



# Mudan Automobile Shares Company Limited\*

## 牡丹汽車股份有限公司

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



### Annual Report 2005

\* For identification only

## Contents

	<i>Page</i>
Characteristics of GEM of the Stock Exchange	2
Corporate Information	3
Chairman's Report	5
Management Discussion and Analysis	7
Report of the Board of Directors	11
Report of the Supervisory Committee	20
Profiles of Directors, Supervisors and Senior Management	21
Corporate Governance Report	24
Independent Auditors' Report	29
Income Statement	31
Balance Sheet	32
Statement of Changes in Equity	33
Cash Flow Statement	34
Notes to the Financial Statements	35
Five Year Summary	66

## Characteristics of GEM of the Stock Exchange

**Growth Enterprise Market (“GEM”) has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM listed issuers.**

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company” or “Mudan”), collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.

## Corporate Information

### Executive Directors

Mr. SUN Min Biao (Dismissed on 3 March 2008)  
Mr. YANG De Xiang (Dismissed on 3 March 2008)  
Mr. XU Hong Bing (Resigned on 22 April 2005)  
Mr. KUO Zhi Yung (*Chairman*) (Appointed on  
3 March 2008 as *Executive Director and Chairman*)  
Mr. HOU Cheng Bao  
Mr. JIANG Bin (Appointed on 3 March 2008)

### Non-executive Directors

Mr. LU Guo Zhang (Dismissed on 3 March 2008)  
Mr. ZHOU Pei Lin  
Mr. Li Jian Hua (Appointed on 3 March 2008)  
Mr. ZHU Wei Liang (Appointed on 3 March 2008)

### Independent Non-executive Directors

Mr. JIANG Lei (Dismissed on 3 March 2008)  
Mr. HUANG Zhen Hua (Dismissed on 3 March 2008)  
Ms. XIAO Wei Hong (Dismissed on 3 March 2008)  
Mr. WANG Cheng Cai (Appointed on 3 March 2008)  
Mr. GAO Xue Fei (Appointed on 3 March 2008)  
Mr. YAO Zhi Ming (Appointed on 3 March 2008)

### Supervisors

Mr. ZHU Xia Zheng (Dismissed on 3 March 2008)  
Mr. JIN Hong (Dismissed on 3 March 2008)  
Mr. MIAO Jin Xiang (Appointed on 3 March 2008)  
Mr. DING Shao Hua  
Mr. SHEN Yong (Appointed on 3 March 2008)

### Audit Committee

Mr. HUANG Zhen Hua (Dismissed on 3 March 2008)  
Mr. JIANG Lei (Dismissed on 3 March 2008)  
Ms. XIAO Wei Hong (Dismissed on 3 March 2008)  
Mr. WANG Cheng Cai (*Chairman*) (Appointed on 10  
April 2008)  
Mr. GAO Xue Fei (Appointed on 10 April 2008)  
Mr. YAO Zhi Ming (Appointed on 10 April 2008)

### Remuneration Committee

Mr. GAO Xue Fei (*Chairman*) (Appointed on 10 April  
2008)  
Mr. WANG Cheng Cai (Appointed on 10 April 2008)  
Mr. YAO Zhi Ming (Appointed on 10 April 2008)

### Compliance Officer

Mr. XU Hong Bing (Resigned on 22 April 2005)  
Mr. HOU Cheng Bao (Appointed on 22 April 2005)

### Authorized representatives

Mr. XU Hong Bing (Resigned on 22 April 2005)  
Mr. SUN Min Biao (Resigned on 3 March 2008)  
Mr. HOU Cheng Bao (Appointed on 22 April 2005)

### Authorized Person to accept services of process and notice in Hong Kong

王小軍律師行 (Resigned on 30 June 2006)  
19/F, 8 Queen's Road Central (Room 2208, 22/F,  
Jardine House, 1 Connaught Place, Central, Hong  
Kong effective 27 March 2006)  
Messrs. Tsun & Partners (Appointed on 1 July 2006)  
Suites1002-3, Aon China Building, 29 Queen's Road  
Central, Central, Hong Kong

### Qualified Accountant and Company Secretary

鐘禮樂先生 (Appointed on 11 May 2005 and  
resigned on 30 June 2006)

### Auditors

KMPG (Resigned on 7 March 2005)  
CCIF CPA Limited (Appointed on 7 March 2005,  
resigned on 12 May 2006)  
Lo & Kwong CPA Co Ltd (Appointed on 20 May  
2006)

### Principal bankers

Bank of China, Zhangjiagang Branch  
Agricultural Bank of China, Zhangjiagang Branch  
Construction Bank of China, Zhangjiagang Branch  
China Everbright Bank, Suzhou Branch

### Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Ltd  
Room 1712-1716, 17/F  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Corporate Information

### **Registered Office**

No. 30 Lehong Road  
Le Yu Town  
Zhangjiagang City  
Jiangsu Province  
PRC

### **Company website**

[www.mudanauto.com](http://www.mudanauto.com)

### **Principal place of business in Hong Kong**

19/F, 8 Queen's Road Central, Central Hong Kong  
(Room 2208, 22/F, Jardine House, 1 Connaught  
Place, Central, Hong Kong effective 27 March  
2006, and changed to Suite 1002-3, Aon China  
Building, 29 Queen's Road Central, Hong Kong  
effective 1 July 2006)

### **GEM Stock Code**

8188

## Chairman's Report

To: All Shareholders

On behalf of the Board of Directors (the "Board of Directors") of Mudan Automobile Shares Company Limited ("Mudan Auto" or the Company), I would like to report on the following situation of the Company for shareholders' perusal.

As mentioned in the Announcement of the Company dated 3 March 2008, when the new Board of Directors officially took office on 3 March 2008, it immediately started investigating the relevant situation of the Company and at present they discovered various problems, including:

- (1) The Company was suspended since 29 March 2005 for a long time;
- (2) The 2005 Annual Report, 2006 First and Third Quarterly Report, Interim and Annual Report, 2007 First and Third Quarterly Report and Interim Report of the Company have not been released so that 2007 Annual Report cannot be released as scheduled;
- (3) As of 17 March 2008, there are altogether 11 law suits against the Company;
- (4) The Company lacks professional guidance in terms of corporate governance, there are problems such as the lack of communication with Hong Kong Stock Exchange Limited (the "Stock Exchange") and shareholders.

Since the Company suspended production in October 2007 (retained only a small portion of sales business), the number of staff after November 2007 was substantially reduced to approximately 40 (retained only a small number of finance, personnel and administrative key personnel), the work of the Board of Directors of the current tenure is seriously restricted.

After the Board of Directors officially took office, it mainly carried out the following work:

- (1) Enhanced communication with Hong Kong lawyers and auditors, actively sought professional support.
- (2) Acquired in-depth understanding of the situation of the Company, and made timely disclosure of the relevant information via the Stock Exchange.
- (3) Liaised with the Auditors and made great efforts to attempt to release such Auditors' Report for 2005, 2006 and 2007 as soon as possible.
- (4) Cooperated with the majority shareholders actively and maintained contact with potential purchaser, sought the opportunity to resume trading as well as hired professional advisers to provide advice with respect to restructuring of assets and resumption of trading.

The current Directors will act honestly and diligently for the maximum interests of the Company and the shareholders, but will not guarantee the ultimate results. Shareholders and investors of the Company should act carefully when dealing with the shares of the Company.

Regarding the 2005 Auditors' Report of the Company, the Directors conducted careful investigations on the financial information required for the Auditors' Report. The Directors considered that the preparation of the Auditors' Report on a going concern basis is the most appropriate. The Directors considered the 2005 Auditors' Report has adequately disclosed the relevant state of affairs of the Company as of today. The Company had not withheld any information from the auditors.

Details regarding the business review and outlook of the Company will be presented after the Board has reviewed the historical information of the Company.

## Chairman's Report

In order to disclose the relevant information as soon as possible, the Board will disclose such information according to the progress of the work. Any amendment required to be made or information needed to be disclosed found during the follow-up work will be amended and disclosed in a timely manner.

**Mudan Automobile Shares Company Limited**

*Chairman*

**KUO Zhi Yung**

Zhangjiagang City, Jiangsu Province, China  
10 April 2008

## Management Discussion and Analysis

### Business Review and Prospect

After a review of relevant information of the Company by the Directors, 2005 Business Review and Prospect was as follows:

#### 1. Brand awareness was increased

In 2005, the Company participated in the Second National Bus Racing, MD6608 恒星 Series was awarded "China Countryside Bus Prize", MD6120 月亮神 Series city low panel bus was awarded "China City Bus Bronze Medal", MD6123 都市陽光 Series high speed large luxurious bus was awarded "China Travel Bus Best Outlook Prize". And through providing service cars for the Tenth Sport Competition of the People's Republic of China, the brand awareness of Mudan's automobiles was significantly increased.

#### 2. Quality of products were improved to a certain extent

During the year 2005, the Company persisted on implementing quality improvement projects, discovering problems continuously according to PDCA procedures, solving problems constantly, the overall level of the quality of products was further improved. Through cooperation with research and development institutes like Jiangsu University, several car bodies of leading car models were improved so that the car body structures were rendered more reasonably.

#### 3. Overseas marketing was further strengthened

In 2005, the Company further improved the marketing channels through the opportunity of visits of overseas customers. In order to develop overseas market steadily, the Company paid a rather high price to conduct a rolling test of the whole car, and passed security certification of overseas clients with good results. In 2005, the Company set up the first overseas service team in Mudan's history, and carried out training and performance evaluation for car repair, day to day English and etc. to provide support and protection for overseas marketing.

#### 4. Further enhanced technical management platform

With the Company's dedications, Mudan Auto Technical Centre successfully passed the evaluation by the Expert Group of Jiangsu Province Technical Centre and became the eighth provincial technical centre. With the improvement and extension of product series such as 太陽神、月亮神 newly developed in 2004, we achieved complete upgrade of product structure.

Based on the Company's present situation, the Board of Directors is of the opinion that Mudan Auto brand has a history of over 30 years, it enjoys rather high reputation in both mainland China and abroad, Mudan Auto has apparent competitive advantage in production facilities, manufacturing skills and product quality etc.

Although the Company is now in the production suspension stage, the Board of Directors is of the view that if there is sufficient injection of capital, the Company can re-start production business and can further strengthen internal control, standardize management of the company, Mudan will be able to further develop and grow.

### Market Overview

Upon review of the relevant information of the Company by the Directors, the major factors influencing the bus market in 2005 were as follows:

#### 1. Ongoing Influence of Macro-Economic Adjustment Measures

The State implemented the macro-economic adjustment measures, and controlled capital flows in circulating sectors. This had produced an obvious restricting effect to the bus purchase behaviour of bus operators and the credit environment for the sales of buses.



## Management Discussion and Analysis

### 2. Influence of Excess Transportation Capacity

Because of rapid improvement of speeds of railways and the rapid growth in the demand for buses in previous years, excess transportation capacity has been a controversial phenomenon in public road transportation in the PRC. Operation efficiency for bus operators was limited to a certain extent, which surpassed the demand for the purchase of bus.

### 3. Increased environmental standard

Both the State Administration of Environmental Protection and local environmental protection authorities are practicing product listing management and prohibit unlisted bus models from being sold and used in relevant regions.

## Development of new products

Upon review of the relevant information of the Company, in 2005, new products researched and developed by the Company included 8 models of the MD6601 series of light-sized buses, 1 model of the MD6701 series of light-sized buses, 5 models of the MD6701 series of medium-sized buses, 6 models of the MD6800 series of medium-sized buses, 1 model of the MD6900 series of medium-sized buses, 2 models of the MD6100 series of large-sized bus, 4 models of the MD6120 series of large-sized bus, totalling 27 products. All these products were approved by the respective governmental departments.

## Financial Review

### Revenue

Total revenue for the fiscal year 2005 amounted to approximately RMB513,137,945, representing a decrease of 19.6% compared to that of RMB638,563,780 generated in 2004. Of which, turnover from light, medium and large-sized series of buses amounted to RMB215,237,792, RMB239,517,391 and RMB58,382,762 respectively (2004: RMB285,170,788, RMB278,259,380 and RMB75,133,612 respectively). Sales for light-sized, medium-sized and large-sized series of buses decreased by 24.5%, 13.9% and 22.3% respectively.

The Company recorded a total loss before tax in the amount of RMB90,443,147 in 2005 (2004: profit before tax of RMB4,611,751).

### Cost of sales and gross profit

Cost of sales decreased from approximately RMB581,899,584 in 2004 to approximately RMB495,583,573 in 2005. Marginal profit of the Company's products decreased from 8.9% in 2004 to 3.4% in 2005.

### Other operating income

Other operating income for the fiscal year 2005 amounted to approximately RMB6,111,464 (2004: RMB19,354,223), which included the sale of scrap materials of approximately RMB4,529,656 (2004: RMB2,055,667).

### Distribution expenses and general and administrative expenses

Distribution expenses in 2005 amounted to RMB31,862,812 (2004: RMB32,930,753), representing a slight decrease of approximately 3.2% compared to the same period last year. The costs of business trips of external staff of sales department for 2005 significantly decreased 84.1% to RMB3,369,953 (2004: RMB21,118,731), however, other costs recorded a great increase proportionally, of which, advertising costs considerably increased 228% to RMB11,478,908 (2004: RMB3,556,354).

## Management Discussion and Analysis

The total general and administrative expenses for the fiscal year 2005 was RMB79,575,935, representing a great increase of 178% as compared to the amount of RMB28,649,194 in the corresponding period of 2004. Such a great increase was mainly attributable to the impairment for bad and doubtful debts of RMB37,374,406 for the year 2005.

The Company's expenses on salaries, wages and bonus for the fiscal year 2005 amounted to RMB38,839,633 as compared to RMB52,679,063 in 2004, representing a decrease of RMB13,839,430.

