from RMB823.5 million for last year. For the year 2005, income generated from finished vehicle transportation services of the Group was approximately RMB594.2 million (2004: RMB540.8 million). Income generated from car components and parts supply chain management services for 2005 was approximately RMB278.1 million (2004: RMB267.0 million). Income generated from non-vehicle commodities transportation services for 2005 was approximately RMB9.9 million (2004: RMB15.7 million). Profits attributable to shareholders of the Company were approximately RMB57.9 million, up 35.9% from RMB42.6 million for last year.

During the year, we continued to provide logistics services to more than 500 customers. For the year ended 31 December 2005, income generated from providing logistics services to related customers including Changan Automobile was approximately RMB824.0 million, representing approximately 93.4% of the annual turnover of the Group.

### Strategic Development

During the year, the Company established a subsidiary, CMAL Gang Cheng Co., Ltd ("Chongqing Gangcheng"), with a view to expanding its facilities and capacities in the Cuntan region in Chongqing to further develop its automotive logistics business. The Company also contributed capital in Wuhan Changan Minfutong Logistics Company Limited ("Changan Minfutong") which is engaged in the provision of finished vehicle, transportation, warehousing, cargo agency and logistics planning and consultation services. Please refer to notes 20 and 21 to the consolidated financial statements for further details of Chongqing Gangcheng and Changan Minfutong.

## FINANCIAL REVIEW

### Turnover

The Group's turnover for the year ended 31 December 2005 was approximately RMB882.2 million (2004: RMB823.5 million), up 7.1% from the previous financial year. The increase was mainly attributable to a faster growth in the car production and sales of the Group's key customers, namely Changan Ford, Changan Heibei and Changan Nanjing, resulting in increased demand for logistics services by such customers.

The following table sets out the turnover classified by business categories for the two years ended 31 December 2005:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Transportation of finished vehicles | **594,209** | 540,803 |
| Supply chain management relating to car components and parts | **278,059** | 266,956 |
| Transportation of non-vehicle commodities | **9,908** | 15,745 |

During the year, the Company achieved improved sales in transportation of finished vehicles and car components and parts supply chain management services as a result of, among other things, growth in its customers' businesses that led to increased demand for the Company's services.

Turnover from transportation of non-vehicle commodities fell 36.9% from RMB15.7 million in 2004 to RMB9.9 million this year as the Company scaled down this business category given the rising fuel costs in 2005 that impacted its profit margin. Furthermore, one of the major customers of the Company for transportation of non-vehicle commodities has reduced its production volume in 2005.

### Cost of sales and gross profit margin

For the year ended 31 December 2005, the Group's gross profit margin for transportation of finished vehicles increased from 7.6% to 10.2% mainly because the Company increased the use of Wuhan as a transportation hub for finished vehicles and the use of river transportation, both of which carried lower transportation costs. The gross profit margin for supply chain management of car components and parts improved notably from 10.7% to 18.2% mainly due to additional revenue booked in 2005 as a result of adjusted sales prices of supply chain management services rendered to one of the Group's major customers in 2004. Please refer to the note 6 to the consolidated financial statements for details of the adjustment to sales in 2005.

Compared to the gross profit margins for the two other business categories, the gross profit margin for transportation of non-vehicle commodities declined from 14.6% to 11.8% because the Group recorded lower sales from transportation of non-vehicle commodities, which used to command a higher gross profit margin, for one of the customers of the Group.

### Distribution expenses

The Group's total distribution expenses of RMB20.3 million for the year ended 31 December 2005 remained stable and represented some 2.3% of the Group's turnover during the year (2004: 1.5%).

Included in distribution expenses were salaries and benefits, travelling, business and communication expenses of the Group's sales and marketing department that rose 77.3% during the year due to increase in the Group's headcount for supporting its business development.

### Administrative expenses

Administrative expenses increased from RMB11.4 million in 2004 to RMB20.8 million in 2005 because of a significant increase in salaries and benefits, travelling, business and communication expenses in conjunction with the Group's business expansion, especially in Nanjing and Hebei regions.

### Employee benefit expense

The Group had 1,899 employees as at 31 December 2005 (31 December 2004: 1,242 employees). Total employee benefit expense increased significantly from RMB19.6 million for the year ended 31 December 2004 to RMB44.7 million for the year ended 31 December 2005 mainly due to increase in salaries, staff and workers' bonus and welfare fund as a result of the substantial growth in the number of employees during the year. In particular, more managerial staff were recruited in 2005 and this led to a higher average monthly salary per employee.

Please refer to note 9 to the consolidated financial statements for a breakdown of the employee benefit expense.

### Finance costs

The Group's finance costs for the year amounted to RMB2.0 million (2004: RMB2.0 million). The Group continued to reduce its reliance on external borrowings and had no outstanding bank borrowings as at 31 December 2005.

### Taxation expenses

The Company was entitled to a 50% tax reduction for the year 2005. The applicable tax rate was 7.5% and the provision for income tax for the year amounted to RMB5.8 million.

### Profit attributable to shareholders

During the year, profits attributable to shareholders of the Company were approximately RMB57,861,000, up approximately 35.9% from the previous financial year.

### Dividends

The board of directors (the "Board") declared and recommended the payment of a final dividend of RMB0.11 (including tax) (2004: RMB0.25 (including tax)) per share for the year ended 31 December 2005 to shareholders registered in the register of members of the Company on 24 May 2006. The final dividend will be paid before 24 August 2006 upon approval of the Board's proposal by shareholders at the annual general meeting.

### Liquidity and financial resources

For the year ended 31 December 2005, the Group maintained a sound financial position. As at 31 December 2005, the aggregate amount of the Group's cash and bank deposit was RMB40.4 million (31 December 2004: RMB33.3 million) and there was no bank borrowing. As at 31 December 2005, total assets of the Group amounted to approximately RMB467.1 million (31 December 2004: RMB395.5 million). Capital resources were current liabilities of RMB306.9 million (31 December 2004: RMB248.4 million), shareholders' interests of RMB160.2 million (31 December 2004: RMB147.1 million) and minority interests of approximately RMB50,000 (31 December 2004: nil).

### Capital structure

There was no change in the capital structure of the Group as at 31 December 2005 as compared with 31 December 2004.

### Loans and borrowings

As at 31 December 2005, the Group had no bank loans and borrowings.

### Gearing ratio

As at 31 December 2005, the gearing ratio (total liabilities as a percentage of total assets) of the Group was 65.7% (31 December 2004: 62.8%). The ratio of total liabilities to net assets of the Group was 1.92: 1 (31 December 2004: 1.69: 1).

### Pledge of assets

As at 31 December 2005, no assets of the Group were utilized to secure any sums.

### Exchange rate risks

During the year, most transactions of the Group were denominated in RMB. The Group did not face any significant exchange rate risks.

### Contingent liabilities

As at 31 December 2005, the Group did not have any significant contingent liabilities.

### Capital commitment

As at 31 December 2005, the Group had capital commitment of approximately RMB5.6 million. This was mainly related to uncompleted capital commitment projects in respect of regional distribution centres and facilities constructed to meet the needs for business growth. The contracts for the construction and acquisition of these buildings and facilities were signed during the year ended 31 December 2005.

### Use of proceeds

The Company was successfully listed on GEM through the placing of 55 million H shares (the "Placing") on 23 February 2006. After deduction of relevant expenses, the net proceeds from the Placing amounted to approximately HK$115 million. Details of the use of proceeds from the Placing are set out in the paragraph headed "Use of proceeds" under the section headed "Statement of business objectives" of the prospectus dated 16 February, 2006 of the Company (the "Prospectus").

### Disclosure under Chapter 17 of the GEM Listing Rules

The directors are not aware of any circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

The Stock Exchange has issued "Code of Corporate Governance Practices" ("Code") as set out in Appendix 15 of the GEM Listing Rules, which is effective for accounting periods commencing on or after 1 January 2005. Pursuant to the GEM Listing Rules, listed companies are required to include in their annual report a report on their corporate governance practices during the accounting period, including compliance with the Code.

As the Company was listed on 23 February 2006, the directors consider that the Company was not required to comply with the requirements under the Code or the continuing obligations requirements of a listed company pursuant to the GEM Listing Rules for the year ended 31 December 2005. As such, the directors consider that the requirement to include a corporate governance report in respect of such period similarly does not apply to the Company as the Company was not a listed company during the relevant period.

Nevertheless, the directors and senior management are aware that the Code is a guideline for corporate governance "best practices", and intend to comply with the requirements under the Code.

As part of the preparations for listing, the Company had enhanced its corporate governance practices to comply with the GEM Listing Rules requirements. The following is a summary of the principal corporate governance enhancements the Company has undertaken. The Company will prepare a full corporate governance report for the year ending 31 December 2006 in respect of the period following its listing.

## BOARD

The Board of the Company comprises 14 directors, and is responsible for overseeing the management of the Group. Details of the members of the Board are set out in the paragraph headed "Directors, supervisors and senior management". The Board considers that the Board's composition including 9 non-executive directors (which in turn include 3 independent non-executive directors) achieves a reasonable equilibrium within the Board between executive and non-executive directors. The 9 non-executive directors (including the 3 independent non-executive directors) participate constructively in the formulation of the Company's policies and seek to represent the interests of shareholders as a whole.

The Company has appointed 3 independent non-executive directors, of which at least one has appropriate professional qualification and related financial management expertise in accounting. The Company received the relevant independence confirmation letter from the independent non-executive directors in January 2006, and the Company considers that each of the independent non-executive directors has complied with every guideline regarding independence under Rule 5.09 of the GEM Listing Rules. The term of office of each independent non-executive director does not exceed 9 years.

There is no family or material relationship between the members of the Board.

## MANAGEMENT OF THE COMPANY

The Board is responsible for formulating the Company's development strategies, supervising and discussing the operation situation and financial performance of the Group and making decisions on important affairs and development. The management is responsible for overseeing the Company's daily operations. The Board is also responsible for determining the Company's investment plans for the following fiscal year. In the event that a particular project has not been budgeted for, approval by the Board is required if it involves capital investment over a certain amount.

Management is required to provide full and timely information to the Board and its three committees, in order that the responsible directors can discharge their duties and take decision properly and on an informed basis. Where necessary, the Board and management will seek advice and assistance from professional advisers.

The Board intends to review annual the scope of delegations to management so as to ensure such delegations are appropriate.

## THE THREE COMMITTEES OF THE BOARD

On 22 February 2005, the Board approved the establishment of the audit committee, remuneration committee and nomination committee. On 15 August 2005, the Board approved the "Procedural Rules of the Audit Committee of the Board of CMA Logistics Co., Ltd.", the "Procedural Rules of the Remuneration Committee of the Board of CMA Logistics Co., Ltd.", and the "Procedural Rules of the Nomination Committee of the Board of CMA Logistics Co., Ltd.".

All the committees (being the audit committee, remuneration committee and nomination committee) have set down specific terms of reference, specifying the powers and responsibilities of each committee. All the committees shall report their decisions or proposals to the Board in accordance with their scope of rights, and under certain circumstance, will request for the Board's approval before taking such actions.

### (1) Audit committee

The Company has set up an audit committee pursuant to the requirements under Rule 5.28 of the GEM Listing Rules and the "Guidelines for the establishment of Audit Committees" prepared by Hong Kong Institute of Certified Public Accountants, with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules. The responsibilities of the audit committee are principally to review and supervise the Company's financial reporting procedure and internal control system. The audit committee has met on 23 March 2006 to review the Group's annual financial results for the year ended 31 December 2005 and other matters.

The audit committee currently comprises Mr. Peng Qifa, Ms. Wang Xu and Mr. Chong Teck Sin, who are all independent non-executive directors.

**(2) Remuneration committee**

The remuneration committee was established on 22nd February 2005, with Mr. Yin Jiaxu as the chairman. The other members are Mr. Koay Peng Yen, Ms. Wang Xu, Mr. Peng Qifa and Mr. Chong Teck Sin. The majority of the members of the remuneration committee are independent non-executive directors of the Company.

The responsibilities of the remuneration committee principally include making proposals to the Board in respect of the overall remuneration policy and structures of the directors and senior management.

**(3) Nomination committee**

The nomination committee was established on 22 February 2005, and currently has five members. Ms. Lau Man Yee, Vanessa is the chairman, while the other members are Mr. Wu Xiaohua, Ms. Wang Xu, Mr. Peng Qifa and Mr. Chong Teck Sin. The majority of the members of the nomination committee are independent non-executive directors of the Company.

The responsibilities of the nomination committee principally include the review of the structure and composition of the Board, enhancing corporate governance within the Company and assessing the independence of the Company's independent directors.

## THE CHAIRMAN AND THE GENERAL MANAGER

The Company's chairman is Mr. Yin Jiaxu, and the general manager is Mr. Shi Chaochun. The chairman is responsible for formulating the business strategies, while the general manager is responsible for overseeing the daily operations of the Company. The chairman is responsible for ensuring the effective operation of the Board. The chairman encourages all the directors (including the independent non-executive directors) to be fully dedicated in the works of the Board and its three committees.

## TRAINING OF DIRECTORS

As part of the preparations for listing, the Company's Hong Kong legal advisers had provided training for the directors, to ensure that they understand the GEM Listing Rules and other relevant laws and regulations, and specified the duties, responsibilities and rights to be enjoyed by directors.

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company intends to adopt Rules 5.48 to 5.67 of the GEM Listing Rules as the Code of Practices for securities transactions by directors.

## TERM OF OFFICE AND RE-ELECTION

The term of office of all the directors will be three years. Upon expiry, the directors shall retire, but shall be available for re-election.

## INTERNAL CONTROL

The Board has the responsibility for maintaining a stable and effective internal control system, so as to protect the Company's assets and shareholders' interests, and to review the efficiency of such system. The Board will review the Company's internal control system from time to time.

## RELATIONSHIP WITH SHAREHOLDERS

The Board intends to encourage and maintain continued dialogues with shareholders through various channels. The Company's annual general meeting provides a good opportunity for directors to meet and communicate with shareholders. All directors shall make their best efforts to attend the annual general meeting so as to reply to enquiries of shareholders.

## RELATIONSHIP WITH INVESTORS

The Company intends to participate in various forums aimed at strengthening the relationship with the investment sector.

The Board of the Company is pleased to present the annual report together with audited consolidated financial statements of the Group for the year ended 31 December 2005.

## PRINCIPAL BUSINESS

The Company is principally engaged in the provision of transportation of finished vehicles services, supply chain management services relating to car components and parts and transportation of non-vehicles commodities services. The subsidiary of the Company, Chongqing Gangcheng, is mainly engaged in the provision of warehousing, logistics planning and consultancy services.

## RESULTS

The results of the Group for the year ended 31 December 2005 are set out on page 33 of this report.

## DIVIDEND

The Board proposed to distribute final dividends of RMB0.11 per share (including tax) to the shareholders whose names appear on the register of members of the Company as at 24 May 2006.

## PROPERTY, PLANTS AND EQUIPMENT

Details of changes in the Company's property, plants and equipment during the year are set out in note 17 to the consolidated financial statements.

## FINANCIAL SUMMARY

A summary which includes the Group's results and its assets and liabilities for the past 3 financial years are set out on pages 5 and 6.

## SUBSIDIARY

Particulars of Chongqing Gangcheng are set out in note 20 to the consolidated financial statements. Its operations are principally in the PRC.

## CAPITALIZED INTERESTS

For the year ended 31 December 2005, no interest had been capitalized.

## SHARE CAPITAL

There were no changes in the Company's share capital during the year ended 31 December 2005. Details are set out in note 26 to the consolidated financial statements.

## PREEMPTIVE RIGHTS

There is no provision for preemptive rights in the Company's articles of association requiring the Company to offer new shares proportionately to the existing shareholders.

## RESERVES

Details of changes in the Company's reserves for the year are set out in the consolidated statement of changes in equity on page 36 and in note 27 to the consolidated financial statements.

## RETIREMENT PLAN

Details of the Company's retirement plan are set out in note 3(p) and 16 to the consolidated financial statements.

## EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2005, the Company has employed 1,899 full-time employees (31 December 2004: 1,242 employees):

| | |
|---|---|
| Administration and finance | 61 |
| Information and technology | 18 |
| Sales and marketing | 47 |
| Operation | 1,773 |
| Total | 1,899 |

Salaries of the Company's employees are determined by reference to market rates, performance, qualification and experience of the relevant employee. Discretionary bonus may also be given based on personal performance during the year, so as to award the employee for its contribution to the Company. Other employee benefits include pension insurance, medical insurance, unemployment insurance, personal injury insurance and housing insurance.

## STAFF QUARTERS

During the year, the Company has not provided any staff quarters to the staff (2004: nil). It has provided housing common reserve fund to the staff, details of which are set out in notes 3(p) and 16 to the consolidated financial statements.

## DIRECTORS AND SUPERVISORS

The Company's directors and supervisors during the year and up to the date of this report were as follows:

**Executive directors:**

| | |
|---|---|
| Yin Jiaxu *(Chairman)* | (appointed on 8 December 2004) |
| Huang Zhangyun | (appointed on 8 December 2004) |
| Lu Xiaozhong | (appointed on 8 December 2004) |
| Shi Chaochun | (appointed on 22 February 2005) |
| James H McAdam | (appointed on 6 June 2005) |

**Non-executive directors:**

| | |
|---|---|
| Lu Guoji *(Vice Chairman)* | (appointed on 8 December 2004) |
| Zhang Baolin | (appointed on 8 December 2004) |
| Koay Peng Yen | (appointed on 8 December 2004) |
| Cao Dongping | (appointed on 8 December 2004) |
| Wu Xiaohua | (appointed on 8 December 2004) |
| Lau Man Yee, Vanessa | (appointed on 6 June 2005) |

**Independent non-executive directors:**

| | |
|---|---|
| Wang Xu | (appointed on 8 December 2004) |
| Peng Qifa | (appointed on 8 December 2004) |
| Chong Teck Sin | (appointed on 21 July 2005) |

**Supervisors:**

| | |
|---|---|
| Hua Zhanbiao | (appointed on 8 December 2004) |
| Tang Yizhong | (appointed on 8 December 2004) |
| Dai Baiming | (appointed on 6 February 2006) |
| Ye Guangrong | (appointed on 8 December 2004) |
| Chen Haihong | (appointed on 8 December 2004) |

## CONFIRMATION OF INDEPENDENCE

The Company has accepted the annual confirmation of the independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at 31 December 2005, the Company had not entered into service contracts with the directors and supervisors. No directors are proposed for re-election at the forthcoming annual general meeting and there is accordingly no unexpired period of any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) in respect of any director proposed to be re-elected.

Each of the non-executive directors has entered into a service contract with the Company for a term of three years commencing on 23 February 2006.

## DIRECTORS' INTERESTS IN CONTRACTS

As at 31 December 2005 or at any time during the year, neither the Company nor its subsidiary has entered into any material contracts in which the directors directly or indirectly are or were materially interested in their personal capacities. However, the Company had entered into various transactions with certain of its shareholders or affiliates of such shareholders, and certain directors are and were employed by or involved in the management of such shareholders or their affiliates. For details of these transactions, please refer to pages 88 to 106 of the Prospectus.

## REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of directors and the 5 highest paid individuals are set out in note 15 to the consolidated financial statement.

The remuneration provided to the directors will be determined on the basis of, among other things, the relevant director's experience, responsibility and the time devoted to the Company.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND THE CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31 December 2005, the Company had not yet been listed and no register of interest in shares was required to be maintained pursuant to the SFO. As such, no interest or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) were required to be entered in any register required to be maintained pursuant to the SFO or required to be notified to the Company or the Stock Exchange pursuant to the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT SHAREHOLDERS

As at 31 December, 2005, the Company had not yet been listed and no register of interest in shares was required to be maintained pursuant to the SFO. As such, no interest or short positions in the shares, underlying shares or debentures of the Company were required to be entered in any register required to be maintained pursuant to the SFO or required to be notified to the Company or the Stock Exchange pursuant to the GEM Listing Rules.

## SHARE APPRECIATION RIGHT INCENTIVE SCHEME

On 6 June 2005, in order to enhance the Company's incentive mechanism, the share appreciation right incentive scheme (the "Scheme") was approved by the shareholders of the Company during the second extraordinary general meeting of the Company. The principal terms and conditions of the Scheme are summarized in the section headed "Summary of terms of the Share Appreciation Right Incentive Scheme" in appendix VII to the Prospectus. During the year, no such plan has been implemented.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Company's sales to the 5 largest customers in proportion to the Company's total sales are as follows:

| | **2005** | 2004 |
|---|---|---|
| Changan Automobile | **38.49%** | 47.63% |
| Changan Ford | **32.68%** | 31.61% |
| Changan Hebei | **13.88%** | 9.92% |
| Changan Nanjing | **5.24%** | 2.55% |
| Chengdu Baogang | **1.02%** | 1.12% |
| Total of 5 largest customers | **91.31%** | 92.83% |

Among the 5 largest customers, Changan Automobile, Changan Ford, Changan Hebei and Changan Nanjing are the Company's connected parties (please refer to note 33 to the consolidated financial statements for details). As for Chengdu Baogang, none of the directors, their respective associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any actual interest in the Company.

The percentages of the Company's purchases from the 5 largest suppliers in proportion to the Company's total purchases are as follows:

| | **2005** | 2004 |
|---|---|---|
| Minsheng Logistics Co., Ltd. | **11.48%** | 12.70% |
| Minsheng International Freight Co., Ltd. | **8.75%** | 13.45% |
| Fuling Trackless Trolley Station Company | **7.15%** | 9.63% |
| Chongqing Hailong Transportation Co., Ltd. | **4.20%** | 2.75% |
| Chongqing Saifu Freight Co., Ltd. | **3.15%** | 2.80% |
| Total of 5 largest suppliers | **34.73%** | 41.33% |

Among the 5 largest suppliers, Minsheng Logistics Co., Ltd., and Minsheng International Freight Co., Ltd. are connected parties of the Company (please refer to note 33 to the consolidated financial statements for details). As for Fuling Trackless Trolley Station Company, Chongqing Hailong Transportation Co., Ltd. and Chongqing Saifu Freight Co., Ltd., none of the directors, their respective associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any actual interests in such companies.

## COMPETING INTERESTS

APL Logistics Ltd ("APLL"), one of the promoters of the Company, provides global logistics services, including transportation of finished vehicles and supply chain management relating to car components and parts. The Company and APLL have entered into a non-competition undertaking in favour of the Company. Please see pages 84 and 86 of the Prospectus for details of the competition with APLL and the non-competition undertaking respectively.

Pursuant to the agreement between the Company and APLL, APLL provided annual confirmation to the Company on 9 March 2006, confirming that so far as it was aware, there has been no non-compliance of the undertaking.

For the year ended 31 December 2005, the Company was not engaged in any business that competed with the business of either Minsheng Industrial (Group) Co., Ltd. ("Mingsheng Industrial") or Ming Sung Industrial Co., (HK) Limited ("Ming Sung (HK)"). Please see pages 86 and 87 of the Prospectus for details of a non-competition undertaking given by Mingsheng Industrial and Ming Sung (HK) to the Company.

## CONNECTED TRANSACTIONS

Details of related party transactions are set out in note 33 to the consolidated financial statements.

In 2005, the Company was not yet listed, and no compliance with the GEM Listing Rules on any connected transaction was required.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company's H Shares had not been listed, so there were no purchase, sale or redemption of any of the Company's listed securities.

## AUDITORS

The attached consolidated financial statements have been audited by PricewaterhouseCoopers. The Company will submit a resolution in the annual general meeting to be held, for the re-appointment of PricewaterhouseCoopers as the international auditor, and PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co. as the PRC auditor.

**By order of the Board**
**Yin Jiaxu**
*Chairman*

Chongqing, the PRC
24 March 2006

# REPORT OF THE SUPERVISORY COMMITTEE

To the shareholders:

Pursuant to the Company Law of the People's Republic of China, the relevant laws and regulations and the articles of association of the Company, the Supervisory Committee of the Company (the "Supervisory Committee"), under its fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of its shareholders.

The Supervisory Committee considers that in 2005, the members of the Board, the general manager and other senior management of the Company were able to strictly observe their fiduciary duties, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are carried out on fair and reasonable terms and in the interests of the shareholders as a whole. Up till now, none of the directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the articles of association of the Company.

The Supervisory Committee is satisfied with the achievement and efficient work of the Company in 2005, and has full confidence in the future development of the Company.

The Supervisory Committee has seriously reviewed and agreed with the report of the directors, the audited consolidated financial statements and the dividend distribution plan to be submitted by the Board to the 2005 annual general meeting.

By order of the Supervisory Committee
**Hua Zhanbiao**
*Chairman of the Supervisory Committee*

Chongqing, the PRC
24 March 2006

## EXECUTIVE DIRECTORS

Mr. Yin Jiaxu (尹家緒), aged 49, is the chairman and an executive director. Mr. Yin joined the Company in 2001 and is mainly responsible for formulating business strategies. In addition, Mr. Yin plays a key role in establishing relationships with major customers and overseeing expansion plans of the Company. Mr. Yin also carries out such duties prescribed by the articles of association of the Company which include, among others, convening and chairing meetings of the Board. Mr. Yin graduated from Chongqing University with a master's degree in engineering and from 重慶工商管理碩士學院, with a master's degree in Business Administration. Mr. Yin serves as the deputy general manager of CSI Group, and chairman of Changan Automobile Company (Group) Limited ("Changan Co.") (one of the Company's substantial shareholders). He is also the general manager of China South Industries Automobile Co..

Mr. Huang Zhangyun (黃章雲), aged 52, joined the Company as an executive director in August 2001. Mr. Huang obtained a bachelor's degree in Industrial Accounting from Chongqing Broadcasting University in 1986. In 2001, he obtained a master's degree in Business Administration from the Asia International Open University (Macau). In 1970, Mr. Huang joined Jiangling Machinery Factory. Since 1996, he has been the director, assistant to the president and vice president of Changan Co. From 1997 to 2003, he was also the general manager of Changqing Changan Sanchan Industrial Company Limited (one of the Company's management shareholders). Mr. Huang is also the chairman of CMAL Gang Cheng Co., Ltd. and the chairman of Wuhan Changan Minfutong Logistics Company Limited.