In the fiscal year of 2005, the net finance income of RMB2,106,514 comprised bank interests and interests on other borrowings, bank charges and interest income, representing approximately 0.4% of sales. Net finance costs amounted to RMB8,977,575 in year of 2004. As interests on amounts due from a shareholder (Jiangsu Mudan) were first included in 2005, the amount of such interest in 2005 were RMB10,932,351.

### Material investments and capital assets

The Company did not have any plan for material investments or acquisition of material capital assets in 2005 and in the foreseeable future.

### Exposure in exchange rate fluctuations

The Company has foreign currency sales, which expose the Company to foreign currency risk. Certain bank balances and trade receivables of the Company are denominated in foreign currencies. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should be need arises.

### Significant investments held

The Company has no significant investments held during the year of 2005.

### Financial resources and liquidity

The financial position of the Company comprised shareholders' equity which amounted to approximately RMB259,840,484 as at 31 December 2005 (2004: RMB354,043,446). Current assets amounted to approximately RMB730,533,147 as at 31 December 2005 (2004: RMB782,446,534), of which approximately RMB107,288,298 (2004: RMB58,547,175) were cash and bank balances. Approximately RMB318,346,739 (2004: RMB263,286,176) was placed as pledged deposits to secure certain banks in issuing bill payable of approximately RMB351,658,940 as at 31 December 2005 (2004: RMB320,501,232). As at 31 December 2005, the Company had a short-term bank loans and long-term bank loans of about RMB170,100,000 (2004: RMB166,850,000) and Nil (2004: Nil) respectively. The short-term bank loans were repayable within one year.

### Contingent liabilities

Please refer to Note 26 of the Auditor's Report.

### Charges on assets

As at 31 December 2005, the short-term bank loans of RMB 128,000,000 was unsecured (2004: RMB 138,850,000), and short-term bank loans of RMB 42,100,000 were secured by factory buildings with net book values of approximately RMB32,171,066 (2004: RMB34,289,753).

## Management Discussion and Analysis

### Gearing ratio

The Company's gearing ratio, which is calculated from total liabilities divided by total net assets, was 2.6 (2004: 1.9) as at 31 December 2005.

### Capital structure

During the year ended 31 December 2005 ("During the year"), there has been no change in the Company's share capital. As at 31 December 2005, the Company's operations were financed mainly by shareholders' equity and internal resources. The Company will continue to adopt its treasury policy of placing the Company cash and cash equivalents in interest bearing deposits.

### Employee information

Upon review of the relevant information of the company, during the year, the average number of employees of the Company was 2,175 (2004: 2,132). Employees' remuneration included Directors' emoluments and the relevant cost of all staff of approximately RMB46,652,957 (2004: RMB62,336,892). They were remunerated in accordance with their performance and market condition. Officially employed staff is entitled to social insurance and provident fund. The Company does not have any share option scheme.

### Disclosure of trade receivables pursuant to rules 17.15 and 17.17 of the GEM Listing Rules

As at 31 December 2005, there were 284,800,000 shares of the Company in issue. Based on the closing price of the Company's shares of HK\$0.34 per share on 29 March 2005, the date on which the trading of the shares of the Company was suspended, the total market capitalization for the Company was approximately HK\$96,832,000 as at 31 December 2005.

As at 31 December 2005, trade receivable from a customer of the Company (the "Trade Receivable"), 廣州白雲華港汽貿中心 (Guangzhou Baiyun Huagang Automobile Trade Center, the "Customer"), a company which is independent of, and not connected with, the Company, the Directors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules), amounted to approximately HK\$18,738,905 (RMB18,193,912), representing approximately 19.4% of the Company's total market capitalization as at 31 December 2005. The Company had lost contact with the Customer and the Trade Receivables had been written off on the balance sheet date.

The Trade Receivable was resulted from sales to the Customer by the Company in its ordinary course of business and on normal commercial terms. It is unsecured and interest free, and repayable on normal terms. Due to the nature of the transactions and business practice, trade receivables can only be settled after month end, and such balances need to be verified and confirmed by customers pursuant to the normal trading practices and relevant trading terms in respect of such receivables. As the Trade Receivable of the Customer is recorded as at 31 December 2005, it is subject to disclosure pursuant to the requirement under rule 17.22 of the GEM Listing Rules.



### Qualified opinion arising from limitation of audit scope

Please refer to the auditor's report.

## Report of the Board of Directors

The Board of Directors submits herewith the Report of the Board of Directors and the audited financial statements of the Company together with its subsidiaries (the “Group”) for the year ended 31 December 2005.

### Principal activities

The principal activities of the Company are the manufacturing and sale of light-sized, medium-sized and large-sized buses under the brand names of “” and trademark of “”. The Company’s principal activities are manufacturing and distribution of automobiles. During the year, there was not material change in the business nature of the Company.

An analysis of the main business and geographical distribution of business during the financial year of the Company is contained in the financial statement, note 4.

Revenue of the Company mainly comprises the sale of automobiles in the PRC.

### Major customers and suppliers

The Company’s sales to the five largest customers accounted for less than 30% of the Company’s turnover during the financial year (2004: less than 30%).

The information in respect of the Company’s purchases attributable to the major suppliers during the financial year are as follows:

	Percentage of the Company’s total purchases	
	2005	2004
The largest supplier	<b>34.03%</b>	33.80%
Five largest suppliers in aggregate	<b>53.52%</b>	59.50%

At no time during the year have the Directors, their associates and any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company’s share capital) had any interest in these major customers and suppliers.

### Financial statements

The results of the Company for the year ended 31 December 2005 and the financial situation of the Company and the Group as at 31 December 2005 are contained on pages 31 to 65 in the financial statements.

### Final dividend

The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2005 (2004: Nil).

### Charitable donations

There was no charitable donation made by the Company during the year (2004: Nil).

## Report of the Board of Directors

### Property, plant and equipment

Details of the movements in property, plant and equipment of the Company during the year are contained in the financial statement, note 13.

### Share capital

Details of the share capital movements of the Company during the year are contained in the financial statements, note 22(a).

### Reserves

Details of the movements in reserves of the Company during the year are contained in in the financial statements, note 22(b), (c) and (d).

### Distributable reserves

As of 31 December 2005 the Company did not have any reserves available for distribution to shareholders.

### Interests disclose under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”)

#### 1. Directors, supervisors and chief executive of the Company

As at 31 December 2005, none of the Directors, supervisors and chief executive of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest and short position in shares, underlying shares of the Company or any associated corporation (within the meaning of Part XV of the SFO), which will be required, pursuant to section 352 of the SFO, to be entered in the register of the Company or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.

#### 2. Substantial shareholders of the Company and other persons

Save as disclosed below, as at 31 December 2005, the Directors are not aware of any other interests and short positions of any substantial shareholders (as defined in the GEM Listing Rules) of the Company and other persons (other than a Director or chief executive of the Company) in the shares or underlying shares of the Company, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

## Report of the Board of Directors

Long positions in the shares:

Name of shareholder	Number of shares (domestic shares)	Nature of Interest	Percentage of the issued shares capital (domestic shares and H shares)
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	94,310,000	Beneficial Owner	33.11%
	100,340,000	Interest of a controlled corporation (Note 1)	35.23%
Jiangsu Mudan	100,340,000	Beneficial owner	35.23%
Zhangjiagang Municipal Leyu Town Assets Management Co., Ltd ("Leyu Town Assets Management")	100,340,000	Interest of a controlled corporation (Note 2)	35.23%

Notes:

- 1 ZMPAM has 33.4% equity interests in Jiangsu Mudan. Accordingly, ZMPAM is entitled to exercise or control the exercise of one-third or more of the voting rights in general meeting of Jiangsu Mudan. Under SFO, ZMPAM is deemed to be interested in 100,340,000 domestic shares held by Jiangsu Mudan, representing 35.23% of the issued share capital of the Company (domestic shares and H shares).
- 2 Leyu Town Assets Management has 37.2% interests in Jiangsu Mudan. Accordingly, Leyu Town Assets Management is entitled to exercise or control the exercise of one-third or more of the voting rights in general meeting of Jiangsu Mudan. Under SFO, Leyu Town Assets Management is deemed to be interested in 100,340,000 domestic shares held by Jiangsu Mudan, representing 35.23% of the issued share capital of the Company (domestic shares and H shares).

### Directors' and Supervisors' rights in acquiring shares or bonds

During the year, the Company or any of its subsidiaries or controlling companies have not entered into any arrangement to enable the Directors, Supervisors or members of the management of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and the Directors, Supervisors or their respective spouses or their children under 18 years of age do not have any rights to subscribe for the shares or debentures of the Company, nor have any such rights to subscribe for the above shares or debentures been exercised by them.

## Report of the Board of Directors

### Directors and supervisors

During the year and as of the date of the Annual Report, the Directors and supervisors of the Company were as follows:

#### Executive Directors

Mr SUN Min Biao	(Dismissed on 3 March 2008)
Mr YANG De Xiang	(Dismissed on 3 March 2008)
Mr XU Hong Bing	(Resigned on 22 April 2005)
Mr HOU Cheng Bao	
Mr KUO Zhi Yung	(Appointed on 3 March 2008)
Mr JIANG Bin	(Appointed on 3 March 2008)

#### Non-executive Directors

Mr LU Guo Zhang	(Dismissed on 3 March 2008)
Mr ZHOU Pei Lin	
Mr Li Jian Hua	(Appointed on 3 March 2008)
Mr ZHU Wei Liang	(Appointed on 3 March 2008)

#### Independent Non-executive Directors

Mr JIANG Lei	(Dismissed on 3 March 2008)
Mr HUANG Zhen Hua	(Dismissed on 3 March 2008)
Ms XIAO Wei Hong	(Dismissed on 3 March 2008)
Mr WANG Cheng Cai	(Appointed on 3 March 2008)
Mr GAO Xue Fei	(Appointed on 3 March 2008)
Mr YAO Zhi Min	(Appointed on 3 March 2008)

#### Supervisors

Mr ZHU Xia Zheng	(Dismissed on 3 March 2008)
Mr JIN Hong	(Dismissed on 3 March 2008)
DING Shao Hua	
Mr MIAO Jin Xiang	(Appointed on 3 March 2008)
Mr SHEN Yong	(Appointed on 3 March 2008)

In accordance with the Articles of Association of the Company, all Directors and Supervisors have a service term of three years, and all Directors and Supervisors (except employee representatives) shall be reelected upon expiry of their respective terms at shareholders' general meetings.

### Directors' service contracts

Each of the Executive Directors, Non-executive Directors and Independent Non-executive Directors has entered into a service contract with the Company for an initial term of three years.

Save as disclosed, none of the Directors have entered into any service contracts with the Company which is not determinable by the Company within one year without payment compensation, other than statutory compensation.

## Report of the Board of Directors

### Directors' and Supervisors' interests in contracts

No contract material to the Group's business has been entered into by the Company or any of its subsidiaries as at 31 December 2005 in which a Director, Supervisor or a member of the management of the Company had a material interest, whether directly or indirectly.

### Directors', Supervisors' and five top paid persons' emoluments

For details of the Directors' and Supervisors' and top paid persons' emoluments, please refer to the financial statement, note 12.

### Connected transactions

Upon review of relevant information of the Company, during the year ended 31 December 2005, the Company entered into the following connected transactions:

**1. Purchase of goods from Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan"), Zhangjiagang Mudan Automobile Accessories Co., Ltd. (ZMAAC), Zhangjiagang Mudan Bus Parts Co., Ltd. ("ZMBPC") and Zhangjiagang Automobile Accessories Factory ("ZAAF") (together the "Suppliers")**

Pursuant to a Raw Material Supply Agreement dated 22 October 2003 (the "Raw Material Supply Agreement") entered into between the Company and the Suppliers, the Suppliers agreed to supply steel, automobile parts and components to the Company at a price no higher than that of similar products sold to independent third parties. The Suppliers are all promoters of the Company and hence the transactions under the Raw Material Supply Agreement constituted continuing connected transactions of the Company under the GEM Listing Rules and the Company had obtained independent shareholders approval for a waiver from strict compliance with Rules 20.35 and 20.36 of the GEM Listing Rules at an Extraordinary General Meeting held on 29 December 2003 with an annual cap of RMB47,000,000, RMB56,000,000 and RMB62,000,000 respectively for the three financial years ending 31 December 2004, 2005 and 2006 for the transactions under the Raw Material Supply Agreement.

For the year ended 31 December 2005, the Company purchased goods, mainly steel, automobile parts and components, from ZMAAC, ZMBPC and ZAAF and the total purchases amounted to approximately RMB31,922,740.

Despite the said transaction amount was lower than the cap of RMB56,000,000 as of the year ended 31 December 2005, the auditors of the Company was unable to confirm the details of the rules of the relevant waiver and had made qualified opinions on the transactions under the Raw Material Supply Agreement in the Financial Statement. For details of the qualified opinions, please refer to pages 30 to 31 of the Financial Statement.

**2. Financial assistance to Jiangsu Mudan**

*a) Transfer and issue of bills*

For the year ended 31 December 2005, the Company utilized its bills facilities and instructed its bankers to issue certain bills to Jiangsu Mudan. In addition, the Company transferred certain of its bills, which the Company received from its customers, to Jiangsu Mudan. The total value of bills issued/transferred to Jiangsu Mudan amounted to RMB499,008,000. On the other hand, the Company received certain bills from Jiangsu Mudan, totaling RMB82,000,000. The outstanding balance of the advances provided to Jiangsu Mudan by the Company as at 31 December 2005 was RMB125,899,382. The Company and Jiangsu Mudan had not entered into any agreement for such issue/transfer of bills nor had the Company disclosed such issue/transfer of bills according to the GEM Listing Rules.



## Report of the Board of Directors

Jiangsu Mudan is a controlling shareholder (as defined in the GEM Listing Rules) of the Company and transactions between the Company and Jiangsu Mudan constitute connected transactions as defined in Chapter 20 of the GEM Listing Rules. For details of Jiangsu Mudan's shareholding interests in the Company, please refer to paragraphs under "Interests discloseable under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")" in this Report.

For details of the transactions, please refer to the Auditors' Report, Note 25.

b) *Payment of raw materials*

For the year ended 31 December 2005, the Company made payment on behalf of Jiangsu Mudan for its purchases of goods for a total amount of RMB14,960 while Jiangsu Mudan also made payments on behalf of the Company for its purchases of goods including chassis for a total amount of RMB3,450,439. The Company and Jiangsu Mudan had not entered into any agreement for such payments nor had the Company disclosed such payments according to the GEM Listing Rules.

c) *Payment of expenses*

For the year ended 31 December 2005, the Company made payments on behalf of Jiangsu Mudan for its general operation expenses for a total amount of RMB13,797,518 while Jiangsu Mudan also made payments on behalf of the Company for its general operation expenses for a total amount of RMB5,877,008. The Company and Jiangsu Mudan had not entered into any agreement for such payments nor had the Company disclosed such payments according to the GEM Listing Rules.

d) *Advances*

For the year ended 31 December 2005, the Company had advanced a total amount of RMB721,129,563 to Jiangsu Mudan as unsecured loans while Jiangsu Mudan had also advanced a total amount of RMB235,361,855 to the Company as unsecured loans. The advances between the Company and Jiangsu Mudan were made continuously throughout the year. The Company and Jiangsu Mudan had not entered into any agreement for such advances nor had the Company disclosed such advances according to the GEM Listing Rules. During the year, the Company collected an interest of RMB10,932,351 from Jiangsu Mudan for the amount receivable from shareholders at the end of the year of RMB125,899,382.

e) *Receipt of sales receipt*

For the year ended 31 December 2005, the Company had received sales receipts on behalf of Jiangsu Mudan which amounted to RMB1,266,110 while Jiangsu Mudan had also received sales receipts on behalf of the Company which amounted to RMB6,055,700. The receipts of sales receipts between the Company and Jiangsu Mudan were made continuously throughout the year. The Company and Jiangsu Mudan had not entered into any agreement for such receipts of sales receipts nor had the Company disclosed such receipts of sales receipts according to the GEM Listing Rules.

## Report of the Board of Directors

f) *Miscellaneous payments and purchases*

For the year ended 31 December 2005, Jiangsu Mudan had made payments on behalf of the Company for general and miscellaneous expenses during its operation and the amount as at 31 December 2005 was RMB1,623,067. The Company and Jiangsu Mudan had not entered into any agreement for such payments nor had the Company disclosed such payments according to the GEM Listing Rules.

### 3. Sales of raw materials and scrap materials to ZMBPC

For the year ended 31 December 2005, the raw materials and scrap materials sold to ZMBPC by the Company amounted to RMB4,930,844 and RMB2,753,895 respectively. Such sales were made continuously throughout the year. These transactions were conducted pursuant to agreements executed between the Company and ZMBPC in every quarter of the year. The agreements did not specify exact amount of scrap materials to be sold but provided for a fixed price for each tonne of such scrap materials for each quarter. The Company obtained such agreements through public tendering and the price was determined with reference to the market rate.

As mentioned in paragraph 1, ZMBPC is the promoter of the Company, and the transaction constituted a connected transaction of the Company pursuant to the GEM Listing Rules. However, the Company did not disclose the above mentioned sale of scrap material in accordance with the GEM Listing Rules.

### 4. Sales of buses to Zhangjiagang Mudan Automobile Accessories Co. Ltd

As at the year ended 31 December 2005, the shareholder of the Company (Zhangjiagang Automobile Accessories Co. Ltd) sold buses amounted to RMB854,673. The Company and Zhangjiagang Mudan Automobile Accessories Co. Ltd did not enter into any agreements with respect to the above payment. The Company also did not disclose the above payment in accordance with the GEM Listing Rules.

As mentioned in paragraph 1, Zhangjiagang Mudan Automobile Accessories Co. Ltd is the promoter of the Company, and the transaction constituted a connected transaction of the Company pursuant to the GEM Listing Rules. However, the Company did not disclose the above mentioned sale in accordance with the GEM Listing Rules.

## Competing interests

The current Board discovered that none of the Directors, supervisors, management shareholders or substantial shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in any businesses which directly or indirectly compete with the business of the Company for the year ended 31 December 2005.

## Purchase, sale or redemption of the listed share of the Company

During the year, the Company and its subsidiaries has not purchased, sold or redeemed any of listed shares of the Company.

## Report of the Board of Directors

### Management contracts

Upon review of relevant information by the current directors, it was found that no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

### Audit Committee

Upon review of relevant information of the Company, the Audit Committee of the Company was established with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the Committee were to review and monitor the financial reporting process and internal control of the group. The Audit Committee held 4 meetings for the year ended 31 December 2005. As at 31 December 2005, Mr. JIANG Lei, Mr. HUANG Zhen Hua and Ms. XIAO Wei Hong were members of the Audit Committee of the Company. However, they were dismissed at the Extraordinary General Meeting held on 3 March 2008. As at the date of the report, the Audit Committee of the Company comprised three Independent Non-executive Directors, namely Mr WANG Cheng Cai, Mr GAO Xue Fei and Mr YAO Zhi Ming, of which Mr WANG Cheng Cai is also the Chairman. The Company's financial statements for the year ended 31 December 2005 had been reviewed by the Audit Committee which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

### Closure of H share register

The H share register of the Company will be closed from 9 June 2008 to 30 June 2008 (both days inclusive) during which no transfer of H shares is to be effected.

### Bank loans

Particulars of bank loans as at 31 December 2005 are contained in the financial statements, note 20.

### Retirement scheme

Particulars of retirement scheme are contained in the financial statements, note 7.

### Financial summary

A summary of the results and of the assets and liabilities of the Company for the last five financial years is contained in page 66 of the annual report.

### Stock option scheme

The Company has no share option scheme.

## Report of the Board of Directors

### Remuneration policy

During the year, the Chairman of the Board of the Company was responsible for reviewing the remuneration of Executive Directors, Non-executive Directors and Independent Non-executive Directors as well as the Supervisors and senior management officers of the Company, and proposing recommendations at the Board Meetings attended by the Independent Non-executive Directors for approval by the Board. The consideration of remuneration by the Chairman of the Board of the Company was measured by comparing the salary paid by the Company, the time dedicated and responsibilities of the Directors, the employment status of the Company and the feasibility to give out salary on a performance basis.

### Pre-emptive rights

It is not stipulated in the Articles of Association of the Company or the Law of the PRC that the Company is required to grant pre-emptive rights for offering of new issues to existing shareholders.

### Auditors

KPMG resigned from the post of auditors of the Company on 7 March 2005 and CCIF CPA Limited was appointed on the same day. While CCIF CPA Limited resigned from the post of auditors of the Company on 12 May 2006, Lo & Kwong C.P.A. Co Ltd was appointed as the new Auditors of the Company, effective 20 May 2006 until the completion of the Annual General Meeting of Shareholders of the next year of the Company.

The Company will present resolution to be passed in the next Annual General of Shareholders of the Company to appoint Lo & Kwong C.P.A. Co Ltd as the Company's International Auditors.

The Financial Report of the Company for the year ended 31 December 2005 was already reviewed by Lo & Kwong C.P.A. Co Ltd.

By order of the Board  
**Mudan Automobile Shares Company Limited**  
*Chairman*  
**KUO Zhi Yung**

Zhangjiagang City, Jiangsu Province, China

10 April 2008

## Report of the Supervisory Committee

To: All shareholders

Since the new Supervisory Committee (the Supervisory Committee) of Mudan Automobile Shares Company Limited commenced work on 3 March 2008, it has complied with “the Company Law of the People’s Republic of China”, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company, and has exercised conscientiously its authority, safeguarded the interests of shareholders and the Company, followed the principle of faith and worked cautiously and diligently.

Targeted on the problems of the Company’s of the previous years, the Supervisory Committee followed strictly the relevant regulations and carried out its duties honestly, including strengthening internal management and control of the Company, enforcing strict execution of various approval procedures, hiring professional consultation bodies, standardizing different aspect of management, conducting strict and effective monitoring of various significant decision making processes and concrete decisions as to whether or not they comply with state laws and regulations and the Company’s articles of association, whether or not shareholders’ interests are protected etc, preventing abuse of authority by our senior management.

After investigation, the Committee considers that the financial statements of the Company for year 2005, audited by Lo and Kwong CPA Company Limited, truly and sufficiently reflects the operating results and asset positions of the Company. The Committee also reviewed the Report of the Board of Directors and the profit distribution proposal and considers that the above report and proposal meet the requirements of the relevant regulations and Articles of Association.

The Committee considers that the members of the Board and other senior management officers have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors and the senior management officers have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated any laws, regulations or the Company’s Articles of Association.

By order of the Board  
**Mudan Automobile Shares Company Limited**  
*Chairman of the Supervisory Committee*  
**MIAO Jin Xiang**

Zhangjiagang City, Jiangsu Province, China

10 April 2008

## Profiles of Directors, Supervisors and Senior Management

### Executive Directors

**Mr KUO Zhi Yung** (郭志榮), aged 33, is Chairman and Executive Director and graduate of Investment and Finance Faculty of Jiangxi Finance University in 1997. He is registered accountant and lawyer of the PRC. He was the head of Finance Bureau of Zhangjiagang City and head of Office of Corporate Listing of Zhangjiagang City, Mr Kuo is experienced and was also senior management of certain companies in the PRC, including assistant of president of Jiangsu Sagang Group Company Limited, vice chairman of Leyu Town Assets Management and deputy secretary of Leyu Town Party Committee, as well as deputy secretary of Party Committee and deputy chairman of Jiangsu Mudan Automobile Group Company Limited; he has joined the Company since March 2004.

**Mr JIANG Bin** (姜斌), aged 32, is Executive Director and Secretary of the Board of Directors, graduate of economics of Jiangsu Petrochemical Institute in 1999. He also has a law degree and is holder of professional economist qualification. He has assumed different important duties in the Company, including the person-in-charge for quality assurance system control of the Corporate Management Office, secretary of the Team Committee of the Company (公司團委書記), head of Training Division (職教科科長) and officer of the Office of the Company.

**Mr HOU Cheng Bao** (侯成保), aged 57, is Executive Director, Compliance Officer and Authorized Representative of the Company. Mr Hou holds the title of engineer. He was formerly the head of general manager's office of Jiangsu Mudan for the period from January 1996 to August 1998. He graduated from Zhenjiang Agricultural Machinery College in machinery production and engineering in 1978. He joined the Company in September 1998.

### Non-executive Directors

**Mr ZHOU Pei Lin** (周培林), aged 46, Non-executive Director, graduated from the College of Economic Management at the Party School of the Central Committee of the Chinese Communist Party. He is PRC Accountant and holds the title of senior accountant. He is currently deputy head of the audit-supervising department of Zhangjiagang Jin Mao Investment Development Co., Ltd.. From 1981 to 1994, he was appointed the deputy head of finance section, head of factory office and head of audit section of Zhangjiagang Municipal Textile Factory and the head of finance department of Zhangjiagang Sales Division of Jiangsu Securities Company (now renamed Huatai Securities Co., Ltd.). Between 1995 and 2002, he was appointed accountant, deputy head of finance department, deputy head of capital settlement centre and deputy chief accountant of Jiangsu Mudan

**Mr LI Jian Hua** (李建華), aged 51, Non-executive Director, graduate of economics management – Adults College, University of Suzhou. Currently, he is deputy department head of custody department of Zhangjiagang Jinmao Investment Development Co. Ltd. He was deputy general manager, director of Zhangjiagang Fuhong Food Co Ltd, deputy factory director of Zhangjiagang Building Materials Main Factory, and director, supervisor of Zhangjiagang Huayuan Machinery Co Ltd.

**Mr ZHU Wei Liang** (朱惠良), aged 42, Non-executive Director, college qualifications, he graduated from Zhangjiagang Yang Shi Secondary School in 1982. He is holder of PRC Assistant Economist professional qualification. He worked as credit clerk in Industry and Commerce Bank of China, Zhangjiagang Branch. At present, he is assistant to general manager of Jiangsu Fengli Group Co Ltd.

## Profiles of Directors, Supervisors and Senior Management

### Independent Non-executive Directors

**Mr WANG Cheng Cai** (汪成才), aged 63, has PRC Senior Economist and Accountant professional qualification. He assumed administrative functions in several government departments in Zhangjiagang City (including Tax Bureau, Shazhou County Committee, Shazhou County Reform Committee of Shazhou (that means Zhangjiagang at present)), he was accountant of Shazhou County Fertilizer Factory, head (股長) of finance department, direct head, finance officer stationing in factory, deputy director of Shazhou County, first deputy director of finance department of Zhangjiagang City, secretary of Party Committee of Kam Feng Town, chairman of Agriculture, Industry and Commerce Head Office, officer of Economic Committee of Zhangjiagang City, director of Zhangjiagang City Commerce Bureau, consultant of Economic Committee of Zhangjiagang City. Currently, he is general manager of Zhangjiagang Yangtze River Accounting Co Ltd and independent directors of Zhangjiagang Qizhou Chemical Co Ltd and Huachang Chemical Co Ltd.

**Mr GAO Xue Fei** (高學飛), aged 55, university qualifications, has Senior Economist professional qualification in the PRC and is a graduate from University of Jiangsu. Currently, he is chairman, executive director, general manager and senior engineer of Suzhou Weida Machinery Co Ltd.