Mr. Lu Xiaozhong (盧曉鍾), aged 58, joined the Company as an executive director in August 2001. From 1988 until now, Mr. Lu has been the deputy general manager and director of Minsheng Industrial (one of the Company's substantial shareholders), the director of Ming Sung (HK) (one of the Company's management shareholders) and the general manager of Minsheng Shipping Company Limited ("Minsheng Shipping"). He was a committee member of the Chongqing Chinese People's Political Consultative Conference ("CPPCC") and the deputy chairman of Chongqing General Chamber of Commerce (industrial and commercial association) from 1997 to 2002. He has been a committee member of the Chongqing China National Democratic Construction Association (CNDCA) since 2002.

Mr. Shi Chaochun (施朝春), aged 40, joined the Company as the executive deputy general manager in October 2001. He has been the general manager of the Company since February 2004 and the executive director since February 2005. Mr. Shi is mainly responsible for overall strategic planning and business development. Mr. Shi obtained a bachelor's degree from Chengdu Science and Technology University in 1987 and a master's degree in Industrial Engineering from Chongqing University in December 2002. From 1994 to 1997, Mr. Shi worked for Changan Co. as secretary to the vice president and the deputy director of the planning and development department. Mr. Shi is also the general manager of CMAL Gang Cheng Co., Ltd. and the general manager of Wuhan Changan Minfutong Logistics Company Limited.

Mr. James H McAdam, aged 51, joined the Company as an executive director in June 2005. He has more than 20 years of experience in various capacities in the transportation and logistics industry, Mr. McAdam has spent over 10 years in Asia holding senior management positions in Thailand, Japan and Singapore. He currently holds the position of senior vice president of Supply Chains Solution in APLL. As a senior management staff of NOL Group, Mr. McAdam has assumed, and may from time to time assume, other executive positions and, or directorships in any one or more NOL Group entities globally.

## NON-EXECUTIVE DIRECTORS

Mr. Lu Guoji (盧國紀), aged 82, joined the Company in August 2001, and was appointed as a non-executive director and the vice chairman of the Company. Since 1984, Mr. Lu has served as the managing director, deputy chairman and chairman of Minsheng Industrial and the chairman of Ming Sung (HK). The State Council has been granting him a special allowance in recognition of his contribution to the country as an expert in engineering, since 1993. From 1982 to 1997, Mr. Lu was the committee member and member of the Standing Committee of Chongqing CPPCC for the seventh, eighth, ninth and tenth session. From 1997 until now, he has been the committee member of the Standing Committee of the CPPCC of Chongqing Municipality for the first session. From 1988 to 2003. Mr. Lu was the committee member of CPPCC for the seventh, eighth and ninth session at the national level.

Mr. Koay Peng Yen (郭炳炎), aged 40, joined the Company as a non-executive director in February 2004. Mr. Koay obtained a Master of Science degree in Ocean Systems Management from the Massachusetts Institute of Technology. Mr. Koay began his career in NOL in 1988 and has progressed quickly through the ranks, holding a number of senior positions. In 2004, he was appointed as, and is currently, the NOL Group's Regional President for the Greater China Region. As a senior management staff of NOL Group, Mr. Koay has assumed, and may from time to time assume, other executive positions and, or directorships in any one or more NOL Group entities globally.

Mr. Zhang Baolin (張寶林), aged 43, joined the Company and was appointed as a non-executive director in February 2004. From 1989 to 1996, he worked in Southwestern Military Industrial Bureau as deputy secretariat and secretariat of the communist youth league. Mr. Zhang was secretary of party committee of Chongqing Changfeng Machinery Factory (重慶長風機器廠) from 1996 to 1998. From 1998 to 2001, he was the deputy general manager and general manager of Chengdu Wan You Group Company (成都萬友總公司). Since 2001, Mr. Zhang has been the deputy general manager of Changan Co. and the general manager of Changan Automobile Sales Co., Ltd (長安汽車銷售公司).

Ms. Cao Dongping (曹東平), aged 52, joined the Company as a non-executive director in August 2001. Ms. Cao graduated from Sichuan University in 1976, majoring in Political Economics. After graduation, she worked in the planning department and the finance department of Jiangling Machinery Factory until 1994. From 1994 to 1998, Ms. Cao was the head of the finance department of Chongqing Jiangling Engine Co., Ltd.. From May 1998 till now, Ms. Cao has taken up the posts as the deputy head and the head of the finance department of Changan Co..

Mr. Wu Xiaohua (吳小華), aged 50, joined the Company as a non-executive director in August 2001. Mr. Wu graduated from the Sichuan Cadre Institute in 1988, majoring in Financial Accounting. From 1976 to 1989, he was the deputy head of the finance department of Chuanjiang Shipping Factory of Changjiang Marine Transportation Company.

Ms. Lau Man Yee, Vanessa (劉敏儀), aged 38, joined the Company as a non-executive director in June 2005. She is a fellow member of the Chartered Association of Certified Accountants and a graduate member of the Institute of Chartered Secretaries and Administrators. Ms. Lau joined APL's Asia Area Headquarters in Hong Kong in 1991. From 1995 to 1997, Ms. Lau worked for APL's Singapore office as the regional controller. In 1998, Ms. Lau joined NOL Group and she has been working in the NOL Group on financial accounting functions since 1999. She is now NOL's vice president, Group Financial Accounting & Reporting. As a senior management staff of NOL Group, Ms. Lau has assumed, and may from time to time assume, other executive positions and/or directorships in any one or more NOL Group entities globally.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wang Xu (王旭), aged 42, joined the Company as an independent non-executive director in February 2005. Ms. Wang received her PhD from Chongqing University in 2001. She is a professor at Chongqing University. She was a member of the decision-making consultative committee of the Chongqing government in China.

Mr. Peng Qifa (彭啟發), aged 41, joined the Company as an independent non-executive director in February 2005. In 1998, he obtained a master's degree in Economics from the faculty of Business Administration at Sichuan University. Mr. Peng has been approved to be a lecturer of Economics in the Chongqing Industrial Management Institute and was qualified in 1996 to teach in tertiary institution in China. Mr. Peng is a Certified Public Accountant in the PRC and also an independent director of Xichang Electric Company Limited.

Mr. Chong Teck Sin (張鐵沁), aged 50, joined the Company as an independent non-executive director in July 2005. Mr. Chong was the group managing director (commercial) of Seksun Corporation Limited ("Seksun") until May 2004. Prior to his appointment at Seksun, he was the strategic development director for China of Glaxo Wellcome Asia Pacific Pte Ltd. and before that, the senior general manager of China-Singapore Suzhou Industrial Park Development Co., Ltd., the Singapore Suzhou Industrial Park developer. He was with the Singapore Economic Development Board from 1986 to 1989. Mr. Chong sits on the Board of the Accounting and Corporate Regulatory Authority (ACRA) of Singapore. He is also the independent non-executive director of British-American Tobacco (Singapore) Pte Ltd and Eastgate Technology Ltd. He obtained the bachelor of engineering at the University of Tokyo in 1981, and subsequently obtained a Master of Business Administration degree from the National University of Singapore.

## SUPERVISORS

Mr. Hua Zhanbiao (華驏飍), aged 38, a supervisor, joined the Company in 2004. From 1982 to 1994, he worked for Jiangling Machinery Factory. From 1995 till now, Mr. Hua has worked as officer, deputy supervisor, supervisor, deputy head and deputy party secretary of the audit and supervisory department of Changan Co..

Mr. Tang Yizhong (唐宜中), aged 42, a supervisor, joined the Company in 2004. Mr. Tang graduated from the Chongqing Science and Technology University in (重慶科技進修大學) 1986. He obtained a bachelor's degree in Accounting from the Shanghai University of Finance & Economics in 1995. From 1987 to 1993, he worked in Minsheng Shipping. From 1993 till now, Mr. Tang has worked as the deputy manager, manager, assistant to the department head and deputy department head of the finance department of Minsheng Industrial.

Mr. Dai Baiming (戴百銘), aged 34, a supervisor, joined the Company in May 2004. He obtained a master's degree in Business Administration in 2000 from the Shanghai Jiaotong University. From 1992 to 1996, he was engaged in financial affairs of China Construction Bank Shanghai Trust and Investment Co. From 1997 to 2001, he worked for Eli Lilly Greater China office as a Senior Accountant. From 2002 to 2003, he was the finance manager of Laird Group Shanghai Plant. From 2003 to 2005, he was the finance manager of APL Logistics (China) Ltd.. Immediately before joining the Company, he worked as a finance manager for NOL Greater China Regional.

Mr. Ye Guangrong (葉光榮), aged 54, was elected by the labour union of the Company as a Supervisor in 2004. Mr. Ye graduated from the Distance Learning Institute of the China Communist Party Sichuan Provincial Committee School in 1998. From 1988 to October 2004, he worked in Changan Co. as deputy officer of the secretariat division and director of the secretariat reception division. Since November 2004, Mr. Ye has been the chairman of the labor union of the Company.

Ms. Chen Haihong (陳海紅), aged 37, was elected by the labour union of the Company as a supervisor in 2004. Ms. Chen graduated from the Laborer University of Weapon Industry (兵器工業職工大學), majoring in Water Supply and Drainage. She obtained a master's degree in Business Administration at the Asia International Open University, Macau in April 2005. Ms. Chen worked for Changan Co. from 1984 to 2001. She joined the Company in 2001 and she has held various posts such as senior secretary, deputy manager and she is now the administration manager of the Company.

## SENIOR MANAGEMENT

Mr. Shi Chaochun, is the general manager of the Company. See the introductions for executive directors above for details.

Mr. Li Xiwen (李習文), aged 32, joined the Company in 2005. Mr. Li is the deputy general manager of the human resource and administration department of the Company and is responsible for managing the regional distribution centres and information technology department of the Company as well as overseeing the implementation and development of various management systems and company policies. Mr. Li graduated from Beijing Foreign Studies University in 1996 and obtained bachelor's degree in Arts. He obtained a master's degree in Business Administration from the Michigan State University in the United States in 2002. From August 2004 to October 2005, he was the deputy general manager of GEFCO-DTW Logistics Co., Ltd..

Mr. Huang Yong (黃勇), aged 49, joined the Company in 2003. Mr. Huang graduated from the Distance Learning Institute of the Central Party School of the China Communist Party (中共中央黨校函授學院) in 2003. Mr. Huang is the deputy general manager of the Company and is mainly responsible for managing vehicle transportation department, multi-mode transportation department and international freight forwarding department.

Mr. Huang Ming (黃明), aged 43, joined the Company in 2001. Mr. Huang graduated from the Distance Learning Institute of the Central Party School of the China Communist Party in 2000. Mr. Huang is the supervisor of the sales and marketing department and mainly responsible for the business development and planning of the Company. Mr. Huang worked as a manager of the general affairs department and multi-modal transportation department of Shanghai North Transportation Co., Ltd. (上海北方航運有限公司) from 2000 to 2001. Upon the approval by the Board, Mr. Huang was appointed the deputy general manager of the Company on 24 March 2006.

Mr. Hu Dahua (胡大華), aged 40, joined the Company in 2001. Mr. Hu is the finance controller and is mainly responsible for the financial management of the Company. From 1986 to 1991, Mr. Hu worked for Minsheng Shipping. From 1991 to 1997, he was the financial manager of Ming Sung (HK). From 1997 to 1999, Mr. Hu was the financial manager of Minsheng International Freight. From 1991 to 2001, he was the audit manager and deputy manager of quality control of Minsheng Industrial.

Mr. Huang Xuesong (黃學松), aged 42, joined the Company in 2005 as the secretary of the board of directors and is responsible for developing investor relationships and coordinating and convening meetings of board of directors and shareholders. Mr. Huang obtained a master's degree in Science from Shanghai East China Normal University in 1990. From 1990 to 1995, he worked at Changan Machinery Factory (長安機器製造廠). From 1997 to February 2005, he worked at the finance department and the office of the board of directors of Changan Automobile.

Ms. Sun Yuping (孫玉萍), aged 42, joined the Company in 2001. She is the senior supervisor of the finished vehicle logistics department of the Company and mainly responsible for finished vehicles logistics operation. Ms. Sun graduated from the Tianjin Professional Skills Normal College (天津職業技術師範學院). From 1997 to 2001, she was the deputy manager of Chongqing Changan Automobile Fayun Co., Ltd. (重慶長安汽車發運有限公司).

Mr. Zhao Yuhang (趙羽航), aged 29, joined the Company in 2005. He is a supervisor of the Nanjing Ford Project Division and is responsible for the organization and establishment of a subsidiary in Jiangling. Mr. Zhao graduated from Shanghai Maritime University in 1998. From 2001 to 2004, he was the chief representative of the Japan office of Minsheng Shipping. Before that, he has been the deputy manager and manager of the export operation department and business development department of the Shanghai branch office of Minsheng Shipping.