**Mr YAO Zhi Ming** (姚志明), aged 63, has PRC Senior Engineer professional qualification. He is graduate from Nanjing Aviation and Aeronautics University in 1969. Currently, he is senior management consultant of Suzhou Marine and Surface Heavy Industry Co Ltd, he was technician of Shanghai Ludong Shipbuilding Factory Wheel Workshop, deputy engineer of Skill Design Office of Shanghai Airplane Manufacturing Factory, deputy director and engineer of Shanghai Chang Jiang Equipment Factory, senior engineer and deputy factory director of Shazhou Ship Boiler Factory, general manager and chairman of Suzhou Marine and Surface Boiler Group Co Ltd, and director, deputy general manager of Zhangjiagang Marine and Surface Boiler Co Ltd.

### Supervisors

**Mr MIAO Jin Xiang** (繆金祥), male, aged 56, has secondary school qualification. In 1970 he worked successively as member of Jiangjiagang Commission for Discipline Inspection, deputy officer, officer of Inspection Office, deputy director of Jiangjiagang City Inspection Bureau, committee member of Standing Committee of Jiangjiagang Commission for Discipline Inspection, deputy director of Zhangjiagang City Communications Bureau. At present, he is secretary of Commission for Discipline Inspection of Jiangsu Mudan Automobile Group Company Limited.

**Mr DING Shao Hua** (丁少華), aged 49, is supervisor of the Company. He graduated from Shanxi Broadcasting and Television University in 1987. He was formerly vice chairman of the Union of Jiangsu Mudan and committee member of The Chinese People's Political Consultative Conference of Zhangjiagang City. He joined the Company in September 1998.

**Mr SHEN Yong** (沈勇), male, aged 31, secondary school qualification, is currently head of Training Division (職教科科長). He graduated from Shanghai Aviation Industry School in 1996. He was facility personnel of Jiangsu Mudan Automobile Group Company Limited, officer of the Factory Office, officer of the Office of Production Section 1, division head of personnel division of Second Factory of Mudan Automobile Shares Company Limited.

## Profiles of Directors, Supervisors and Senior Management

### Senior management

**Mr LI Jing Shan** (李京山), aged 37, is Chief Executive Officer (general manager) of the Company. He has obtained professional qualification of economist. He graduated from Huaiyin Institute of Technology, with a diploma in mechanical engineering in 1993. He was formerly member of the Staff Disciplinary Committee, section head of Audit Division, deputy director of enterprise management office of Jiangsu Mudan, deputy head of Factory No. 2, deputy manager of a distribution company, and head and assistant-to-general manager of enterprise management department of the Company. He joined the Company in September 1998.

**Mr FAN Hong Xing** (樊紅星), aged 41, is the deputy general manager of the Company. He has obtained professional qualification of an economist. He majored in Enterprise Management and graduated from Shazhou Technical College in 1988. Prior to joining the Company, he was the deputy head of Factory No. 1 of Jiangsu Mudan, head of enterprise management department, deputy manager of sales and marketing department, deputy head of Factory No. 2, head of Factory No. 3 and head of Manufacturing Department III. He was awarded “Labour Model for Zhangjiagang City” and “Zhangjiagang Advanced Technology Operator”. In 2002, he was awarded “Third Prize of Technology Development in Zhangjiagang City”. He joined the Company in September 1998.

**Mr CHEN Jiang Ming** (陳建明), aged 44, is the deputy general manager. He has obtained professional qualification of engineer. He was the deputy chief of the financial office and head of corporate management office of Jiangsu Mudan, head of Factory No. 2 and deputy manager of Sales and Marketing Department of the Company. He graduated from Zhangjiagang Leyu Secondary School in 1977. He joined the Company in September 1998.

**Mr TANG Wei Dong** (唐衛東), aged 40, is the head of Finance Department of the Company. He has obtained professional qualification of statistician. He graduated from Jiangsu Broadcasting and Television University, with a diploma in finance and accounting in 1995. Prior to joining the Company in September 1998, he was the head of Finance Division and head of Personnel Division of Factory No. 7 of Jiangsu Mudan from January 1996 to August 1998.

### Compliance Officer

**Mr HOU Cheng Bao** (侯成保). For details, please refer to the paragraph under “Executive Directors” above. Mr HOU will provide advice and assistance to the Board in implementing procedures to ensure that the Company complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and responds promptly and efficiently to all enquiries raised by the Stock Exchange.



## Corporate Governance Report

Upon review of relevant information and necessary enquiries by the current Directors, the relevant state based on the provisions of Corporate Governance Practices and Rules set out in the GEM Listing Rules is reported as follows:

### Corporate governance practice

Save for those deviations disclosed below, the current Board of Directors has not discovered any in compliance with the provisions of the Code on Corporate Governance Practices (the “Corporate Code”) set out in the GEM Listing Rules by the Company.

### Code of conduct for directors carrying out securities transactions

During the year ended 31 December 2005, the current Board did not discover any non-compliance with the standard conditions of requirements of transactions set out in rules 5.48 to 5.67 of the GEM Listing Rules. A code of conduct has been adopted with respect to the securities transactions carried out by directors.

### The Board of Directors

The Board of Directors is responsible for company strategies, business operation, long term planning, risk management, major acquisition and sale and capital transaction as well as material operation and services. The main corporate affairs that the Board of Directors authorized the management for this purpose include compilation of annual, interim and quarterly accounts, submission for the Board of Directors for approval before releasing the reports, commercial strategies and measures adopted by the meetings of the Executive Directors, implementation of adequate internal control system and risk management procedures and compliance with the relevant laws and regulations.

As at the end of the reporting period, the meeting of the Board of Directors comprises nine Directors, three of them are Executive Directors, three are Non-executive Directors and three are Independent Non-executive Directors. For details of the background and profile of Chairman of the Company and other Directors, please refer to page 21 to 23 under the section “Directors, supervisors and senior management”. Independent Non-executive Directors participate in the meeting of the Board of Directors and bring independent decisions regarding the Group’s strategies, performance, conflict of interest and management process etc, in order to ensure that the interests of all shareholders of the Company have been considered and secured.

The members of the Board of Directors during the year and as at the date of this report are as follows:

#### Executive Directors

Mr SUN Min Biao	(Dismissed on 3 March 2008)
Mr YANG De Xiang	(Dismissed on 3 March 2008)
Mr XU Hong Bing	(Resigned on 22 April 2005)
Mr HOU Cheng Bao	
Mr KUO Zhi Yung	(Appointed on 3 March 2008)
Mr JIANG Bin	(Appointed on 3 March 2008)

#### Non-executive Directors

Mr LU Guo Zhang	(Dismissed on 3 March 2008)
Mr ZHOU Pei Lin	
Mr Li Jian Hua	(Appointed on 3 March 2008)
Mr ZHU Wei Liang	(Appointed on 3 March 2008)

#### Independent Non-executive Directors

Mr JIANG Lei	(Dismissed on 3 March 2008)
Mr HUANG Zhen Hua	(Dismissed on 3 March 2008)
Ms XIAO Wei Hong	(Dismissed on 3 March 2008)
Mr WANG Cheng Cai	(Appointed on 3 March 2008)
Mr GAO Xue Fei	(Appointed on 3 March 2008)
Mr YAO Zhi Ming	(Appointed on 3 March 2008)

## Corporate Governance Report

Non-executive Directors and Independent Non-executive Directors of the Company are responsible for the important functions of providing opinion to the management regarding the Company's strategic development, and ensuring that financial and other compulsory reporting of the Board of Directors maintains at high standard, and carrying out adequate inspection and balancing shareholder protection and the overall interest of the Company.

During the year and as at the date of this report, the Board of Directors at all times complied with the minimum requirements of the GEM Listing Rules that at least three Independent Non-executive Directors were appointed, one of them possessed the appropriate professional qualification stipulated by Rule 5.05 of the GEM Listing Rules. The Board of Directors is of the view that all Independent Non-executive Directors are independent, and has received annual letters of confirmation of independence pursuant to the stipulations of the GEM Listing Rules from each Independent Non-executive Director.

During the year, the Board of Directors held regular meetings to discuss overall strategies and the Company's operational and financial performance. During the year, the Directors held four meetings to discuss and approve important matters, for instance approval of quarterly results, interim results and annual results etc. In addition, the Company's management also held meetings with certain Independent Non-executive Directors to consult their opinion on certain businesses and operation. The Board of Directors was informed of details of the agenda to be decided and minutes of the Committees before each meeting of the Board of Directors. Directors can attend meetings in person or through other electronic communication means or fax pursuant to the Company's articles of association. According to the Code provision A.1.3 of the Corporate Code, the Company should send notifications to every Director 14 days before the regular Board meeting is held. The current Directors cannot confirm whether notifications had been sent at least 14 days before the regular meetings of the Board of Directors during 2005, but the current Directors pledged that notifications of Board meetings will be sent at least 14 days before regular meetings of the Board of Directors from now on.

Since the Board of Directors expected that the Company would not incur any contingent liability, therefore it did not take out any insurance policy with respect to the Directors.

Attendance records of meetings of the Board of Directors during the year are as follows:

<b>Name of Directors</b>	<b>No. of meetings attended/ no. of meetings held</b>
<b>Executive Directors</b>	
Mr SUN Min Biao (Dismissed on 3 March 2008)	4/4
Mr YANG De Xiang (Dismissed on 3 March 2008)	4/4
Mr XU Hong Bing (Resigned on 22 April 2005)	1/1
Mr HOU Cheng Bao	4/4
<b>Non-executive Directors</b>	
Mr LU Guo Zhang (Dismissed on 3 March 2008)	4/4
Mr ZHOU Pei Lin	4/4
<b>Independent Non-executive Directors</b>	
Mr JIANG Lei (Dismissed on 3 March 2008)	0/4
Mr HUANG Zhen Hua (Dismissed on 3 March 2008)	4/4
Ms XIAO Wei Hong (Dismissed on 3 March 2008)	4/4

The Company distributed agenda of the Board of Directors at least two days before meetings of the Board of Directors were held so that Directors could make informed decisions with respect to matters to be discussed in the meetings of the Board of Directors. The Company compiled and retained minutes, recorded discussions and resolutions of all meetings of the Board of Directors, which were available to any Director upon reasonable notice.

## Corporate Governance Report

### Chairman and Managing Director

The former Chairman of the Company, Mr SUN Min Biao was also the Chief Executive of the Company as at 31 December 2005. Therefore during the year, the Company did not comply with the requirement of Code provision A.2.1 of the Corporate Code that the posts of chairman and the chief executive must be separated. The reason is that the Company has not yet found other senior management to act as chief executive. Mr SUN Min Biao's posts were dismissed on the Extraordinary General Meeting held on 3 March 2008 and the post of chairman is assumed by Mr KUO Zhi Yung on the same date. In addition, Mr LI Jing Shan was appointed as Chief Executive (General Director of the Company) by the Company on 10 April 2008.

### Remuneration Committee

The Company did not set up any Remuneration Committee for the year ended 31 December 2005. Therefore, the Company did not comply with the requirement of Code provision B.1.1 of the Corporate Code. However, on 10 April 2008, the Company set up Remuneration Committee pursuant to the Corporate Code, all members were Independent Non-executive Directors. The Remuneration Committee comprised Mr WANG Cheng Cai, Mr GAO Xue Fei and Mr YAO Zhi Ming, Mr GAO Xue Fei also acted as Chairman of the Remuneration Committee. The Remuneration Committee decided to hold at least one meeting each year.

The roles and functions of the Remuneration Committee include determining the emoluments of Executive Directors, including benefits in kind, right of retirement and compensation (including any compensation for dismissal or termination of appointment) and determining the remuneration of Non-executive Directors and Independent Non-executive Directors and the Company's supervisors and senior management officers. The Remuneration Committee should consider factors such as the remuneration of comparable companies, time contributed by and functions of the Directors, employment status of the Company and the feasibility of remuneration based on performance etc.

Prior to the establishment of the Remuneration Committee, the Chairman of the Company was responsible for reviewing the remuneration of Executive Directors, Non-executive Directors and Independent Non-executive Directors and the Company's supervisors and senior management officers and submitting for approval by the Board of Directors in meetings of the Board of Directors in which Independent Non-executive Directors attended.

### Nomination of Directors

The Board of Directors is responsible for considering suitable candidates to serve as Directors and approving and terminating the appointment of Directors.

The Chairman is mainly responsible for looking for suitable candidates to join the Board of Directors when there are vacancies or when it is necessary to hire additional directors. The Chairman will propose the appointment of the candidates concerned to each member of the Board of Directors, each member of the Board of Directors will review the qualifications of the candidates concerned and decide whether they are suitable to join the Company based on their caliber, experience and background.

Pursuant to the Articles of Association of the Company, the tenure of directors (including non-executive directors) is three years, and they can be re-elected for appointments upon expiry of tenure.

### Audit Committee

Upon review of relevant information by the Directors, the Company has set up an audit committee with written terms of reference on 8 October 2004. During the year, the Audit Committee comprised three Independent Non-executive Directors including Ms XIAO Wei Hong who possesses the appropriate professional qualification required by Rule 5.05 (2) of the GEM Listing Rules. However, she was dismissed at the Extraordinary Meeting held on 3 March 2008. As at the date of the report, the Audit Committee of the Company comprised three Independent Non-executive Directors, namely Mr WANG Cheng Cai, Mr GAO Xue Fei and Mr YAO Zhi Ming, of which Mr WANG Cheng Cai was also the Chairman.

## Corporate Governance Report

During the year, a total of four meetings of the Audit Committee were held to review and discuss the whole year, quarterly and interim results and annual financial reports respectively. The Audit Committee may also hold additional meetings from time to time to discuss special items or other matters that the Audit Committee deems necessary. The external auditors of the Company can request for meetings to be held when they deem necessary.

The authority of the Audit Committee includes (1) to investigate any activities within its terms of reference; (2) to request for the information it needs from any staff; (3) to obtain external legal or other independent professional advice when it deems necessary; (4) to review the internal control system of the Company; (5) the responsibility for considering the appointment of external auditors and reviewing any non-audit work carried out by the external auditors, including whether the non-audit work will result in any potential negative impact upon the Company.

Upon review of relevant information by the Directors, attendance records of meetings of the Audit Committee are as follows:

<b>Name of Directors</b>	<b>No. of meetings attended/ no. of meetings held</b>
JIANG Lei	4/4
HUANG Zhen Hua	4/4
XIAO Wei Hong	4/4

Mr JIANG Lei, Mr HUANG Zhen Hua and Ms XIAO Wei Hong were dismissed on the Extraordinary General Meeting held on 3 March 2008. Mr WANG Cheng Cai, Mr GAO Xue Fei and Mr YAO Zhi Ming were appointed as members of the Audit Committee on 10 April 2008, of which Mr WANG Cheng Cai is also the chairman. Therefore, the new Audit Committee has performed its duties, reviewed and discussed the Company's audited financial statements for the year ended 31 December 2005 with external auditors.

### Auditors' remuneration

During the year, the Company engaged the external auditors to provide the following services, the respective fees charged by them were set out as follows:

	<b>For the year ended 31 December 2005*</b>	For the year ended 31 December 2004*
	<b>RMB '000</b>	RMB '000
Type of service		
To carry out audit for the Company	<b>750</b>	500
<i>Notes:</i>		
Services provided by CCIF CPA Limited	<b>250</b>	
Services provided by Lo & Kwong CPA Co Ltd	<b>500</b>	500

## Corporate Governance Report

### **The Directors' responsibilities in respect of the financial statements**

The Directors of the Company were aware of their responsibilities with respect to the preparation of the Company's financial statements and the preparation of the financial statements has truly and fairly reflected the condition of the Group. During the presentation of the quarterly and annual financial statements to the shareholders and announcement, the Directors should allow the shareholders to consider and understand the different aspects of the condition and prospect of the Group.

### **Accounting period**

The Directors consider that during the preparation of financial statements, the Group has adopted suitable accounting policies thoroughly and based on all applicable accounting standards.

### **Accounting record**

The Directors should be responsible to ensure that the Group keeps its accounting record. The record should disclose the Group's financial condition reasonably and accurately and can be applied to the financial statements prepared according to the Company Ordinance of Hong Kong and applicable accounting standards.

### **Sustainable operation**

The current Directors consider that despite the Company is currently at a stage where production is temporarily suspended, the Directors believes that if provided with sufficient injection of capital, the Company will have sustainable operation in the foreseeable future and based on this reason, it is suitable to adopt a sustainable operation basis for the preparation of the financial statements.

### **Internal control**

During the year, as the internal control system of the Company was imperfect, the Company has arranged to review the effectiveness of the internal control system of the Group to ensure that the internal control system is adequate and effective. The Company will hold regular meetings to discuss the finance, operation and risk management control. The Audit Committee will also review the internal control system and assess its adequacy and effectiveness as well as the work carried out by it.

### **Investor relationship and communication between shareholders**

The Company disclosed all the necessary information required by the GEM Listing Rules to shareholders and investors, and reported the Company's performance to shareholders and investors through various formal communication channels. These channels included (1) publishing quarterly and annual reports; (2) convening annual shareholders' meeting or extraordinary general meeting of shareholders as a means for the Company's shareholders to voice and exchange their opinion; (3) the Company responded promptly to shareholders' enquiries; (4) to publish the Group's latest and major information in the company website; (5) the Company's website provided a communication channel for the Company, its shareholders and investors; (6) the Company's Hong Kong branch share registrar and transfer office provided all share registration services for shareholders.

## Independent Auditors' Report

### **TO THE SHAREHOLDERS OF MUDAN AUTOMOBILE SHARES COMPANY LIMITED**

**牡丹汽車股份有限公司**

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

We were engaged to audit the financial statements of Mudan Automobile Shares Company Limited (the "Company") set out on pages 31 to 65, which comprise the balance sheet as at December 31, 2005, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit 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. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with International Standards on Auditing issued by the International Accounting Standard Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for disclaimer of opinion**

1. The evidence available to us was limited by the matters as shown in note 25 to the financial statements which disclosed certain related party transactions. Due to lack of adequate documentary evidence, we were unable to carry out relevant procedures necessary to satisfy ourselves as to the accuracy of the disclosure in respect of items (i) and (x) to (xv) in that note. In addition, we were unable to carry out relevant procedures necessary to satisfy ourselves that the disclosure in note 25 to the financial statements is complete. As a consequence, we were also unable to carry out necessary procedures to satisfy ourselves as to whether the cash flows in connection with related party transactions as presented in the Company's cash flow statement were fairly stated.

## Independent Auditors' Report

### Basis for disclaimer of opinion (continued)

2. We were not able to form a view whether the property, plant and equipment of RMB212,432,426 were fairly stated at December 31, 2005. As stated in note 13 to the financial statements, in light of the suspension of production since October 2007 and the continuing operation loss experienced by the Company regarding for two years ended December 31, 2006 and 2007, management has carried out an impairment review of its property, plant and equipment. However, we have not been able to obtain adequate supporting information from management in respect of its assessment on the value in use of property, plant and equipment with carrying amount of RMB212,432,426 as of December 31, 2005 and therefore unable to satisfy ourselves whether the property, plant and equipment were fairly stated at the balance sheet date and whether any impairment loss for the year ended December 31, 2005 should be recognised.
3. As disclosed in note 26, up to the date of this report, the Company had contingent liabilities amounting to approximately RMB6,339,684 in respect of involving in a number of litigations in the PRC. Since, we have been unable to carry out the necessary audit procedures to assure the completeness of the litigation claims, we are unable to satisfy ourselves as to whether or not the amount of contingent liabilities of RMB6,339,684 up to the date of this report is fairly stated.

### Material fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered adequacy of the disclosure made in the financial statements concerning the basis of preparation of financial statements made by the directors. As explained in note 2 to the financial statements, the directors have given careful consideration to the impact of the future liquidity of the Company and the continuous financial support from the proposed acquirers, namely Chengdu New Dadi Motor Company Limited ("Chengdu New Dadi"), Foshan City Shunde Ganghua Shiye Company Limited ("Shunde Ganghua"), Foshan City Heli Car Trading Company Limited ("Foshan Heli") and Foshan City Shunde Zhongyu Car Trading Company Limited ("Shunde Zhongyu") to resume the business operation. The financial statements have been prepared on a going concern basis, the validity of which depends on the continuing financial support from the proposed acquirers. The financial statements do not include any adjustments that would be necessary if the basis was no longer to be appropriate. Details of the circumstances relating to this fundamental uncertainty are described in note 2 to the financial statements.

We consider that appropriate disclosure have been made, but the inherent uncertainties surrounding the circumstances under which the Company might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

### Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph 1, 2 and 3 and material fundamental uncertainty relating to going concern basis paragraph, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company as at December 31, 2005 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

#### Lo and Kwong C.P.A. Company Limited

*Certified Public Accountants*

#### Lo Wah Wai

Practising Certificate Number: P02693

Hong Kong, April 10, 2008

## Income Statement

for the year ended 31 December 2005

(Expressed in Renminbi)

	Notes	2005	2004
Turnover	4	<b>513,137,945</b>	638,563,780
Cost of sales		<b>(495,583,573)</b>	(581,899,584)
<b>Gross profit</b>		<b>17,554,372</b>	56,664,196
Other operating income	5	<b>6,111,464</b>	19,354,223
Distribution expenses		<b>(31,862,812)</b>	(32,930,753)
General and administrative expenses		<b>(79,575,935)</b>	(28,649,194)
Other operating expenses	6	<b>(4,776,750)</b>	(849,146)
Net finance income (costs)	8(a)	<b>2,106,514</b>	(8,977,575)
<b>(Loss)/profit before taxation</b>	8	<b>(90,443,147)</b>	4,611,751
Income tax expenses	9	<b>(3,759,815)</b>	(6,430,712)
<b>Loss for the year attributable to the equity holders of the Company</b>		<b>(94,202,962)</b>	(1,818,961)
Dividends	10	–	–
Loss per share – basic	11	<b>(0.33)</b>	(0.01)

The notes on pages 35 to 65 form part of these financial statements.



## Balance Sheet

at 31 December 2005

(Expressed in Renminbi)

	Notes	2005	2004
<b>Non-current assets</b>			
Property, plant and equipment	13	<b>212,432,426</b>	226,331,755
Construction in progress	14	–	60,000
Net deferred tax assets	15	–	3,759,815
		<b>212,432,426</b>	230,151,570
<b>Current assets</b>			
Inventories	16	<b>78,891,231</b>	87,388,888
Trade and other receivables	17	<b>100,107,497</b>	166,635,340
Amount due from a shareholder	18	<b>125,899,382</b>	203,176,037
Amount due from a related company	25	–	3,412,918
Pledged deposits	19	<b>318,346,739</b>	263,286,176
Bank balances and cash		<b>107,288,298</b>	58,547,175
		<b>730,533,147</b>	782,446,534
<b>Current liabilities</b>			
Short-term bank loans	20	<b>170,100,000</b>	166,850,000
Trade and other payables	21	<b>157,434,090</b>	161,793,010
Bills payables	21	<b>351,658,940</b>	320,501,232
Amount due to a shareholder	18	<b>2,684,850</b>	7,093,104
Amount due to a related company	18	<b>14,657</b>	–
Income tax payable		<b>1,232,552</b>	2,317,312
		<b>683,125,089</b>	658,554,658
<b>Total current liabilities</b>		<b>47,408,058</b>	123,891,876
		<b>259,840,484</b>	354,043,446
<b>Capital and reserves</b>			
Share capital	22(a)	<b>284,800,000</b>	284,800,000
Statutory surplus reserve	22(b)	<b>15,421,641</b>	15,421,641
Statutory public welfare fund	22(c)	<b>15,421,641</b>	15,421,641
(Accumulated losses) retained earnings	22(d)	<b>(55,802,798)</b>	38,400,164
		<b>259,840,484</b>	354,043,446

The financial statements on pages 31 to 65 were approved and authorised for issue by the board of directors on April 10, 2008 and are signed on its behalf by:

Director

Director

The notes on pages 35 to 65 form part of these financial statements.

## Statement of Changes in Equity

for the year ended 31 December 2005

(Expressed in Renminbi)

	Share capital (Note 22(a))	Statutory surplus reserve (Note 22(b))	Statutory public welfare fund (Note 22(c))	(Accumulated losses) retained earnings (Note 22(d))	Total capital and reserves
<b>Balance at January 1, 2004</b>	284,800,000	15,165,846	15,165,846	40,730,715	355,862,407
Transfer from retained earnings	-	255,795	255,795	(511,590)	-
Loss for the year	-	-	-	(1,818,961)	(1,818,961)
<b>Balance at December 31, 2004 and January 1, 2005</b>	284,800,000	15,421,641	15,421,641	38,400,164	354,043,446
Loss for the year	-	-	-	(94,202,962)	(94,202,962)
<b>Balance at December 31, 2005</b>	284,800,000	15,421,641	15,421,641	(55,802,798)	259,840,484

The notes on pages 35 to 65 form part of these financial statements.

## Cash Flow Statement

for the year ended 31 December 2005

(Expressed in Renminbi)

	2005	2004
<b>Operating activities</b>		
(Loss) profit before taxation	(90,443,147)	4,611,751
Allowance for (recovery of allowance for) bad and doubtful debts	37,374,406	(12,109,902)
Allowance for (recovery of allowance for) inventories	9,531,419	(2,877,980)
Depreciation of property, plant and equipment	18,650,101	17,826,289
Loss on disposal of property, plant and equipment	–	336,154
Net finance (income) costs	(3,210,836)	8,353,568
Operating cashflow before movements in working capital	(28,098,057)	16,139,880
(Increase) decrease in inventories	(1,033,762)	35,709,779
Decrease in trade and other receivables	29,153,437	142,885,520
Decrease (increase) in amounts due from (to) shareholders	104,101,807	(214,171,805)
Increase in trade and other payables and bills payables	26,798,788	5,057,536
Decrease in amount due to a related company	3,412,918	1,710,149
Cash generated from/(used in) operations	134,335,131	(12,668,941)
Tax paid	(1,084,760)	–
<b>Net cash from (used in) operating activities</b>	<b>133,250,371</b>	<b>(12,668,941)</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(2,233,458)	(3,714,946)
Proceeds from disposal of property, plant and equipment	–	230,500
Increase in construction in progress	(2,457,314)	(6,827,960)
Proceeds from disposal of investments in unit trusts	–	597,500
Interest received – from ultimate holding company	10,932,351	–
– others	5,178,260	7,652,089
(Increase) decrease in pledged deposits	(55,060,563)	29,707,924
<b>Net cash (used in) from investing activities</b>	<b>(43,640,724)</b>	<b>27,645,107</b>
<b>Financing activities</b>		
Advances from Jiangsu Mudan	804,413,317	805,791,912
Repayment of advances from/advances to Jiangsu Mudan	(344,824,066)	(945,539,538)
Proceeds from discounting of bills received from Jiangsu Mudan	8,200,000	207,217,917
Repayment to banks in respect of bills issued to Jiangsu Mudan	(499,008,000)	(242,799,800)
New bank loans raised	170,100,000	166,850,000
Repayment of bank loans	(166,850,000)	(75,000,000)
Interest paid	(12,899,775)	(15,881,857)
<b>Net cash used in financing activities</b>	<b>(40,868,524)</b>	<b>(99,361,366)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>48,741,123</b>	<b>(84,385,200)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>58,547,175</b>	<b>142,932,375</b>
<b>Cash and cash equivalents at end of year</b>	<b>107,288,298</b>	<b>58,547,175</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
<b>Bank balances and cash</b>	<b>107,288,298</b>	<b>58,547,175</b>

The notes on pages 35 to 65 form part of these financial statements.