Ms. Guo Yi (郭怡), aged 37, joined the Company in 2003. She is the supervisor of the project department of the Company and responsible for the sales and market development. She graduated from Chongqing Military Industrial Workers University, majoring in Machinery Craft and Equipment in 1992 and graduated from the Industrial Management Faculty of Chongqing University, majoring Accounting in 1998. In 2000, she was transferred to Shanghai Northern Transportation Company and was involved in international trading and cargo transportation business.

Mr. Zhang Jianping (張建平), aged 39, joined the Company in 2004. Mr. Zhang is the supervisor of the human resources and administration department of the Company and mainly responsible for human resources management, internal operation control and business development of the Company. Mr. Zhang obtained a Bachelor of Science degree from Sichuan University in 1988. Mr. Zhang worked for the Changan Machinery Factory from 1988 to 1994. From 1995 to 2003, he served as an officer of the human resources department of Changan Co..

Ms. Lam Lai Sha (林麗莎), aged 33, joined the Company in 2005, Ms. Lam obtained a bachelor's degree in both Accounting and Finance from the Washington State University in the United States of America in 1997. Since 1999, Ms. Lam had served as an assistant accountant for HK/South China Region of APLL, senior financial analyst for North Asia/Greater China region of APLL and finance manager of APL Greater China region, before joining the Company. She is the deputy finance controller.

Mr. Deng Zaiming (鄧再明), aged 50, joined the Company in 2003. Mr. Deng is the supervisor of finished vehicle logistics department of the Company and mainly responsible for automotive logistics operation, planning and management. Mr. Deng graduated from the Chinese Language Department of Chongqing Normal University. From 1993 to 2002, he was the supervisor of the regional sales department, deputy manager, deputy head and head of the logistics management department of Changan Automobile Sales Co., Ltd.

Mr. Tang Bing (湯兵), aged 37, joined the Company in 2003. Mr. Tang is the deputy supervisor of car parts and components logistics department of the Company and mainly responsible for operation and management of the department and the temporary storage facilities. Mr. Tang graduated from the Distance Learning Institute of the Central Party School of the China Communist Party in December 2002 and obtained a bachelor's degree in Economics Management.

Mr. Wang Xingya (王星亞), aged 44, joined the Company in 2002. Mr. Wang is the supervisor of multi-mode transportation department of the Company and mainly responsible for the overall operational control and management of the transportation of car components and parts and non-vehicle commodities businesses of the Company. He obtained a master's degree in Business Administration from 重慶工商管理碩士學院 in 2005. From 1999 to 2002, Mr. Wang worked at Chongqing Changan Automobile Fayun Co., Ltd. as a manager.

Mr. Wu Bangping (吳邦平), aged 50, joined the Company in 2002 and is the deputy manager of the Shanghai branch office. He is responsible for the overall strategic planning and operational control of the Shanghai branch office of the Company. Mr. Wu graduated from state-owned Changan Machinery Factory Employees University (國營長安機器製造廠職工大學) in 1985.

Mr. Shi Jianfeng (石建峰), aged 35, joined the Company in 2004 and is the general manager of the Company's branch office in Dingzhou, Hebei Province. He is responsible for the overall management of this branch office. From 2000 to 2003, Mr. Shi completed his tertiary studies in law and company management. From 2002 to 2004, he worked at Changan Hebei and was head of its production department, transportation department and supply logistics department.

Mr. Huang Chengxun (黃成訓), aged 49, joined the Company in 2001 and is the general manager of the Company's branch office in Nanjing, Jiangsu Province. He is responsible for the overall strategic planning and operational control of this branch office. Mr. Huang graduated from Nanjing Polytechnic University in 1996. From 1985 to 1995, he worked at Changan Machinery Factory. From 2000 to 2001, he worked at Shanghai Northern Transportation Company.

Mr. Yang Ming (楊明), aged 31, joined the Company in 2002. He is the supervisor of the international freight department of the Company and responsible for the international freight-forwarding agency business of the Company. He graduated from Dalian Maritime School in 1995. From September 1995 to August 2001, Mr. Yang works at Minsheng Shipping as business representative and manager of its import/export department.

Mr. Tan Chaohu (譚朝虎), aged 32, joined the Company in 2001. He is the supervisor of the Changan Industrial Park regional distribution centre of the Company and responsible for its management. In 2001, he graduated from Asia International Open University in Macau with a master's degree in Business Administration. In 2001, he was the assistant to the general manager of the Company.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

**PricewaterhouseCoopers**
22nd Floor, Prince's Building
Central, Hong Kong

## TO THE SHAREHOLDERS OF CMA LOGISTICS CO., LTD.

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

We have audited the financial statements of CMA Logistics Co., Ltd. (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") on pages 33 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors of the Company in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 24 March 2006

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005
(All amounts in Renminbi ("RMB"))

| | Note | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|---|
| Turnover | 6 | **882,176** | 823,504 |
| Cost of sales | | **(776,599)** | (755,851) |
| Gross profit | | **105,577** | 67,653 |
| Other gains | 7 | **1,137** | 766 |
| Distribution costs | | **(20,280)** | (12,412) |
| Administrative expenses | | **(20,786)** | (11,438) |
| Operating profit | | **65,648** | 44,569 |
| Finance costs | 10 | **(1,988)** | (1,974) |
| Profit before tax | | **63,660** | 42,595 |
| Income tax expense | 11 | **(5,799)** | — |
| Profit attributable to shareholders of the Company | 12 | **57,861** | 42,595 |
| Dividends | 13 | **31,275** | 28,016 |
| Basic and diluted earnings per share | 14 | **RMB0.52** | RMB0.40 |

# BALANCE SHEET

As at 31 December 2005

(All amounts in RMB)

| | | Group | Company | |
|---|---|---|---|---|
| | | As at 31 December | As at 31 December | |
| | | 2005 | 2005 | 2004 |
| | *Note* | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 17 | **84,555** | **84,555** | 65,046 |
| Prepaid lease payments | 18 | **50,673** | **50,673** | 45,135 |
| Intangible assets | 19 | **2,730** | **2,730** | 3,221 |
| Investment in subsidiaries | 20 | **—** | **4,950** | — |
| Investment in an associate | 21 | **3,100** | **3,100** | — |
| Deferred income tax assets | 22 | **501** | **501** | — |
| **Total non-current assets** | | **141,559** | **146,509** | 113,402 |
| **Current assets** | | | | |
| Trade receivables | 23 | **22,655** | **22,655** | 35,013 |
| Prepayment and other receivables | 24 | **12,430** | **12,430** | 7,602 |
| Due from related parties | 33(c) | **250,055** | **250,055** | 206,127 |
| Cash and cash equivalents | 25 | **40,425** | **39,414** | 33,329 |
| **Total current assets** | | **325,565** | **324,554** | 282,071 |
| **Total assets** | | **467,124** | **471,063** | 395,473 |
| **EQUITY** | | | | |
| Capital and reserves attributable to shareholders of the Company | | | | |
| Share capital | 26 | **112,064** | **112,064** | 112,064 |
| Other reserves | 27 | **9,756** | **9,756** | (1,379) |
| Retained earnings | | | | |
| - proposed final dividend | 13 | **17,827** | **17,827** | — |
| - others | | **20,483** | **20,487** | 36,418 |
| | | **160,130** | **160,134** | 147,103 |
| Minority interest | | **50** | **—** | — |
| Total equity | | **160,180** | **160,134** | 147,103 |

| | | Group | Company | |
|---|---|---|---|---|
| | | As at 31 December | As at 31 December | |
| | | 2005 | 2005 | 2004 |
| | *Note* | RMB'000 | RMB'000 | RMB'000 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 29 | **223,279** | **227,264** | 197,789 |
| Due to related parties | 33(c) | **39,468** | **39,468** | 33,021 |
| Dividends payable | | **40,727** | **40,727** | — |
| Current portion of long-term liabilities | 28 | — | — | 17,560 |
| Current income tax liabilities | | **3,470** | **3,470** | — |
| **Total current liabilities** | | **306,944** | **310,929** | 248,370 |
| **Total liabilities** | | **306,944** | **310,929** | 248,370 |
| **Total equity and liabilities** | | **467,124** | **471,063** | 395,473 |
| **Net current assets** | | **18,621** | **13,625** | 33,701 |
| **Total assets less current liabilities** | | **160,180** | **160,134** | 147,103 |

Approved by and signed on behalf of the Board of Directors on 24 March 2006.

**Yin Jiaxu**
*Director*

**Shi Chaochun**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005
(All amounts in RMB)

| | | Attributable to shareholders of the Company | | | | |
|---|---|---|---|---|---|---|
| | | **Share capital** | **Other reserves** | **Retained earnings** | **Minority interest** | **Total** |
| | *Note* | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2004 | | 77,500 | 406 | 20,531 | — | 98,437 |
| Capital injection | 26 | 22,500 | — | — | — | 22,500 |
| Capitalisation of reserves | 27 | 12,064 | (2,149) | (9,915) | — | — |
| Addition of capital surplus | 27 | — | 14 | — | — | 14 |
| Share issue costs | 27 | — | (1,379) | — | — | (1,379) |
| Profit for the year | 27 | — | — | 42,595 | — | 42,595 |
| Dividends | 27 | — | — | (15,064) | — | (15,064) |
| Appropriation | 27 | — | 1,729 | (1,729) | — | — |
| Balance at 31 December 2004 | | 112,064 | (1,379) | 36,418 | — | 147,103 |
| Share issue costs | 27 | — | (3,370) | — | — | (3,370) |
| Profit for the year | 27 | — | — | 57,861 | — | 57,861 |
| Dividends | 27 | — | — | (41,464) | — | (41,464) |
| Appropriation | 27 | — | 14,505 | (14,505) | — | — |
| Minority interest | | — | — | — | 50 | 50 |
| **Balance at 31 December 2005** | | **112,064** | **9,756** | **38,310** | **50** | **160,180** |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005
(All amounts in RMB)

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Note* | **RMB'000** | RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 32 | **66,743** | 45,495 |
| Interest paid | | **(1,960)** | (1,974) |
| Income tax paid | | **(2,830)** | — |
| Net cash generated from operating activities | | **61,953** | 43,521 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment and intangible assets | | **(24,728)** | (32,864) |
| Increase in prepaid lease payments | | **(6,551)** | — |
| Proceeds from disposal of property, plant and equipment | | **2** | 4 |
| Cash paid to acquire a subsidiary | | **(1,000)** | (2,000) |
| Investment in an associate | | **(3,100)** | — |
| Interest received | | **1,137** | 766 |
| Net cash used in investing activities | | **(34,240)** | (34,094) |
| Cash flows from financing activities | | | |
| Draw-down of short-term bank loans | | **25,000** | 25,000 |
| Repayment of short-term bank loans | | **(25,000)** | (25,000) |
| Repayment of long-term bank loans | | **(16,560)** | — |
| Capital injection | | **—** | 22,500 |
| Capital contributions from minority shareholders | | **50** | — |
| Share issue costs paid | | **(3,370)** | (1,379) |
| Dividends paid | | **(737)** | (15,526) |
| Net cash (used in)/generated from financing activities | | **(20,617)** | 5,595 |
| Net increase in cash and cash equivalents | | **7,096** | 15,022 |
| Cash and cash equivalents at beginning of year | | **33,329** | 18,307 |
| Cash and cash equivalents at end of year | | **40,425** | 33,329 |

## 1 GENERAL INFORMATION

The Company, formerly known as Chongqing Changan Minsheng Logistics Co., Ltd., was incorporated in the PRC on 27 August 2001 as a limited liability company. In 2002, the Company was converted to a sino-foreign equity joint venture. On 31 December 2004, the Company was transformed into a joint stock limited liability company and was renamed as CMA Logistics Co., Ltd.

The address of the Company's registered office is 4/F, Shi Ji Zhong Huan Building, No. 26, Li Yu Er Cun, Jiang Bei District, Chongqing, the PRC.

The H Shares of the Company have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in February 2006.

The principal activities of the Group are the rendering of transportation of finished vehicles, supply chain management for automobile components and parts and transportation of non-vehicle commodities services.

These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2006.

## 2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

There is no early adoption of the following new Standards or Interpretations that have been issued but are not yet effective in 2005. The adoption of such Standards or Interpretations will not result in substantial changes to the Company's accounting policies.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS-Int 3 | Emission Rights |
| HKFRS-Int 4 | Determining whether an Arrangement contains A Lease |
| HKFRS-Int 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

## 3 PRINCIPAL ACCOUNTING POLICIES

### (a) Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries.

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

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

Inter-company transactions, balances and unrealized 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 will be changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in subsidiaries are stated at cost less accumulated impairment losses, if any. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (b) Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for by the equity method of accounting and is initially recognized at cost. The Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associate's post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

In the Company's balance sheet the investment in an associated company is stated at cost less provision for impairment losses. The results of the associated company is accounted for by the Company on the basis of dividend received and receivable.

### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

## 3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

### (e) Property, plant and equipment

Property, plant and equipment except for construction in progress is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 10-45 years |
| Machinery | 5 years |
| Office equipment | 5 years |
| Motor vehicles | 8 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

## 3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (f) Construction in progress

Construction in progress represents buildings and plant under construction and machinery under installation and testing and which, upon completion, management intends to hold as property, plant and equipment. They are carried at cost, which includes direct costs attributable to the construction, plant and equipment and other direct costs during the construction period, less any accumulated impairment losses. No depreciation is provided for construction in progress until the construction is completed and the relevant assets have reached their expected usable condition. On completion, construction in progress is transferred to appropriate categories of property, plant and equipment at cost less accumulated impairment losses.

### (g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of a subsidiary is included in intangible assets and is tested annually for impairment and carried at cost less accumulated impairment losses. Gain and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Computer software

Computer software acquired is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over its estimated useful life, ranging from 3 to 5 years.

## 3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (h) Impairment of assets

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

### (i) Prepaid lease payment

Prepaid lease payment represents the Group's interests in land use right and are amortised over the lease period (ranging from 30 to 50 years) on a straight-line basis.

### (j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other 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 asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### (k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### (l) Share capital

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

## 3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

### (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 of the Group. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

### (o) Government grants

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

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of land use right are deducted in arriving at the carrying amount of the land use right and are recognised in the income statement on a straight line basis over the expected lives of the related land use right.

## 3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (p) Employee benefits

Contribution to defined contribution pension scheme, medical insurance, housing fund and unemployment fund are recognised as expenses in the income statement as incurred. Pursuant to the PRC laws and regulations, contributions to the basic pension scheme, medical insurance, housing fund and unemployment fund for the Group's local staff are to be made monthly to a government agency based on 28%, 11%, 24% and 3% respectively of the standard salary set by the provincial government, of which 20%, 9%, 12% and 2% respectively is borne by the Group and the remainder is borne by the staff. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

### (q) 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. Provisions are not recognised for future operating losses.

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

### (r) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an assets is recognised.

## 3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (s) Revenue recognition

Revenue comprises the fair value for the sale of services, net of rebates and discounts and after eliminating sales within the Group.

Revenue from rendering of transportation of finished vehicles, supply chain management for automobile components and parts and transportation of non-vehicle commodities services is recognized upon the completion of services, which generally coincides with the date of receipt of the finished vehicle, automobile components and parts or non-vehicle commodities by the receiver.

Interest income is recognized on a time proportion basis using the effective interest method.

### (t) Borrowing costs

Borrowing costs are expensed as they are incurred.

### (u) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (v) Dividend distribution

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

## 4 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

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

Risk management is carried out by the directors of the Company under policies approved by the Board of Directors. The directors of the Company identify and evaluate financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk and credit risk.

(1) *Market risk*

The Group has no significant foreign exchange risk as it has limited foreign currency transactions. The Group is not significantly exposed to equity securities or commodity price risk.

(2) *Credit risk*

As at 31 December 2005, approximately 90% (2004: approximately 83%) of the total amount of trade receivables and due from related parties of the Group was due from the four largest customers. The carrying amount of trade receivables and due from related parties included in the balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has put in place policies to ensure that provision of logistics related services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade receivables and due from related parties falls within the recorded allowances and the directors of the Company are of the opinion that adequate provision for uncollectible trade receivables and due from related parties has been made in the financial statements.

## 4 FINANCIAL RISK MANAGEMENT *(continued)*

### (a) Financial risk factors *(continued)*

(3) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through obtaining credit facilities.

(4) *Cash flow and fair value interest rate risk*

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

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. For the year ended 31 December 2005, all the borrowings were at fixed rates.

### (b) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

In assessing the fair value of financial instruments that are not traded in an active market, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### (a) Critical accounting estimates and assumptions

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

(i) Fair value of financial assets and liabilities

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for various financial assets and liabilities that were not traded in active markets.

(ii) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

### (b) Critical judgements in applying the entity's accounting policies

*Revenue recognition*

The Group recognises its revenue upon completion of rendering services for transportation of finished vehicles, supply chain management for automobile components and parts and transportation of non-vehicle commodities, where the amount of revenue and costs can be measured reliably and the economic benefits associated with the transaction will probably flow to the Group when such service is completed. In making its judgement in applying this recognition method, the Group made reference to various factors which include, among others, master contracts signed with certain customers, actual sales amounts of similar historical transactions, as well as confirmations received from customers.

## 6 TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in rendering of transportation of finished vehicles, supply chain management for automobile components and parts and transportation of non-vehicle commodities services. Revenues recognised for the year ended 31 December 2005 are as follows:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Turnover | | |
| Related party transactions *(Note 33(b))* | | |
| Transportation of finished vehicles | **588,202** | 540,803 |
| Supply chain management for automobile components and parts *(Note (a))* | **235,797** | 226,610 |
| Subtotal | **823,999** | 767,413 |
| Transactions with unrelated parties | | |
| Transportation of finished vehicles | **6,007** | — |
| Supply chain management for automobile components and parts | **42,262** | 40,346 |
| Transportation of non-vehicle commodities | **9,908** | 15,745 |
| Subtotal | **58,177** | 56,091 |
| Total | **882,176** | 823,504 |

*Note:*

(a) In 2002, the Group signed a contract for providing supply chain management for automobile components and parts service from 1 January 2002 to 31 December 2004 with one of its major customers. According to the contract, the Group recognized the relevant income from the services provided amounting to approximately RMB7,050,000 for the year ended 31 December 2004. In 2005, the Group signed a new contract with the customer which covered the period from 1 January 2004 to 30 June 2005. Based on the terms of the new contract, the Group recognized additional revenue for the services provided in 2004 as compensation for the relative cost increment amounting to approximately RMB10,002,000. Such additional revenue has been recorded as revenue for the year ended 31 December 2005.

## 6 TURNOVER AND SEGMENT INFORMATION *(continued)*

The Group has only one business segment, which is the rendering of transportation of finished vehicles, supply chain management for automobile components and parts and transportation of non-vehicle commodities services. The directors of the Company consider that its primary reporting format of its segment information is its business segment.

No geographical segment information is presented as all the Group's turnover and profit are derived within the PRC and all assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

## 7 OTHER GAINS

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest income | **1,137** | 766 |

## 8 EXPENSES BY NATURE

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Transportation fee | **731,815** | 730,525 |
| Business tax | **6,834** | 4,572 |
| Employee benefit expense (Note 9) | **44,687** | 19,579 |
| Auditors' remuneration | **949** | 354 |
| Provision for impairment of receivables | **56** | — |
| Provision for impairment of due from related parties | **731** | — |
| Depreciation of property, plant and equipment | **8,941** | 6,591 |
| Amortisation of prepaid lease payments | **1,013** | 531 |
| Amortisation of intangible assets | **491** | 492 |
| Operating lease rentals for office premises and distribution centers | **2,120** | 718 |
| Loss on disposal of property, plant and equipment | **28** | 28 |
| Entertainment expense | **2,609** | 2,137 |
| Travelling expense | **2,425** | 1,917 |
| Other expenses | **14,966** | 12,257 |
| Total cost of sales, distribution costs and administrative expenses | **817,665** | 779,701 |

## 9 EMPLOYEE BENEFIT EXPENSE

Employee benefit expense includes emoluments of the directors and supervisors.

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Wages and salaries | **33,952** | 15,051 |
| Pension costs-defined contribution plans | **2,643** | 988 |
| Staff and workers' bonus and welfare fund | **3,268** | 500 |
| Welfare and other expenses | **4,824** | 3,040 |
| Total employee benefit expense | **44,687** | 19,579 |

## 10 FINANCE COSTS

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Interest on bank loans | **1,050** | 1,445 |
| Interest on other long-term payable wholly repayable within five years | **59** | 153 |
| Finance charges on discounted bills with banks | **448** | 114 |
| Others | **431** | 262 |
| | **1,988** | 1,974 |

## 11 INCOME TAX EXPENSE

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Current PRC enterprise income tax ("EIT") | **6,300** | — |
| Deferred tax *(Note 22)* | **(501)** | — |
| | **5,799** | — |

## 11 INCOME TAX EXPENSE *(continued)*

As a foreign investment joint stock limited company established in the Chongqing Technological Economic Development Zone, the applicable EIT rate of the Company is 15%. In accordance with an Approval of Enjoying Favourable EIT Policy (YYSJH[2003] No.27) issued by the national tax bureau of Chongqing Technological Economic Development Zone on 27 May 2003, the Company is entitled to exemption from EIT in 2003 and 2004 followed by a 50% tax reduction from 2005 to 2007. For the year ended 31 December 2005, the applicable tax rate is 7.5%. As Chongqing Changan Automobile Fayun Company Limited ("Chongqing Changfa") and CMAL Gangcheng Co., Ltd. ("Chongqing Gangcheng"), the Company's subsidiaries incurred losses during 2004 and 2005, respectively, no EIT expense was incurred.

No provision for Hong Kong profits tax was made as the Group had no assessable profit arising in or derived from Hong Kong for the year ended 31 December 2005 (2004: nil).

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable EIT rates as follows:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Profit before tax | **63,660** | 42,595 |
| Tax at the statutory tax rate of 15% | **9,549** | 6,389 |
| EIT exemption | **(4,775)** | (6,389) |
| Expenses not deductible for tax purposes | **1,025** | — |
| Tax charge | **5,799** | — |

The effective tax rate for year ended 31 December 2005 was 9.1%.

## 12 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

For the year ended 31 December 2005, the profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB57,865,000 (2004: approximately RMB41,198,000).

## 13 DIVIDENDS

During the Board of Directors' meeting on 20 February 2004, the directors of the Company resolved to declare dividends of approximately RMB15,064,000 for the year ended 31 December 2003. This dividend was reflected as an appropriation of retained earnings for the year ended 31 December 2004. The rates of dividend and the number of shares ranking for dividends are not presented as the capital of the Company was not divided into shares.

During the Board of Directors' meeting on 22 February 2005, the directors of the Company resolved to declare dividends of RMB28,016,000, the dividend per ordinary share was approximately RMB0.25, for the period from 1 April 2004 to 31 December 2004, which was approved during the general meeting of shareholders on 25 March 2005. This dividend was reflected as an appropriation of retained earnings for the year ended 31 December 2005. The allocation basis of the dividends being distributed to the shareholders before 2004 was the percentage of equity interest owned by the respective shareholders and the dividend distribution in 2004 was based on the number of shares in issue of 112,064,000 as at 31 December 2004.

During the Board of Directors' meeting on 15 August 2005, the directors of the Company resolved to declare an interim dividend for 2005 of RMB0.12 per share, totalling RMB13,448,000, which was approved during the general meeting of shareholders on 15 September 2005. The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 112,064,000 as at 30 April 2005.

Pursuant to the resolution of the Board of Directors dated 24 March 2006, the directors of the Company proposed to declare final dividend of RMB0.11 per share, totalling RMB17,827,000. The proposal dividend is subject to approval at the Annual General Meeting in May 2006 and will be accounted for as an appropriation of retained earnings for the year ending 31 December 2006.

Based on the Notice [1995] 31 issued by the Ministry of Finance in PRC on 24 August 1995, the dividend appropriation of the Company after the listing of its H Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited is determined based on the lower of retained earnings in the financial statements prepared in accordance with (i) PRC accounting standards, and (ii) HKFRS.

## 14 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of the Company by the weighted average number of shares in issue for the year ended 31 December 2005. In determining the weighted average number of shares in issue for the year ended 31 December 2005, the capitalisation of reserves of RMB12,064,000 (Note 26) were deemed to have occurred at the beginning of the earliest period presented.

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Group's profit attributable to shareholders of the Company | **57,861** | 42,595 |
| Weighted average number of ordinary shares in issue (in thousands) | **112,064** | 106,439 |
| Basic earnings per share (RMB per share) | **0.52** | 0.40 |

Diluted earnings per share is the same as basic earnings per share as there were no potentially dilutive instruments outstanding.

## 15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to the directors of the Company for the year ended 31 December 2005 are as follows:

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Basic salaries and allowances | **129** | — |
| Discretionary bonuses | **80** | — |
| Retirement benefit contributions | **9** | — |
| | **218** | — |

## 15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (a) Directors' emoluments *(continued)*

The emoluments of the directors of the Company for the year ended 31 December 2005 are analysed as follows:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Shi Chaochun | **218** | — |
| Yin Jiaxu | **—** | — |
| Huang Zhangyun | **—** | — |
| Lu Xiaozhong | **—** | — |
| James H McAdam | **—** | — |
| Lu Guoji | **—** | — |
| Zhang Baolin | **—** | — |
| Koay Peng Yen | **—** | — |
| Cao Dongping | **—** | — |
| Wu Xiaohua | **—** | — |
| Lau Man Yee | **—** | — |
| Wang Xu | **—** | — |
| Peng Qifa | **—** | — |
| Chong Teck Sin | **—** | — |
| Xiang Mingqiang | **—** | — |
| Rick Moradian | **—** | — |
| Li Zhengqi | **—** | — |
| Quek Keng Ngak | **—** | — |
| Hans Hickler | **—** | — |
| Sung Sio Ma | **—** | — |
| | **218** | — |

For the year ended 31 December 2005, no emolument was paid to independent non-executive directors.

No director waived or agreed to waive any remuneration for the year ended 31 December 2005.