## Notes to the Financial Statements

*(Expressed in Renminbi)*

### 1. General

The Company was established in The People's Republic of China (the "PRC") on 18 September 1998 as a joint stock company with limited liability, and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's principal activities are the manufacturing and distribution of automobiles.

The address of the registered office and place of business of the Company is No. 30 Lehong Road, LeYu Town, Zhangjiagang City, Jiangsu Province, PRC. Zhangjiagang Municipal Public Assets Management Co., Ltd, which is a state-owned enterprise established in the PRC, is the Company's ultimate holding company.

The financial statements are presented in Renminbi ("RMB"), which is same as the functional currency of the Company.

These financial statements have been approved for issue by the Board of Directors on 10 April 2008.

### 2. Basis of preparation of financial statements

As detailed disclosure made in note 26 and 28B to the financial statements, the Company had involved a number of litigations with its suppliers. Part of the bank accounts of the Company have already been frozen following filing of the lawsuits. Up to 17 March 2008, the amount frozen is about RMB2,920,437. As at the date of this report, the Company does not have enough cash to satisfy in full the claims stated in the writs above. Also, the Company had been suspended its business production since October 2007. As a result, the Company should allot a significant fund for payment to staff for compensation of early termination of employment and compensation and surcharge should be paid to suppliers for those litigations. The amount would be paid to staff for compensation of early termination of employments is about RMB 57 million. However, the amount indemnity should be paid to suppliers and any other possible effect to those litigations are uncertainly and difficult to quantify.

As disclosed in note 28C to the financial statements, the Board announces that on 25 February 2008, two substantial shareholders of the Company, namely, Jiangsu Mudan and 張家港市直屬公有資產經營有限公司(Zhangjiagang Municipal Public Assets Management Co. Ltd., "ZMPAM"), which hold approximately 35.23% and 33.47% of the entire issued share capital of the Company respectively, and two minority shareholders, 張家港市牡丹客車配件有限公司(Zhangjiagang Municipal Mudan Bus Accessories Co. Ltd., "ZMMBA") and 張家港市牡丹汽車附件有限公司(Zhangjiagang Municipal Mudan Car Accessories Co. Ltd., "ZMMCA") have signed their respective memorandum and agreements for the intended disposal of their entire respective interests to the proposed acquirers upon fulfillment of the conditions as mentioned in note 28C.

The directors consider that in preparing the financial statements of the Company they have given careful consideration to the impact of the future liquidity of the Company and the continuous financial support from the proposed acquirers to resume the business production and have taken into consideration all information that could reasonably be expected to be available. On this basis, in the opinion of directors it is appropriate to prepare the financial statements of the Company on a going concern basis.

# Notes to the Financial Statements

(Expressed in Renminbi)

## 3. Significant accounting policies

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies as set out below:

### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRSs”) issued by the International Accounting Standards Board (the “IASB”). IFRSs include International Financial Reporting Standards and interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Company’s results and the shareholders’ funds under the IFRSs and the PRC Accounting Rules and Regulations is presented on page 65.

In the current year, the Company has adopted all of the new and revised IFRSs, and International Accounting Standards (the “IASs”) issued by the IASB and Interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) of the IASB that are relevant to its operation and effective for annual reporting periods beginning on or after January 1, 2005. The adoption of these new and revised IFRSs, IASs and Interpretation has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented. Accordingly, no prior year adjustment has been required.

Summary of the significant accounting policies adopted by the Company is set out below.

At the date of authorisation of these finance statements, the Company has not early applied the following new Standards, Amendments or IFRICS that have been issued but not yet effective. The directors of the Company anticipate that the application of these new Standards, Amendment or IFRICS will have no material impact on the results and the financial position of the Company.

IAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
IAS 21 (Amendment)	Net Investment in a Foreign Operation <sup>2</sup>
IAS 23 (Revised)	Borrowing Costs <sup>3</sup>
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
IAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
IAS 39 & IFRS 4 (Amendment)	Financial Guarantee Contracts <sup>2</sup>
IFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
IFRS 7	Financial Instruments: Disclosures <sup>1</sup>
IFRS 8	Operating Segments <sup>3</sup>
IFRIC 4	Determine whether an Arrangement Contains a Lease <sup>2</sup>
IFRIC 5	Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds <sup>2</sup>
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment <sup>4</sup>

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (a) Statement of compliance (continued)

IFRIC 7	Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies <sup>5</sup>
IFRIC 8	Scope of IFRS 2 <sup>6</sup>
IFRIC 9	Reassessment of Embedded Derivatives <sup>7</sup>
IFRIC 10	Interim Financial Reporting and Impairment <sup>8</sup>
IFRIC 11	IFRS2-Group and Treasury Share Transactions <sup>9</sup>
IFRIC 12	Service Concession Arrangements <sup>10</sup>
IFRIC 13	Customer Loyalty Programmes <sup>11</sup>
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction <sup>10</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2007.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2006.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2009.

<sup>4</sup> Effective for annual periods beginning on or after December 1, 2005.

<sup>5</sup> Effective for annual periods beginning on or after March 1, 2006.

<sup>6</sup> Effective for annual periods beginning on or after May 1, 2006.

<sup>7</sup> Effective for annual periods beginning on or after June 1, 2006.

<sup>8</sup> Effective for annual periods beginning on or after November 1, 2006.

<sup>9</sup> Effective for annual periods beginning on or after March 1, 2007.

<sup>10</sup> Effective for annual periods beginning on or after January 1, 2008.

<sup>11</sup> Effective for annual periods beginning on or after July 1, 2008.

#### (b) Property, plant and equipment

##### (i) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, if any.

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

##### (ii) Subsequent expenditure

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

##### (iii) Depreciation

Depreciation is calculated to write off the cost of the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method:

Buildings	35 years
Machinery and equipment	12 years
Motor vehicles	8 years
Other equipments	8 years

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (b) Property, plant and equipment (continued)

##### (iv) Disposals

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

#### (c) Construction in progress

Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost less any accumulated impairment losses. Cost comprises direct costs of construction.

Capitalisation of these costs ceased and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

#### (d) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is calculated based on the weighted-average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

#### (e) Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value though profit or loss are recognised immediately in profit or loss.

##### *Financial assets*

The Company's financial assets are loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (e) Financial instruments (continued)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. At each balance sheet subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and amounts due from a shareholder and related company) carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

##### *Other Financial liabilities*

Other financial liabilities including bank loans, trade and other payables, bills payables and amounts due to shareholders and a related company are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

##### *Equity instruments*

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

##### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.



## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (f) Impairment of tangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

#### (g) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowance.

##### (i) Sales of goods

Revenue from the sales of goods is recognised when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In respect of instalment sales, under which the consideration is receivable in instalments, revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as interest income as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

##### (ii) Service income/management fees

Service income/management fees are recognised when the relevant services are provided.

##### (iii) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### (i) Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (j) Foreign currencies

The individual financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency).

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currency) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

#### (k) Retirement benefits costs

The Company comprising the operating in the PRC participates in the central pension scheme (the "CPS") operated by the PRC government for all of their staff. The Company is required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Company with respect to CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are charged as expenses as they fall due in accordance with the rules of the CPS.

#### (l) Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals, if any, are charged to income statement in the accounting period in which they are incurred.

#### (m) Segment reporting

A segment is a distinguishable component of the company that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 4. Turnover and segment information

Turnover represents revenue arising from the sales of automobiles net of value added tax, discounts and returns.

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

#### Business segments

The Company had only one business segment for two years ended December 31, 2004 and 2005, which were production and sale of automobiles, no separate disclosure of segmental income statement and balance sheet would be made.

#### Geographical segments

Segment revenue based on the geographical location of customers is as follows:

	2005	2004
<b>Revenue</b>		
PRC	<b>465,163,441</b>	562,293,179
Other countries	<b>47,974,504</b>	76,270,601
	<b>513,137,945</b>	638,563,780

All of the Company's assets are situated and capital expenditures are incurred in the PRC.

### 5. Other operating income

	2005	2004
Recovery of allowance for bad and doubtful debts	-	12,109,902
Recovery of allowance for inventories	-	2,877,980
Compensation received from suppliers	-	1,649,573
Net income from sales of scrap materials and steels	<b>4,529,656</b>	2,055,667
Service fee	-	609,378
Other income	<b>1,581,808</b>	51,723
	<b>6,111,464</b>	19,354,223

## Notes to the Financial Statements

(Expressed in Renminbi)

### 6. Other operating expenses

	2005	2004
Donations	3,245,800	–
Others	1,530,950	849,146
	<b>4,776,750</b>	849,146

### 7. Staff costs

	2005	2004
Salaries, wages and bonus	38,839,633	52,679,063
Staff welfare	1,901,656	5,210,292
Contributions to retirement benefit scheme	5,911,668	4,447,537
	<b>46,652,957</b>	62,336,892
Average number of employees during the year	<b>2,175</b>	2,272

Pursuant to the relevant labour regulations of the PRC, the Company participates in a defined contribution retirement plan organised by the municipal government for its employees. The Company is required to make contributions to the retirement plan at 18% (2004: 18%) of the deemed salary rates stipulated by the municipal government. Retired employees are entitled to a pension equal to a fixed proportion of the salary prevailing at the retirement date payable by the Zhangjiagang Society Protection Management Department. The Company has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

### 8. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging (crediting):

(a) Net finance (income)/costs:

	2005	2004
Interest on bank loans and other borrowings		
Repayable within five years	10,021,841	8,223,454
Interest on discounting of bills receivable	969,562	7,782,203
Bank charges	1,104,322	624,007
Interest income from Jiangsu Mudan	(10,932,351)	–
Interest from bank deposits	(5,178,260)	(5,516,089)
Interest (income)/expense from instalment sales	1,908,372	(2,136,000)
	<b>(2,106,514)</b>	8,977,575

## Notes to the Financial Statements

(Expressed in Renminbi)

### 8. (Loss)/profit before taxation (continued)

(b) Other items:

	2005	2004
Auditors' remuneration	750,000	650,000
Allowance for bad and doubtful debts	37,374,406	–
Depreciation on property, plant and equipment	18,650,101	17,826,289
Loss on disposal of property, plant and equipment	–	336,154
Operating lease rentals in respect of prepaid lease payments, properties and equipment	1,105,500	1,105,500

### 9. Income tax expenses

(a) Income tax expenses represents:

	2005	2004
PRC income tax provided for the year	–	–
Deferred tax (note 15)	3,759,815	6,430,712
	<b>3,759,815</b>	6,430,712

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company's income neither arises in nor is derived from Hong Kong.

No provision for PRC income tax had been made as the Company did not derive any assessable profits for both years.

(b) The tax charge for the year can be reconciled to the (loss)/profit per the income statements as follows:

	2005	2004
(Loss)/profit before tax	<b>(90,443,147)</b>	4,611,751
Tax at applicable tax rate of 33% (2004: 33%)	<b>(29,846,238)</b>	1,521,877
Tax effect of expenses not deductible for tax purpose	–	4,908,835
Tax effect of tax losses not recognised	<b>29,846,238</b>	–
Over provision of deferred taxation	<b>3,759,815</b>	–
Tax charge for the year	<b>3,759,815</b>	6,430,712

### 10. Dividend

No dividend was paid or proposed for the year ended December 31, 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

## Notes to the Financial Statements

(Expressed in Renminbi)

### 11. Basic loss per share

The calculation of the basic loss per share is based on the loss attributable to the equity holders of the Company of RMB94,202,962 (2004: RMB1,818,961) and based on the weighted average number of shares in issue during the year of 284,800,000 (2004: 284,800,000).

The amount of diluted loss per share is not presented as there were no dilutive potential ordinary shares outstanding for both years.

### 12. Directors' and supervisors' emoluments

For the year ended December 31, 2005

	Salaries, allowance and other benefits	Retirement benefit scheme contributions	Total remuneration
Name of directors			
Sun Ming Biao (Note i)	–	–	–
Hou Cheng Bao	128,000	–	128,000
Yang De Xiang (Note i)	136,000	–	136,000
Xu Hong Bing (Note ii)	6,000	–	6,000
	<b>270,000</b>	<b>–</b>	<b>270,000</b>
Name of independent directors			
Lu Guo Zhang (Note i)	128,000	–	128,000
Zhou Pei Ling	46,652	–	46,652
Jiang Lei (Note i)	50,000	–	50,000
Huang Zheng Hua (Note i)	100,000	–	100,000
Xiao Wei Hong (Note i)	30,000	–	30,000
	<b>354,652</b>	<b>–</b>	<b>354,652</b>
Name of supervisors			
Zhu Xia zheng (Note i)	–	–	–
Ding Shao Hua	32,000	5,854	37,854
Jin Hong (Note i)	64,000	6,270	70,270
	<b>96,000</b>	<b>12,124</b>	<b>108,124</b>
<b>Total</b>	<b>720,652</b>	<b>12,124</b>	<b>732,776</b>

Notes:

(i) Dismissed on 3 March 2008.

(ii) Resigned on 22 April 2005.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 12. Directors' and supervisors' emoluments (continued)

For the year ended December 31, 2004

	Salaries, allowance and other benefits	Retirement benefit scheme contributions	Total remuneration
Name of directors			
Sun Ming Biao (Note i)	41,667	17,417	59,084
Hou Cheng Bao	80,000	–	80,000
Yang De Xiang (Note i)	170,000	71,060	241,060
Xu Hong Bing (Note ii)	80,000	33,440	113,440
	371,667	121,917	493,584
Name of independent directors			
Lu Guo Zhang (Note i)	160,000	66,880	226,880
Zhou Pei Ling	46,299	19,353	65,652
Jiang Lei (Note i)	15,000	–	15,000
Huang Zheng Hua (Note i)	120,000	–	120,000
Xiao Wei Hong (Note i)	8,000	–	8,000
	349,299	86,233	435,532
Name of supervisors			
Zhu Xia zheng (Note i)	113,333	47,373	160,706
Ding Shao Hua	32,000	13,376	45,376
Jin Hong (Note i)	80,000	33,440	113,440
	225,333	94,189	319,522
Total	946,299	302,339	1,248,638

Notes:

(i) Dismissed on 3 March 2008.