## 15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (b) Supervisor's emoluments

The aggregate amounts of emoluments payable to the supervisors for the year ended 31 December 2005 are as follows:

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Basic salaries and allowances | 145 | — |
| Discretionary bonuses | 60 | — |
| Retirement benefit contributions | 16 | — |
| | 221 | — |

The emoluments of the supervisors for the year ended 31 December 2005 are analysed as follows:

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Chen Haihong | 84 | — |
| Ye Guangrong | 137 | — |
| Hua Zhanbiao | — | — |
| Tang Yizhong | — | — |
| Yvonne Lee | — | — |
| Ren Qiang | — | — |
| Liu Yangchun | — | — |
| | 221 | — |

No supervisor waived or agreed to waive any remuneration for the year ended 31 December 2005.

## 15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (c) Five highest paid individuals

The emoluments payable to the five highest paid individuals are as follows. One of the five highest paid individuals of the Company for the year ended 31 December 2005 was also a director of the Company and the emolument was reflected in the analysis presented in Note (a) above. The emoluments payable to the remaining four individuals for the year ended 31 December 2005 are as follows:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Basic salaries and allowances | **373** | 410 |
| Discretionary bonuses | **180** | 190 |
| Retirement benefit contributions | **35** | 35 |
| | **588** | 635 |

The emoluments of the four/five highest paid individuals for the year ended 31 December 2005 are analysed as follows:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Shi Chaochun | **—** | 177 |
| Individual A | **177** | 137 |
| Individual B | **137** | 107 |
| Individual C | **137** | 107 |
| Individual D | **137** | 107 |
| | **588** | 635 |

## 15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (c) Five highest paid individuals *(continued)*

The emoluments of the four/five highest paid individuals fell within the following band:

| | Number of individuals | |
|---|---|---|
| | **2005** | 2004 |
| Nil to HKD1,000,000 (equivalent of RMB1,040,000) | **4** | 5 |

For the year ended 31 December 2005, no emoluments were paid by the Group and the Company to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 16 RETIREMENT BENEFIT SCHEMES AND HOUSING BENEFITS

The retirement benefits of full time employees of the Group are covered by the government-sponsored pension plans under which the employees are entitled to a monthly pension contribution based on 20% of the employees' basic salary for the year.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed in Note 9 and Note 15 above.

Full time employees are also entitled to participate in the government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on 12% of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable for the year ended 31 December 2005.

## 17 PROPERTY, PLANT AND EQUIPMENT

**Company and Group**

| | Buildings | Machinery | Office equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | | | | |
| At 1 January 2004 | 30,158 | 1,169 | 5,094 | 6,139 | 968 | 43,528 |
| Additions | — | 688 | 1,083 | 5,617 | 24,044 | 31,432 |
| Transfers | 23,906 | — | — | — | (23,906) | — |
| Disposals | — | — | (2) | (42) | — | (44) |
| At 31 December 2004 | 54,064 | 1,857 | 6,175 | 11,714 | 1,106 | 74,916 |
| Additions | — | 975 | 555 | 5,703 | 21,247 | 28,480 |
| Transfers | 11,972 | 307 | 187 | 13 | (12,479) | — |
| Disposals | — | (47) | (15) | (14) | — | (76) |
| **At 31 December 2005** | **66,036** | **3,092** | **6,902** | **17,416** | **9,874** | **103,320** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2004 | 2,024 | 135 | 618 | 514 | — | 3,291 |
| Charge for the year | 4,201 | 329 | 996 | 1,065 | — | 6,591 |
| Disposals | — | — | (1) | (11) | — | (12) |
| At 31 December 2004 | 6,225 | 464 | 1,613 | 1,568 | — | 9,870 |
| Charge for the year | 5,602 | 557 | 1,096 | 1,686 | — | 8,941 |
| Disposals | — | (4) | (38) | (4) | — | (46) |
| **At 31 December 2005** | **11,827** | **1,017** | **2,671** | **3,250** | **—** | **18,765** |
| **Net book value** | | | | | | |
| At 31 December 2004 | 47,839 | 1,393 | 4,562 | 10,146 | 1,106 | 65,046 |
| **At 31 December 2005** | **54,209** | **2,075** | **4,231** | **14,166** | **9,874** | **84,555** |

## 17 PROPERTY, PLANT AND EQUIPMENT *(continued)*

In accordance with an agreement in relation to the assistance of business expansion signed between the Company and Changan Automobile (Group) Company Limited ("Changan Co.") on 10 January 2004, Changan Co. provided a land use right to the Company for the construction of a distribution centre and the Company paid for the construction costs of the distribution centre. In return, the Company is entitled to use the distribution centre at no additional cost for 10 years from 28 December 2003 to 28 December 2013. As the land use right of the parcel of land on which the distribution centre locates belongs to Changan Co., the legal title of the distribution centre also belongs to Changan Co. The Company recorded the construction costs of the distribution centre as buildings under property, plant and equipment, and the depreciation is calculated using the straight-line method to allocate the cost over the useful life of 10 years. As at 31 December 2005, the carrying amount of the distribution centre was approximately RMB4,096,000 (2004: approximately RMB4,615,000).

Depreciation expense charged to "cost of sales", "distribution costs" and "administrative expenses" respectively was shown as follows:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Cost of sales | **7,190** | 5,447 |
| Distribution costs | **855** | 286 |
| Administrative expenses | **896** | 858 |
| | **8,941** | 6,591 |

## 18 PREPAID LEASE PAYMENTS

**Company and Group**

| | **Land use right** |
|---|---|
| | RMB'000 |
| **Cost** | |
| At 1 January 2004 | 45,951 |
| Additions | — |
| At 31 December 2004 | 45,951 |
| Additions | 6,551 |
| **At 31 December 2005** | **52,502** |
| **Amortisation** | |
| At 1 January 2004 | 285 |
| Charge for the year | 531 |
| At 31 December 2004 | 816 |
| Charge for the year | 1,013 |
| **At 31 December 2005** | **1,829** |
| **Net book value** | |
| At 31 December 2004 | 45,135 |
| **At 31 December 2005** | **50,673** |

Amortization of approximately RMB1,013,000 (2004: approximately RMB531,000) is included in "cost of sales".

## 18 PREPAID LEASE PAYMENTS *(continued)*

The Group's interests in land use right at their net book values are analysed as follows:

| | Company and Group 2005 RMB'000 | Company 2004 RMB'000 |
|---|---|---|
| In Chongqing, held on: | | |
| Leases of between 10 and 50 years | **44,985** | 45,135 |
| Outside Chongqing, held on: | | |
| Leases of between 10 and 50 years | **5,688** | — |
| | **50,673** | 45,135 |

## 19 INTANGIBLE ASSETS

**Company and Group**

| | Goodwill RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2004 | 2,222 | 59 | 2,281 |
| Additions | — | 1,432 | 1,432 |
| Amortisation | — | (492) | (492) |
| At 31 December 2004 | 2,222 | 999 | 3,221 |
| Amortisation | — | (491) | (491) |
| **At 31 December 2005** | **2,222** | **508** | **2,730** |

## 19 INTANGIBLE ASSETS *(continued)*

| | Goodwill | Computer software | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Company** | | | |
| At 31 December 2004 | | | |
| Cost | 4,000 | 1,504 | 5,504 |
| Accumulated amortisation | (1,778) | (505) | (2,283) |
| Net book amount | 2,222 | 999 | 3,221 |
| **Company and Group** | | | |
| At 31 December 2005 | | | |
| Cost | 4,000 | 1,504 | 5,504 |
| Accumulated amortisation | (1,778) | (996) | (2,774) |
| Net book amount | 2,222 | 508 | 2,730 |

Amortization of approximately RMB491,000 (2004: approximately RMB492,000) is included in "administrative expenses".

Impairment tests for goodwill –

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the business acquired.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the rendering of transportation of finished vehicles services business in which the CGU operates.

## 19 INTANGIBLE ASSETS *(continued)*

Key assumptions used for value-in-use calculations are as follows:

| | |
|---|---|
| Gross margin as budgeted | 8.2% |
| Growth rate | 5% |
| Pre tax discount rate | 16.22% |

*Note:* These assumptions have been used for the analysis of the CGU within the business. Management determined budgeted gross margin and the weighted average growth rate based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business.

## 20 INVESTMENT IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| Investment at cost: | | |
| Unlisted shares – Chongqing Gangcheng | **4,950** | — |

The Company had direct interest in the following subsidiaries:

| Name of subsidiary | Place and date of incorporation | Registered capital RMB'000 | Principal activities | Type of enterprise | Investment amount RMB'000 | Interest held As at 31 December 2004 | Interest held As at **31 December 2005** |
|---|---|---|---|---|---|---|---|
| Chongqing Changfa | Chongqing, PRC, 13 April 1999, *Note (a)* | 618 | Transportation service | Limited liability company | 1,838 | — | **—** |
| Chongqing Gangcheng | Chongqing, PRC, 3 November 2005 | 5,000 | Logistics service | Limited liability company | 4,950 | — | **99%** |

*Note:*

(a) Chongqing Changfa was deregistered on 29 April 2004. The consolidated results of the Group have not included any results of Chongqing Changfa after its deregistration.

## 21 INVESTMENT IN AN ASSOCIATE

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| At 1 January | — | — |
| Additions | 3,100 | — |
| At 31 December | 3,100 | — |

The Group's interest in its principal associate, which is unlisted, was as follows:

| Name | Registered capital RMB'000 | Location | Assets RMB'000 | Liabilities RMB'000 | Revenues RMB'000 | Profit/(loss) RMB'000 | Interest held |
|---|---|---|---|---|---|---|---|
| Wuhan Chang'an Minfutong Logistics Company Limited ("Wuhan Minfutong") | 10,000 | Wuhan, PRC | 10,000 | — | — | — | 31% |

The principal activities of Wuhan Minfutong are the rendering of finished vehicle warehousing, cargo agency and logistics planning and consultation services.

## 22 DEFERRED INCOME TAX

| | **Company and Group 2005** *RMB'000* | Company 2004 *RMB'000* |
|---|---|---|
| Deferred tax assets: | | |
| – Deferred tax asset to be recovered after more than 12 months | **118** | — |
| – Deferred tax asset to be recovered within 12 months | **383** | — |
| | **501** | — |

Movement in deferred tax assets is as follows:

**Company and Group**

Deferred tax assets:

| | **Provision for impairment of receivables** RMB'000 | **Expenses not deductible in current period** RMB'000 | **Total** RMB'000 |
|---|---|---|---|
| At 31 December 2004 | — | — | — |
| Credited to the income statement *(Note 11)* | 118 | 383 | 501 |
| **At 31 December 2005** | **118** | **383** | **501** |

## 23 TRADE RECEIVABLES

| | Company and Group | Company |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| Accounts receivable *(Note (a))* | **18,606** | 16,208 |
| Bills receivable *(Note (b))* | **4,049** | 18,805 |
| | **22,655** | 35,013 |

*Notes:*

(a) The Group offers credit terms to its customers ranging from cash on delivery to 90 days. Ageing analysis of accounts receivable at 31 December 2005 was as follows:

| | Company and Group | Company |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| 0 to 90 days | **12,139** | 12,659 |
| 91 to 180 days | **3,071** | 1,707 |
| 181 to 365 days | **2,341** | 1,732 |
| Over 1 year | **1,111** | 110 |
| | **18,662** | 16,208 |
| Less: provision for impairment of receivables | **(56)** | — |
| | **18,606** | 16,208 |

(b) Ageing analysis of bills receivable at 31 December 2005 was as follows:

| | Company and Group | Company |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| 0 to 180 days | **4,049** | 18,805 |

## 23 TRADE RECEIVABLES *(continued)*

The Company has recognised a loss of approximately RMB56,000 (2004: nil) for the impairment of its accounts receivable for the year ended 31 December 2005. The loss has been included in 'administrative expenses' in the income statement.

The carrying amounts of trade receivables represent their fair values.

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 5.22% (2004: 5.04%) for the year ended 31 December 2005.

As at 31 December 2005, approximately 90% (2004: approximately 83%) of the total amount of trade receivables and due from related parties was due from the four largest customers. The carrying amount of trade receivables and due from related parties represents the Group's maximum exposure to credit risk in relation to its financial assets.

There is no interest rate risk with respect to trade receivables, as the interest rate is almost stable for the year ended 31 December 2005.

## 24 PREPAYMENT AND OTHER RECEIVABLES

| | **Company and Group** | Company |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| Prepayment | **7,865** | 3,612 |
| Other receivables | **4,565** | 3,990 |
| | **12,430** | 7,602 |

The carrying amounts of prepayment and other receivables represent their fair values.

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 5.22% (2004: 5.04%) for the year ended 31 December 2005.

## 25 CASH AND CASH EQUIVALENTS

All the cash and cash equivalents are denominated in RMB and deposited with banks in the PRC except for the equivalent amount of approximately RMB1,219,000 (2004: approximately RMB3,178,000) as at 31 December 2005 which is denominated in foreign currencies. The conversion of these RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Also, the exchange rates are determined by the PRC government.

## 26 SHARE CAPITAL

Movements were:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **112,064** | 77,500 |
| Capital injection from owners *(Note (a))* | — | 22,500 |
| Capitalisation of reserves *(Note (b))* | — | 12,064 |
| At 31 December | **112,064** | 112,064 |

*Notes:*

(a) Pursuant to a resolution of the owners on 21 February 2003, the registered capital of the Company was increased to RMB100,000,000. Capital contributions of RMB22,500,000 were injected in 2004.

(b) Pursuant to the resolution of the Board of Directors on 30 July 2004 and the Promoters' Agreement dated 6 August 2004 entered into amongst all the owners, the Company was transformed to a joint stock company with limited liability. Based on the book value of the net assets as at 31 March 2004 amounting to approximately RMB112,064,000 as shown on the statutory financial statements prepared in accordance with the PRC GAAP, the registered capital of the Company was increased to RMB112,064,000, divided into 112,064,000 shares of RMB1 each, by capitalising reserves of RMB12,064,000.

## 27 RESERVES

### Company

| | Capital surplus | Reserve Fund | Statutory surplus reserve fund | Statutory public welfare fund | Share issue costs | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | *Note (a)* | *Note (b)* | *Note (c)* | *Note (c)* | | | |
| At 1 January 2004 | 42 | 364 | — | — | — | 21,928 | 22,334 |
| Net profit for the year | — | — | — | — | — | 41,198 | 41,198 |
| Addition of capital surplus *(Note (a))* | 14 | — | — | — | — | — | 14 |
| Share issue costs | — | — | — | — | (1,379) | — | (1,379) |
| Capitalisation of reserves *(Note 26(b))* | (56) | (2,093) | — | — | — | (9,915) | (12,064) |
| Dividends *(Note 13)* | — | — | — | — | — | (15,064) | (15,064) |
| Appropriation *(Note (b))* | — | 1,729 | — | — | — | (1,729) | — |
| At 31 December 2004 | — | — | — | — | (1,379) | 36,418 | 35,039 |
| Net profit for the year | — | — | — | — | — | 57,865 | 57,865 |
| Share issue costs | — | — | — | — | (3,370) | — | (3,370) |
| Dividends *(Note 13)* | — | — | — | — | — | (41,464) | (41,464) |
| Appropriation *(Note b)* | — | — | 9,670 | 4,835 | — | (14,505) | — |
| **At 31 December 2005** | **—** | **—** | **9,670** | **4,835** | **(4,749)** | **38,314** | **48,070** |

## 27 RESERVES *(continued)*

**Group**

| | Capital surplus | Reserve Fund | Statutory surplus reserve fund | Statutory public welfare fund | Share issue costs | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | *Note (a)* | *Note (b)* | *Note (c)* | *Note (c)* | | | |
| At 1 January 2004 | 42 | 364 | — | — | — | 20,531 | 20,937 |
| Net profit for the year | — | — | — | — | — | 42,595 | 42,595 |
| Addition of capital surplus *(Note (a))* | 14 | — | — | — | — | — | 14 |
| Share issue costs | — | — | — | — | (1,379) | — | (1,379) |
| Capitalisation of reserves *(Note 26(b))* | (56) | (2,093) | — | — | — | (9,915) | (12,064) |
| Dividends *(Note 13)* | — | — | — | — | — | (15,064) | (15,064) |
| Appropriation *(Note (b))* | — | 1,729 | — | — | — | (1,729) | — |
| At 31 December 2004 | — | — | — | — | (1,379) | 36,418 | 35,039 |
| Net profit for the year | — | — | — | — | — | 57,861 | 57,861 |
| Share issue costs | — | — | — | — | (3,370) | — | (3,370) |
| Dividends *(Note 13)* | — | — | — | — | — | (41,464) | (41,464) |
| Appropriation *(Note b)* | — | — | 9,670 | 4,835 | — | (14,505) | — |
| **At 31 December 2005** | **—** | **—** | **9,670** | **4,835** | **(4,749)** | **38,310** | **48,066** |

*Notes:*

(a) *Capital surplus*

Capital surplus represents the translation differences arising from the use of actual and contracted exchange rates to translate the paid-in capital contributed by APL Logistics Limited ("APLL") and Ming Sung Industrial Co., (HK) Limited ("Ming Sung (HK)") in foreign currencies.

## 27 RESERVES *(continued)*

(b) *Reserve Fund, Enterprise Expansion Fund and Staff and Workers' Bonus and Welfare Fund*

Prior to the transformation to a joint stock company, the Company was a sino-foreign equity joint venture. In accordance with the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" and the requirement of the Company's Articles of Association, appropriations from net profit should be made to the Reserve Fund, the Enterprise Expansion Fund and the Staff and Workers' Bonus and Welfare Fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors. The percentages to be appropriated to the Reserve Fund, the Enterprise Expansion Fund and the Staff and Workers' Bonus and Welfare Fund are determined by the Board of Directors of the Company. Upon approval, the Reserve Fund can be used to offset accumulated losses or be converted into capital, the Enterprise Expansion Fund can be converted into capital and the Staff and Workers' Bonus and Welfare Fund is available to fund payment of specific bonus to staff and for collective benefits.

Pursuant to a resolution of the Board of Directors dated 20 February 2004, approximately RMB1,729,000 and RMB500,000 were appropriated to the Reserve Fund and Staff and Workers' Bonus and Welfare Fund from the net profit for the year ended 31 December 2003 respectively.

Pursuant to a resolution of the Board of Directors dated 22 February 2005, approximately RMB2,345,000 was appropriated to the Staff and Workers' Bonus and Welfare Fund from the net profit for the period from 1 April 2004 to 31 December 2004. This resolution was approved during the general meeting of shareholders on 25 March 2005.

Pursuant to a resolution of the Board of Directors dated 15 August 2005, approximately RMB924,000 was appropriated to the Staff and Workers' Bonus and Welfare Fund from the net profit for the period from 1 January 2005 to 30 April 2005. This resolution was approved during the general meeting of shareholders on 15 September 2005.

Staff and Workers' Bonus and Welfare Fund is recorded as a liability under HKFRS. For the year ended 31 December 2005, Staff and Workers' Bonus and Welfare Fund of approximately RMB3,269,000 (2004: approximately RMB500,000) was charged to the income statement.

(c) *Statutory reserves*

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the Company, it is required to appropriate 10% and 5% of its annual statutory net profit, after offsetting any prior years' losses as determined under the PRC GAAP, to the statutory surplus reserve fund and statutory public welfare fund respectively before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is not less than 25% of share capital. The statutory public welfare fund can only be utilised on capital expenditure for the collective benefit of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities, with the title of these capital items remaining with the Company. This fund is non-distributable except for liquidation situation. For the year ended 31 December 2005, approximately RMB6,095,000 and RMB3,048,000 were appropriated to the statutory surplus reserve fund and the statutory public welfare fund from the net profit respectively.

## 27 RESERVES *(continued)*

(c) *Statutory reserves (continued)*

Pursuant to a resolution of the Board of Directors dated 22 February 2005, approximately RMB3,575,000 and RMB1,787,000 were appropriated to the statutory surplus reserve fund and the statutory public welfare fund from the net profit for the period from 1 April 2004 to 31 December 2004 respectively.

(d) *Discretionary surplus reserve*

Pursuant to the Articles of Association of the Company, the Company has the discretion to appropriate its annual statutory net profit to the discretionary surplus reserve fund after the appropriation of statutory surplus reserve fund and statutory public welfare fund upon the approval by shareholders. The discretionary surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital.

For the year ended 31 December 2005, no discretionary surplus reserve was appropriated (2004: nil).

## 28 LONG-TERM LIABILITIES

| | **Company and Group** | Company |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| Guaranteed bank loans *(Note (a)* | — | 16,560 |
| Other long-term payable *(Note (b))* | — | 1,000 |
| | — | 17,560 |
| Less: current portion of long-term liabilities | — | (17,560) |
| | — | — |

## 28 LONG-TERM LIABILITIES *(continued)*

*Notes:*

(a) As at 31 December 2004, the bank loans were subject to interest rate of 5.5% per annum and were guaranteed by a third party — Chongqing Sci-Tech Industrial (Group) Company Limited, which is directly owned by the Management Committee of Chongqing Airport Economic Development Zone ("the Management Committee"), a government body, and were repayable in April 2005. According to a purchase of land use right agreement between the Company and the Management Committee, in order to finance the Company to purchase the land use right, the Management Committee agreed to bear the interests of these bank loans. The total amount of the interests was approximately RMB1,385,000, which was accounted for as a government grant and the amount has been deducted from the purchase cost of the relevant land use right.

(b) Other long-term payable as at 31 December 2004 represented amount payable to Chongqing Changan Sanchan Industrial Company Limited ("Changan Sanchan", became one of the shareholders of the Company in 2004) for the purchase of the equity interest of Chongqing Changfa. The total amount payable is RMB5,838,000, of which Rmb1,838,000 was paid in January 2002, and the remaining is repayable by four equal annual instalments of RMB1,000,000 from 2002 to 2005. The interest rate is 5.58% per annum on the remaining balance.

The effective interest rates of long-term bank loans and other long-term payable are 5.5% (2004: 5.5%) and 5.58% (2004: 5.58%) for the year ended 31 December 2005.

As the effective interest rates of long-term bank loans and other long-term payable are close to their market interest rates, the carrying amounts of long-term bank loans and other long-term payable approximate their fair values.

## 29 TRADE AND OTHER PAYABLES

| | Group | Company | |
|---|---|---|---|
| | **2005** | **2005** | 2004 |
| | **RMB'000** | **RMB'000** | RMB'000 |
| Accountants payable *(Note (a))* | **161,572** | **161,572** | 166,168 |
| Bill payable *(Note 33(b)(iv))* | **20,000** | **20,000** | — |
| Other payables | **38,699** | **42,684** | 29,924 |
| Other taxes | **2,208** | **2,208** | 1,697 |
| Accruals | **800** | **800** | — |
| | **223,279** | **227,264** | 197,789 |

## 29 TRADE AND OTHER PAYABLES *(continued)*

*Note:*

(a) Ageing analysis of accounts payable at 31 December 2005 was as follows:

| | **Company and Group 2005 RMB'000** | Company 2004 RMB'000 |
|---|---|---|
| 0 to 90 days | **156,412** | 159,033 |
| 91 to 180 days | **4,278** | 5,436 |
| 181 to 365 days | **448** | 1,610 |
| Over 1 year | **434** | 89 |
| | **161,572** | 166,168 |

## 30 COMMITMENTS

### (a) Capital expenditure commitments for property, plant and equipment

| | **Company and Group 2005 RMB'000** | Company 2004 RMB'000 |
|---|---|---|
| Authorized but not contracted for | | |
| – Construction of ERP system | **5,210** | — |
| – Construction of distribution centres | **23,720** | 20 |
| | **28,930** | 20 |
| Contracted but not provided for | | |
| – Construction of distribution centres | **5,652** | 611 |

## 30 COMMITMENTS *(continued)*

### (b) Operating lease commitments

The future aggregate minimum lease payments due under non-cancellable operating leases for office premises and distribution center are as follows:

| | **Company and Group** | Company |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| Not later than one year | **2,244** | 2,190 |
| Later than one year and not later than five years | **826** | 1,536 |
| | **3,070** | 3,726 |

## 31 CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any significant contingent liabilities.

## 32 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Profit before tax | **63,660** | 42,595 |
| Interest expense | **1,988** | 1,974 |
| Interest income | **(1,137)** | (766) |
| Provision for impairment of receivables | **56** | — |
| Provision for impairment of due from related parties | **731** | — |
| Loss on disposal of property, plant and equipment | **28** | 28 |
| Depreciation of property, plant and equipment | **8,941** | 6,591 |
| Amortisation of prepaid lease payments | **1,013** | 531 |
| Amortisation of intangible assets | **491** | 492 |
| Changes in working capital: | | |
| Trade and other receivables | **7,474** | (18,682) |
| Due from related parties | **(44,659)** | (96,517) |
| Time deposits with maturity of more than 3 months | **—** | 12,498 |
| Trade and other payables | **21,710** | 74,517 |
| Due to related parties | **6,447** | 22,234 |
| Cash generated from operations | **66,743** | 45,495 |

## 33 RELATED PARTY TRANSACTIONS

(a) For the year ended 31 December 2005, related parties, other than subsidiaries, and their relationship with the Group are as follows:

| **Name of related party** | **Relationship** |
|---|---|
| Changan Co. | Shareholder |
| APLL | Shareholder |
| Minsheng Industrial (Group) Company Limited ("Minsheng Industrial") | Shareholder |
| APL Logistics (China) Co., Ltd. ("APLLC") | Subsidiary of APLL |
| China South Industries Group Corporation ("CSI Group") | Parent company of Changan Co. |
| Chongqing Changan Automobile Company Limited ("Changan Automobile") | Subsidiary of Changan Co. |
| Chongqing Changan Jinling Automobile Parts Liability Company Limited ("Changan Jinling") | Subsidiary of Changan Co. |
| Chongqing Changan Transportation Company Limited ("Changan Transportation") | Subsidiary of Changan Co. |
| Chongqing Changan Yuanda Transportation Company Limited ("Changan Yuanda") | Subsidiary of Changan Co. |
| Chongqing Changan Property Management Company Limited ("Changan Property Management") | Subsidiary of Changan Co. |
| Chongqing Changan Lingyun Automobile Parts Company Limited ("Changan Lingyun") | Subsidiary of Changan Co. |
| Minsheng International Freight Company Limited ("Minsheng International Freight") | Subsidiary of Minsheng Industrial |
| Minsheng Logistics Company Limited ("Minsheng Logistics") | Subsidiary of Minsheng Industrial |
| Minsheng Shipping Company Limited ("Minsheng Shipping") | Subsidiary of Minsheng Industrial |
| Chongqing Changan Import and Export Company Limited ("Changan Import and Export") | Subsidairy of Changan Automobile |
| Hebei Changan Automobile Company Limited ("Changan Hebei") | Subsidairy of Changan Automobile |
| Nanjing Changan Automobile Company Limited ("Changan Nanjing") | Subsidairy of Changan Automobile |
| Chongqing Changan Suzuki Automobile Company Limited ("Changan Suzuki") | Subsidairy of Changan Automobile |
| Jiangxi Jiangling Holding Company Limited ("Jiangling Holding") | Subsidiary of Changan Automobile |
| Changan Ford Automobile Company Limited ("Changan Ford") | Jointly controlled entity of Changan Automobile |
| Chongqing Tsingshan Industries Company Limited ("Chongqing Tsingshan") | Subsidiary of CSI Group |

## 33 RELATED PARTY TRANSACTIONS *(continued)*

(b) For the year ended 31 December 2005, the directors of the Company were of the view that the following related party transactions were carried out in the normal course of business of the Group. The pricing policy of each related party is based on the negotiation between each related party and the Company.