(ii) Resigned on 22 April 2005.

Employees' remuneration:

During the year, the five highest paid individuals of the Company included one director (2004: two directors), details of whose emoluments are set out above. The emoluments of the remaining four employees (2004: three employees) are as follows:

	2005	2004
Salaries, allowance and other benefits	544,000	610,000
Retirement benefit scheme contributions	54,268	259,160
	598,268	869,160



## Notes to the Financial Statements

(Expressed in Renminbi)

### 13. Property, plant and equipment

	Buildings	Machinery and equipment	Motor vehicles	Other equipment	Total
<b>Cost:</b>					
Balance at January 1, 2004	130,918,327	176,166,991	2,014,999	1,416,149	310,516,466
Additions	100,060	1,674,582	1,122,123	818,181	3,714,946
Transfer from construction in progress	9,232,559	480,000	–	986,100	10,698,659
Disposals	–	(888,056)	(147,500)	–	(1,035,556)
Balance at December 31, 2004 and January 1, 2005	140,250,946	177,433,517	2,989,622	3,220,430	323,894,515
Additions	–	1,462,031	538,532	232,895	2,233,458
Transfer from construction in progress	2,154,678	362,636	–	–	2,517,314
Balance at December 31, 2005	142,405,624	179,258,184	3,528,154	3,453,325	328,645,287
<b>Accumulated depreciation and impairment losses:</b>					
Balance at January 1, 2004	20,381,409	58,391,183	969,164	463,617	80,205,373
Charge for the year	4,307,205	12,805,663	265,082	448,339	17,826,289
Eliminated on disposals	–	(354,467)	(114,435)	–	(468,902)
Balance at December 31, 2004 and at January 1, 2005	24,688,614	70,842,379	1,119,811	911,956	97,562,760
Charge for the year	4,164,138	13,773,407	376,564	335,992	18,650,101
Balance at December 31, 2005	28,852,752	84,615,786	1,496,375	1,247,948	116,212,861
<b>Net carrying amount:</b>					
At December 31, 2005	113,552,872	94,642,398	2,031,779	2,205,377	212,432,426
At December 31, 2004	115,562,332	106,591,138	1,869,811	2,308,474	226,331,755

Upon establishment, all items of property, plant and equipment of the Company were revalued by Nanjin Yong Hua, an independent PRC valuer registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment has been determined at RMB 163,000,000. This revaluation was to establish the deemed cost of the property, plant and equipment at the time of the Company's establishment.

All of the Company's buildings are located in the PRC.

As at December 31, 2005, a factory building at net book value total RMB 32,171,066 (2004: RMB33,891,945) was pledged to secure short-term bank loans (note 20).

## Notes to the Financial Statements

(Expressed in Renminbi)

### 13. Property, plant and equipment (continued)

As stated in note 28B, owing to the lack of working capital of the Company, the manufacturing of buses under the own brand name and trademark of the Company in PRC has been suspended since October 2007. In light of the suspension of production since October 2007 and the continuing operating loss experienced by the Company for two years ended December 31, 2006 and 2007, the management has carried out an impairment review of its property, plant and equipment and considered that the amount of property, plant and equipment of RMB212,432,426 is fairly stated as at December 31, 2005.

### 14. Construction in progress

	2005	2004
Balance at 1 January	60,000	3,930,699
Additions	2,457,314	6,827,960
Transferred to property, plant and equipment	(2,517,314)	(10,698,659)
Balance at December 31	-	60,000

### 15. Net deferred tax assets

	2005	2004
Deferred tax assets and liabilities are attributable to the following:		
Accounting depreciation in excess of tax depreciation	-	142,695
Allowance for bad and doubtful debts	-	691,366
Allowance for inventories	-	2,688,670
Unrecognised interest in respect of receivables from instalment sales	-	237,084
Net deferred tax assets	-	3,759,815
Movements in net deferred tax assets:		
Balance at 1 January	3,759,815	10,190,527
Transferred to income statement (note 9)	(3,759,815)	(6,430,712)
Balance at December 31	-	3,759,815

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

### 16. Inventories

	2005	2004
Raw materials	18,165,450	28,732,759
Work in progress	19,811,493	21,110,761
Finished goods	40,914,288	37,545,368
	78,891,231	87,388,888
Inventories stated at net realisable value	29,438,678	28,719,224

## Notes to the Financial Statements

(Expressed in Renminbi)

### 17. Trade and other receivables

	2005	2004
Trade debtors and bills receivable	<b>124,801,543</b>	145,208,008
Less: Allowance for bad and doubtful trade receivable	<b>(46,767,790)</b>	(12,434,187)
	<b>78,033,753</b>	132,773,821
Advance deposits to suppliers	<b>16,650,512</b>	28,009,880
Other debtors	<b>5,423,232</b>	5,851,639
	<b>100,107,497</b>	166,635,340

An ageing analysis of trade debtors and bills receivable (net of allowance for bad and doubtful debts) is as follows:

	2005	2004
Within 3 months	<b>28,172,515</b>	28,330,003
Over 3 months but less than 6 months	<b>27,932,994</b>	15,582,428
Over 6 months but less than 1 year	<b>12,824,890</b>	42,816,207
Over 1 year but less than 2 years	<b>4,533,937</b>	40,360,276
Over 2 years	<b>4,569,417</b>	5,684,907
	<b>78,033,753</b>	132,773,821

Customers are normally granted credit terms of 3 months to 12 months (2004: 3 months to 12 months), depending on the Company's assessment of the credit worthiness of individual customers. In addition, certain established customers with good repayment record are allowed to settle by instalments over a period of not more than 24 months (2004: not more than 24 months).

### 18. Amounts due from/(to) shareholders/related companies

The amounts due from a shareholder is unsecured and repayment on demand with 8% interest bearing based on the balances due as at December 31, 2005.

The amounts due from related companies are unsecured, interest free and repayment on demand. The balances arose from the related party transactions are disclosed in note 25.

As at December 31, 2005, the amount due from one of its shareholders, Jiangsu Mudan, was RMB 125,899,382 (2004 RMB203,176,037). On October 31 and November 1, 2007, Jiangsu Mudan repaid the Company a total of approximately RMB 142,000,000 which is in the excess of all balance owing by Jiangsu Mudan to the Company in relation to certain continuing connected transactions during the years December 31, 2002 to November 1, 2007. As a result, there is no outstanding indebtedness owing by Jiangsu Mudan to the Company.

### 19. Pledged assets

The deposits are pledged to banks to secure certain banking facilities granted to the Company. The average maturity date is about 3 to 6 months.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 20. Short-term bank loans

	2005	2004
Secured bank loans	<b>42,100,000</b>	28,000,000
Unsecured bank loans	<b>128,000,000</b>	138,850,000
	<b>170,100,000</b>	166,850,000

Details of the short-term bank loans as at 31 December 2005 are as follows:

Principal (in RMB)	Interest rate	Loan period	Security/Guarantee
8,700,000	5.742% p.a	27/10/2005 to 26/04/2006	Pledged over to factory building (note 13)
4,000,000	6.264% p.a	15/11/2005 to 15/05/2006	Pledged over to factory building (note 13)
4,000,000	6.264% p.a	30/11/2005 to 30/05/2006	Pledged over to factory building (note 13)
5,900,000	5.22% p.a	7/12/2005 to 07/02/2006	Pledged over to factory building (note 13)
800,000	6.264% p.a	30/04/2005 to 30/04/2006	Pledged over to factory building (note 13)
3,700,000	6.264% p.a	16/12/2005 to 16/06/2006	Pledged over to factory building (note 13)
15,000,000	5.481% p.a	18/01/2005 to 16/01/2006	Pledged over to factory building (note 13)
15,000,000	5.742% p.a	21/03/2005 to 20/09/2006	Guaranteed by Jiangsu Mudan
10,000,000	5.742% p.a	22/03/2005 to 21/09/2006	Guaranteed by Jiangsu Mudan
20,000,000	6.003% p.a	19/07/2005 to 18/01/2006	Guaranteed by Jiangsu Mudan
10,000,000	5.742% p.a	13/07/2005 to 13/01/2006	Guaranteed by Jiangsu Mudan and Zhangjiagang Investment and Development Co., Ltd.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 20. Short-term bank loans (continued)

Principal (in RMB)	Interest rate	Loan period	Security/Guarantee
5,000,000	5.742% p.a	28/11/2005 to 26/05/2006	Guaranteed by Jiangsu Mudan and Zhangjiagang Investment and Development Co., Ltd.
10,000,000	5.742% p.a	28/12/2005 to 27/06/2006	Guaranteed by Jiangsu Mudan and Zhangjiagang Investment and Development Co., Ltd.
5,000,000	5.742% p.a	27/12/2005 to 27/06/2006	Guaranteed by Jiangsu Mudan and Zhangjiagang Investment and Development Co., Ltd.
10,000,000	6.138% p.a	29/12/2005 to 28/12/2006	Guaranteed by Jiangsu Mudan and Zhangjiagang Investment and Development Co., Ltd.
10,000,000	6.138% p.a	30/12/2005 to 28/12/2006	Guaranteed by Jiangsu Mudan and Zhangjiagang Investment and Development Co., Ltd.
20,000,000	5.742% p.a	07/12/2005 to 07/06/2006	Guaranteed by Jiangsu Mudan and Zhangjiagang Investment and Development Co., Ltd.
10,000,000	5.58% p.a	18/07/2005 to 17/07/2006	Guaranteed by Jiangsu Mudan
3,000,000	5.58% p.a	16/12/2005 to 15/12/2006	Guaranteed by Jiangsu Mudan
<b>170,100,000</b>			

## Notes to the Financial Statements

(Expressed in Renminbi)

### 21. Trade and other payables and bills payables

	2005	2004
Trade creditors	<b>91,224,595</b>	104,749,511
Bills payable	<b>351,658,940</b>	320,501,232
Accrued salaries, bonus and welfare fund	<b>14,691,874</b>	22,174,416
Other payables	<b>51,517,621</b>	34,869,083
	<b>509,093,030</b>	482,294,242

No bills payable as at December 31, 2005 (2004: RMB89,000,000) were guaranteed by Jiangsu Mudan.

The Company has invoiced RMB757,715,858 bills payable while the total purchase of the year is only RMB491,961,284.

An ageing analysis of trade creditors and bills payable is as follows:

	2005	2004
Due within 3 months	<b>400,702,376</b>	320,542,307
Due after 3 months within 6 months	<b>20,495,813</b>	104,708,436
Due after 6 months within 1 year	<b>5,868,297</b>	-
Due over 1 year	<b>15,817,049</b>	-
	<b>442,883,535</b>	425,250,743

### 22. Capital and reserves

#### (a) Share capital

	2005	2004
Registered, issued and fully paid:		
196,250,000 (2004: 196,250,000) domestic shares of RMB1.00 each	<b>196,250,000</b>	196,250,000
88,550,000 (2004: 88,550,000) H shares of RMB1.00 each	<b>88,550,000</b>	88,550,000
	<b>284,800,000</b>	284,800,000

## Notes to the Financial Statements

(Expressed in Renminbi)

### 22. Capital and reserves (continued)

All the domestic shares and H shares rank pari passu in all material respects.

#### (b) Statutory surplus reserve

According to the Company's articles of association, the Company is required to transfer 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

There was no transfer made to the statutory surplus reserve in 2005 (2004: Transfer of RMB255,795) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

#### (c) Statutory public welfare fund

According to the Company's articles of association, the Company is required to transfer 10% of its net profits, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of dividends to shareholders.

There was no transfer made to the statutory public welfare fund in 2005 (2004: Transfer of RMB255,795) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

#### (d) Distributable reserve

Pursuant to the Company's articles of association, the net profit of the Company for the purpose of profit distribution to shareholders will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations; and (ii) the net profit determined in accordance with IFRSs.

Under the PRC Company Law and the Company's articles of association, net profit after taxation can be distributed as dividends after allowance has been made for:

- (i) making up cumulative prior years' losses, if any;
- (ii) allocations of 10% after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory surplus reserve until the fund aggregates to 50% of the Company's registered capital;

## Notes to the Financial Statements

(Expressed in Renminbi)

### 22. Capital and reserves (continued)

#### (d) Distributable reserve (continued)

- (iii) allocation of 10% of after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory public welfare fund; and
- (iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

There was no distributable reserve of the Company as at 31 December 2005 (2004: RMB33,535,246).

### 23. Financial instruments – risk management

Financial assets of the Company include cash and cash equivalents, pledged deposits, trade and other receivables, and amounts due from a shareholder and a related company. Financial liabilities of the Company include bank loans, trade and other payables and amounts due to shareholders. The Company does not hold or issue financial instruments for trading purposes. The Company had no positions in derivatives contracts at December 31, 2005 and 2004. Exposure to credit, interest rate and currency risk arises in the normal course of the company's business.

#### (a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Company does not require collateral in respect of financial assets.

At the balance sheet date the Company had no significant concentrations of credit risk except for a trade receivable from one of its customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Amounts due from customers (net of allowance and doubtful debts) which represented more than 10% of the outstanding receivables at each balance sheet date are as follows:

	2005	2004
Guangzhou Bai Yun Hua Gang Automobile Company	–	23,249,001

#### (b) Interest rate risk

The interest rates and terms of repayment of the bank loans of the Company are disclosed in note 20.

#### (c) Foreign currency risk

The Company has foreign currency sales, which expose the Company to foreign currency risk. Certain bank balances and trade receivables of the Company are denominated in foreign currencies. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should be need arises.