(i) *Turnover from rendering of transportation of finished vehicles services*

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Changan Automobile | **321,080** | 358,117 |
| Changan Ford | **123,801** | 120,372 |
| Changan Hebei | **101,697** | 55,170 |
| Changan Nanjing | **39,447** | 7,144 |
| Changan Suzuki | **2,177** | — |
| | **588,202** | 540,803 |

(ii) *Turnover from rendering of supply chain management for automobile components and parts services*

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Changan Ford | **164,517** | 139,906 |
| Changan Hebei | **20,759** | 26,527 |
| Changan Automobile | **18,459** | 34,123 |
| Changan Nanjing | **15,812** | 13,862 |
| Changan Jinling | **4,945** | 2,171 |
| Changan Import and Export | **4,325** | 2,545 |
| Changan Suzuki | **3,952** | 3,565 |
| Jiangling Holding | **1,871** | — |
| Chongqing Tsingshan | **678** | 989 |
| Changan Co. | **467** | 378 |
| Changan Lingyun | **12** | 2,544 |
| | **235,797** | 226,610 |

## 33 RELATED PARTY TRANSACTIONS *(continued)*

(iii) *Transportation services provided by related parties*

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Minsheng International Freight | **64,055** | 98,292 |
| Minsheng Logistics | **83,985** | 92,803 |
| Minsheng Shipping | **22,230** | 8,376 |
| Changan Transportation | **3,484** | 2,157 |
| | **173,754** | 201,628 |

(iv) *Compensation fee payable by the Group*

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Changan Automobile | **250** | — |

As at 31 December 2005, amount due from Changan Automobile of approximately RMB25,000,000 from rendering of services (with ageing within 90 days) has been pledged against certain bills payable of approximately RMB20,000,000 (note 29). Changan Automobile has agreed to settle the RMB25,000,000 before its due date. The Company has recorded a compensation fee of RMB250,000, to be payable to Changan Automobile.

(v) *Payment of rentals by the Group*

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Chongqing Yuanda | **784** | — |
| Changan Property Management | **189** | 177 |
| | **973** | 177 |

## 33 RELATED PARTY TRANSACTIONS *(continued)*

(vi) *Payment of management fees by the Group*

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| APLLC | **692** | 830 |

The basis of management fee is on the negotiation between APLLC and the Company.

(vii) *Guarantee from shareholders*

Pursuant to a tax indemnity agreement signed by Changan Co., APLL, Minsheng Industrial, Ming Sung (HK) and Changan Sanchan on 21 February 2005, the shareholders have undertaken to indemnify the Company in respect of, among others, any additional taxes, charges and penalties incurred by the Company resulting from and arising out of any alteration or amendment of any tax preferential treatment, in accordance with their respective actual shareholdings in the Company since the establishment of the Company up to the initial listing date of the H Shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

## 33 RELATED PARTY TRANSACTIONS *(continued)*

(c) As at 31 December 2005, the related party balances were shown as follows:

Due from related parties:

| | **Company and Group** | Company |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| Balance from rendering of services | | |
| Changan Automobile *(Note 33(b)(iv))* | **85,605** | 94,074 |
| Changan Ford | **74,722** | 65,868 |
| Changan Hebei | **51,270** | 28,564 |
| Changan Nanjing | **26,913** | 4,415 |
| Chongqing Tsingshan | **1,667** | 989 |
| Changan Lingyun | **8** | 1,695 |
| Changan Suzuki | **635** | 1,014 |
| Changan Import and Export | **137** | 69 |
| Changan Co. | **64** | 446 |
| Jiangling Holding | **984** | — |
| Changan Jinling | **1,780** | 1,270 |
| | **243,785** | 198,404 |
| Less: provision for impairment of due from related parties *(Note a)* | **(731)** | — |
| Subtotal | **243,054** | 198,404 |
| Balance of deposits for service quality guarantee *(Note b)* | | |
| Changan Ford | **3,044** | 2,005 |
| Changan Automobile | **3,350** | 5,718 |
| Changan Hebei | **600** | — |
| Changan Suzuki | **7** | — |
| Subtotal | **7,001** | 7,723 |
| Total | **250,055** | 206,127 |

## 33 RELATED PARTY TRANSACTIONS *(continued)*

*Note:*

(a) The Company made the provision for impairment on the balances due from related parties as the turnover rates slowed down and the collection was delayed. The directors of the Company are of the opinion that provision as at 31 December 2005 is adequate but not excessive.

(b) Deposits for service quality guarantee represents the deposits paid by the Company to its customers for the purpose of guaranteeing the quality of its logistics service provided. If the service quality does not meet the customers' requirements, the deposits will be deducted by the customers as compensation.

As at 31 December 2005, approximately 90% (2004: approximately 83%) of the total amount of trade receivables and due from related parties was due from the four largest customers. The carrying amount of trade receivables and due from related parties represents the Group's maximum exposure to credit risk in relation to its financial assets.

The Group offers credit terms to its related parties ranging from cash on delivery to 90 days. Ageing analysis of trading balance from rendering of services at 31 December 2005 was as follows:

| | **Company and Group** | Company |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| 0 to 90 days | **238,422** | 195,940 |
| 91 to 180 days | **4,047** | 439 |
| 181 to 365 days | **327** | 2,025 |
| Over 1 year | **989** | — |
| Total | **243,785** | 198,404 |

## 33 RELATED PARTY TRANSACTIONS *(continued)*

Due to related parties:

| | **Company and Group 2005 RMB'000** | Company 2004 RMB'000 |
|---|---|---|
| Balance from transportation services provided by related parties | | |
| Minsheng Logistics | **21,581** | 14,944 |
| Minsheng International Freight | **14,071** | 13,233 |
| Minsheng Shipping | **2,458** | 4,349 |
| Changan Transportation | **985** | 495 |
| Subtotal | **39,095** | 33,021 |
| Balance from office premises lease services provided by related party | | |
| Changan Yuanda | **123** | — |
| Balance from compensation fees payable to related party | | |
| Changan Automobile | **250** | — |
| Total | **39,468** | 33,021 |

Ageing analysis of due to related parties at 31 December 2005 was as follows:

| | **Company and Group 2005 RMB'000** | Company 2004 RMB'000 |
|---|---|---|
| 0 to 90 days | **39,060** | 32,803 |
| 91 to 180 days | **41** | 218 |
| 181 to 365 days | **367** | — |
| | **39,468** | 33,021 |

## 33 RELATED PARTY TRANSACTIONS *(continued)*

As at 31 December 2005, except for the balance mentioned in above Note (b) (iv), all the other related party balances were interest-free and unsecured.

The carrying value of due from and due to related parties approximates their fair value due to the short-term maturity.

## 34 SHARE-BASED PAYMENT

On 6 June 2005, the Company prepared a Share Appreciation Right Incentive Scheme ("SARIS"). Pursuant to a resolution of the Board of Directors dated 29 December 2005, the SARIS is effective on the date when the H Shares of the Company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

A unit of the share appreciation right will entitle the grantee thereof to request the Company to pay the grantee, upon the exercise of such right, a sum equivalent to the difference between the exercise price of such unit of right and the closing price of the H Shares as stated in the Stock Exchange's daily quotation sheets on the date of the exercise of such unit right.

The person eligible to be granted share appreciation rights include:

(i) any Directors, Supervisors (not including independent Directors and independent Supervisors);

(ii) the General Manager, deputy general manager, Financial Controller, secretary of the board, company secretary, heads of departments, branches and subsidiaries; and

(iii) other senior management personnel and important employees who have made significant contribution to our company as nominated by the General Manager and approved by the remuneration committee.

The maximum number of share appreciation right that may be granted under the SARIS shall not exceed 10% of the total number of shares of the Company in issue from time to time, and the share appreciation right granted to any single grantee within any consecutive 12 months shall not exceed 1% of the total number of the shares of the Company in issue from time to time.

Share appreciation rights will have an exercise period of five years. A person granted share appreciation rights may not exercise his or her rights in the first year after the date of grant. In each of the second, third and fourth year after the date of grant, the rights that may be exercised shall not in aggregate exceed 25%, 50% and 75%, respectively, of the total number of the share appreciation rights granted to him or her in a particular year. A person can only exercise share appreciation rights before the expiration of the exercise period.

As at 31 December 2005, no share appreciation rights have been granted under the SARIS.

## 35 SUBSEQUENT EVENTS

In February 2006, the Company issued 50,000,000 H Shares at HKD2.7 each to public investors, and raised total capital of approximately RMB154,440,000 (equivalent to HKD148,500,000). The Company's H Shares were then listed on The Stock Exchange of Hong Kong Limited on 23 February 2006.

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("AGM") of CMA Logistics Co., Ltd. (the "Company") will be held at the Conference Room, 3rd Floor, Holiday Inn North Chongqing, Jiangbei District, Chongqing, the PRC on Thursday, 25 May 2006 at 10:00 a.m., to consider and if thought fit, pass with or without modification the following resolutions:

## ORDINARY RESOLUTIONS

**"THAT:**

1. to consider and approve the Report of the Board of directors for the year ended 31 December 2005;

2. to consider and approve the Report of the Supervisory Committee for the year ended 31 December 2005;

3. to consider and approve the audited consolidated accounts and the Report of the Auditors for the year ended 31 December 2005;

4. to consider and approve the financial budget of the Company for the year ended 31 December 2005;

5. to consider and approve the Company's investment plans for 2006;

6. to decide the declaration of a final dividend of RMB0.11 (including tax) per share for the year ended 31 December 2005;

7. to consider and approve the re-appointment of PricewaterhouseCoopers as its 2006 international auditor, for a term to expire until the next AGM, and to authorize the Board to determine its remuneration; to consider and approve the re-appointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co. as its 2006 PRC auditor, for a term to expire until the next AGM, and to authorize the Board to determine its remuneration."

By order of the Board
**CMA Logistics Co., Ltd.**
**Yin Jiaxu**
*Chairman*

Chongqing, the PRC
24th March 2006

*Notes:*

(1) The Company's register of members will be closed from Tuesday, 25 April 2006 to Wednesday, 24 May 2006 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares who wish to be eligible for voting and final dividend, will have to return all their instruments of transfer together with the relevant share certificates to Computershare Hong Kong Investor Services Limited before 4 p.m. on Monday, 24 April 2006.

(2) Shareholders who intend to attend the AGM will have to return the completed reply slip to the Company's share registry Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (in respect of H shares) or the office of the Board of the Company at 3rd Floor, No.26 Liyu Pond Second Village, Jiangbei District, Chongqing, the PRC (postal Code 400020) (in respect of domestic shares, including non-H foreign shares, same hereinafter) on or before Thursday 4 May 2006. The reply slip may be delivered by post, telegram or facsimile (Fax No.: (852) 28650990 or (8623) 67865983).

(3) A shareholder who has the right to attend and vote at the AGM is entitled to appoint a proxy or proxies (whether or not a member) to attend and vote on his behalf (if only one proxy is appointed, when voting by show of hands and by poll; and if more than one proxy are appointed, then only when voting by poll). In the event more than one proxy are appointed, the instruments of appointment should indicate the class and number of shares the proxies are representing.

(4) Shareholders and their proxies should show their documents of identity when attending the meeting.

(5) The instrument appointing a proxy must be made in writing under the hand of the appointor or his attorney duly notarized in writing. If the appointor is a legal person, the relevant instrument must bear the chop of the legal person, or submitted in person by a director or duly authorized person.

(6) The instrument of appointment must be delivered to the Company's share registry Computershare Hong Kong Investor Services Limited (in respect of H shares) or the office of the Board of the Company (in respect of domestic shares) 24 hours before the commencement of the AGM.

(7) After the completion and delivery of the form of proxy, a shareholder may still attend and vote at the AGM.

(8) Shareholders attending the AGM will be responsible for their own traveling and accommodation expenses.