## Notes to the Financial Statements

(Expressed in Renminbi)

### 23. Financial instruments – risk management (continued)

#### (d) Fair value

The Carrying amounts of financial assets and liabilities approximate to their respective fair values as at December 31, 2005 and 2006.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

- (i) Cash and cash equivalents, pledged deposits, trade and other receivables, trade and other payables, amount due from/(to) a shareholder. The carrying values approximate their respective fair values due to the nature or short term maturity of these instruments.
- (ii) Bank loans. The carrying amount of bank loans approximates its fair value based on the borrowing rates currently available for bank loans with similar terms and maturity.

### 24. Commitments

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
Within one year	<b>1,105,500</b>	1,105,500
In the second to fifth years inclusive	<b>4,422,000</b>	4,422,000
Over five years	<b>12,776,020</b>	13,881,520
	<b>18,303,520</b>	19,409,020

The Company leases rights to use one (2004: one) production line, three (2004: three) pieces of land and a property (2004: one) in the PRC under operating leases. The leases run for an initial period of twenty years, with an option to renew the lease after that date. Lease payments are fixed for the initial five years of the term and thereafter are renegotiated every five years to reflect market rentals. None of the leases includes contingent rentals.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 25. Material related party transactions

- (a) Particulars of material transactions between the Company and certain related parties in which a director or a shareholder of the company is in a position to exercise significant influence are as follows:

	Notes	2005	2004
Purchases from shareholders/ a related company	(i)	<b>31,922,740</b>	55,334,245
Rent paid for prepaid lease payments	(ii)	<b>905,500</b>	905,500
Rent paid for a property	(iii)	<b>100,000</b>	100,000
Rent paid for a production line	(iv)	<b>100,000</b>	100,000
Sales of steels	(v)	<b>4,898,824</b>	–
Sales of scrap materials	(vi)	<b>1,004,736</b>	1,525,928
Sales of passenger car	(vii)	<b>854,673</b>	–
Reimbursement of electricity charges	(viii)	<b>609,041</b>	–
Acquisition of plant and equipment	(ix)	–	609,162
Interest income	(x)	<b>10,932,351</b>	–

- (i) This represents purchases of raw materials and work-in-progress from the shareholders (Zhangjiagang Mudan Bus Parts Co., Ltd, Zhangjiagang Automobile Accessories Factory) and a related company (Zhangjiagang Jishun Transportation Industrial Co., Ltd.) during the year.
- (ii) The Company has entered into lease agreements with Jiangsu Mudan whereby the Company is granted rights to use three (2004: three) pieces of land in the PRC on which its buildings are erected for a term of 20 years. The annual fixed rental payment for the year ended December 31, 2005 was RMB 905,500 (2004: RMB 905,500).
- (iii) The Company has entered into a lease agreement with Jiangsu Mudan whereby the Company is granted rights to use a property in the PRC for a term of 20 years. The annual fixed rental payment for the year ended December 31, 2005 was RMB 100,000 (2004: RMB 100,000).
- (iv) The Company has entered into a lease agreement with Jiangsu Mudan whereby the Company is granted rights to use a production line in the PRC for a term of 20 years. The annual fixed rental payment for the year ended December 31, 2005 was RMB 100,000 (2004: RMB 100,000).
- (v) For the year ended December 31, 2005, the Company sold steel to a shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd) and a related company (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB 4,898,824 (2004: nil).
- (vi) For the year ended December 31, 2005, the Company sold certain scrap materials to a shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd.) which amounted to RMB 1,004,736 (2004: RMB 1,525,928).
- (vii) For the year ended December 31, 2005, the Company sold the passenger cars to certain shareholders (Zhangjiagang Mudan Bus Parts Co., Ltd, Zhangjiagang Mudan Automobile Accessories Co., Ltd and Zhangjiagang Automobile Accessories Co., Ltd) which amounted to RMB 854,673 (2004: Nil)

## Notes to the Financial Statements

(Expressed in Renminbi)

### 25. Material related party transactions (continued)

(a) (continued)

- (viii) For the year ended December 31, 2005, the Company provided the other services to one shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd) and a related company (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB609,041. The other services included reimbursement of electricity charges.
- (ix) During the year ended December 31, 2005, no plant and equipment was purchased from Jiangsu Mudan and other related companies. During the year ended December 31, 2004, the Company acquired two motor vehicles and one production line from Jiangsu Mudan at an amount of RMB 100,000 and RMB 509,162.
- (x) During the year ended December 31, 2005, the Company received interest income from its ultimate holding company, Jiangsu Mudan totaling RMB 10,932,351. The interest was calculated based 8% on the balances due as at December 31, 2005. During the year ended December 31, 2004, no interest income was received from the ultimate holding company.
- (xi) For the year ended December 31, 2005, the Company utilised its bills facilities and instructed its bankers to issue certain bills to Jiangsu Mudan. In addition, the Company transferred certain of its bills, which the Company received from its customers, to Jiangsu Mudan. The total value of bills issued/transferred to Jiangsu Mudan amounted to RMB 499,008,000 (2004: RMB 395,080,685). On the other hand, the Company received certain bills from Jiangsu Mudan, totaling RMB82,000,000 (2004: RMB 242,799,800). The bank acceptance drafts issued/received in this respect were recorded through the current amount with Jiangsu Mudan without cash payment/receipt. In consequence, the Company provided certain interest-free advances to Jiangsu Mudan during the year ended December 31, 2005. The maximum outstanding balance of the advances to Jiangsu Mudan was RMB126,110,220 during the year (2004: RMB177,782,985) and the outstanding balance of the advances was RMB126,110,220 at December 31, 2005 (2004: RMB 152,280,885).
- (xii) For the years ended December 31, 2004 and 2005, Jiangsu Mudan allowed the Company to use the trademark of "Mudan", certain of its sales offices, office equipment and public facilities at nil consideration.
- (xiii) For the year ended December 31, 2005, Jiangsu Mudan received sales receipts on behalf of the Company which amounted to RMB6,055,700 (2004: RMB70,630,102).
- (xiv) For the year ended December 31, 2005, the Company received sales receipts on behalf of Jiangsu Mudan which amounted to RMB1,266,110. (2004: RMB1,227,975)
- (xv) For the year ended December 31, 2005, Jiangsu Mudan made payment for material on behalf of the Company which amounted to RMB3,450,439. (2004: RMB34,321,299).
- (xvi) For the year ended December 31, 2005, Jiangsu Mudan made payments for certain expenses on behalf of the Company which amounted to RMB5,877,008 (2004: RMB13,267,067)

## Notes to the Financial Statements

(Expressed in Renminbi)

### 25. Material related party transactions (continued)

(a) (continued)

(xvii) As At December 31, 2005, certain bank loans of the Company totaling RMB128,000,000 (2004: RMB 80,000,000) were guaranteed by Jiangsu Mudan (note 20).

(xviii) Compensation of directors and key management personnel

The remuneration of the directors and other members of the key management during the year were as follows:

	2005	2004
Members of the directors and the key management		
Short-term benefits	1,565,804	2,728,438
Post-employment benefits	-	-
	1,565,804	2,728,438

The remuneration of directors and key executives is determined by the Board of Directors with reference to the performance of individuals and market trends.

(xix) The amount represented a balance a fellow subsidiary of the Company. The ultimate holding company of them are Zhangjiagang Municipal Public Assets Management Company Limited. The amount was unsecured, interest-free and fully settled during the year ended December 31, 2006.

### 26. Contingent liabilities

Up to the date of this report, the Company had contingent liabilities amounting to approximately RMB6,339,684 in respect of involving in a number of litigations in the PRC, the details of which are stated as follows:

- i. On or about September 17, 2007, 湖南汽車車橋廠 (Hunan Vehicle Chassis Factory) filed its writ with 天津市人民法院 (the Jinshi City People's Court against the Company. It is stated in the writ that the Company has failed to pay a total of RMB 331,193 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;
- ii. On or about September 5, 2007, 東風襄樊旅行車有限公司 (Dongfeng Xiangfan Traveling Vehicles Limited) filed its writ with 襄樊市襄城區人民法院 (the Xiangfan City Xiangcheng Country People's Court) against the Company. It is stated in the writ that the Company has failed to pay to total of RMB 1,539,901 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;
- iii. On or about August 23, 2006, 王東明 (Wang Dongming) filed its writ with 金鄉縣人民法院 (the Jinxiang County People's Court) against the Company. It is stated in the writ that the Company has paid the initial deposit of a bus with the brand name of Company in 2001. In 2002, without the consent of the plaintiff, the Company drove away the bus and the bus was not returned to the Plaintiff. The amount claimed by the plaintiff was RMB 600,000;

## Notes to the Financial Statements

(Expressed in Renminbi)

### 26. Contingent liabilities (continued)

- iv. On or about September 21, 2007, 蘇州市工正金屬材料有限公司 (Suzhou City Gongzheng Metal Materials Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay to total of RMB 636,698 to the plaintiff for payment of metal accessories supplied by the plaintiff to the Company;
- v. On or about September 21, 2007, 蘇州市司傳金屬製品有限公司 (Suzhou City Sichuan Metal Products Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB 734,718 to the plaintiff for payment of metal accessories supplied by the plaintiff to the Company;
- vi. On or about October 30, 2007, 蘇州工業園區富事達塑業有限公司 (Suzhou Industrial Area Fushida Plastic Limited Liability Company) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB 66,256 to the plaintiff for payment of wiring accessories supplied by the plaintiff to the Company;
- vii. On or about July 24, 2007, 萬茂禮 (Wan Maoli) filed its writ with 南昌市青雲譜區人民法院 (the Nanchang City Qingyunpu County People's Court) against the Company, the Company's insurer and a staff of the Company. It is stated in the writ that a staff of the Company has knocked down a pedestrian, namely, the plaintiff on February 12, 2007. The plaintiff sought a compensation of a total of RMB 155,745;
- viii. On or about October 17, 2007, 無錫市凱龍汽車新技術有限公司 (Wuxi City Hai Long Vehicles New Technology Company Limited) filed its writ with 惠山區人民法院 (Huishan County People's Court). It is stated in the writ that the Company has failed to pay a total of RMB38,700 for the accessories supplied by the plaintiff to the Company;
- ix. On or about November 5, 2007 無錫市凱瑞汽車設備制造有限公司 (Jiangsu Zujei Painting Company Limited) filed its writ with 惠山區人民法院 (Huishan County People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB84,480 for the accessories supplied by the plaintiff to the Company;
- x. On or about December 11, 2007, 江蘇足跡塗料有限公司 (Jiangsu Zujei Painting Company Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay the debt of a total of RMB1,513,604 for the painting supplied to the Company;
- xi. On or about December 12, 2007, 常州工業技術玻璃有限公司 (Changzhou Industrial Technology Glasses Company Limited) filed its writ with 常州市新北區人民法院 (the Changzhou City Xin Bei County People's Court) against the Company. It is stated in the writ that the Company has failed to pay the debt of RMB638,388 for the glasses for the manufacturing of vehicles supplied to the Company.

Presently, part of the bank accounts of the Company have already been frozen following filing of the above lawsuits. Up to 17 March 2008, the amount frozen is about RMB2,920,437. As at the date of this report, the Company does not have enough cash to satisfy in full the claim stated in the writs above.

## Notes to the Financial Statements

*(Expressed in Renminbi)*

### 27. Ultimate holding company

The directors consider the ultimate holding company as at December 31, 2005 to be Zhangjiagang Municipal Public Assets Management Co., Ltd, which is a state-owned enterprise established in the PRC.

### 28. Post balances sheet event

#### A Possible cancellation of listing status of the Company

The board of directors of the Company (the "Board") has received a notice (the "Notice") from the Stock Exchange on October 12, 2007 that the Stock Exchange proposed to proceed to the cancellation of the listing of the shares of the Company pursuant to Rule 9.14 of the GEM Listing Rules.

The Company has yet to address the Exchange's concern on the Company's failure to meet its continuing obligations under the GEM Listing Rules. Trading in the H shares of the Company had remained suspended as the Company has failed to keep the market informed of its developments and financial results pursuant to the GEM Listing Rules and the Company's shareholders do not have the necessary information to appraise the position of the Company. Given the continued suspension for a prolonged period without the Company taking adequate action to obtain a restoration of listing, the Stock Exchange proposes to exercise its right to cancel the listing of the H shares of the Company pursuant to Rule 9.14 of the GEM Listing Rules.

Pursuant to the Notice, the Company is given a period of six months to remedy those matters that give rise to the Stock Exchange's proposal to cancel the listing. In this connection, the Company should demonstrate its compliance with the GEM Listing Rules and fulfill the following conditions for resumption to the satisfaction of the Stock Exchange:

- i Address the issues that have been raised by the Stock Exchange to the Company including the issues related to certain continuing connected transactions of the Company;
- ii Publish all outstanding financial results of the Company as required under the GEM Listing Rules;
- iii Address any concern raised by the auditors of the Company through the qualification of their annual report on the financial statements of the Company published after the suspension; and
- iv Demonstrate that the Company has in place adequate financial reporting system and internal control procedures to enable the Company to meet its obligations under the GEM Listing Rules.

If the Company fails to take adequate action to meet the conditions for resumption as required and obtained a restoration of listing, the listing division of the Stock Exchange will seek the approval of the GEM Listing Committee of the Stock Exchange to cancel the listing of the Company on the expiry of six months from the date of the Notice.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 28. Post balances sheet event (continued)

#### B Suspension of production

Since October 2007, the manufacturing of buses under the own brand name and trademark of the Company in the People's Republic of China has been suspended. The Company has reduced its staff number to around 40 on or before November 2007. The directors of the Company are endeavoring to resume the business production of the Company. The Company would provide severance payment net to pay and compensation to staff. Per the estimation of the directors, the amount is about RMB 57million.

#### C Proposed acquisition of shares in Mudan Automobile Shares Company Limited by the proposed acquirers, namely Chengdu New Dadi Motor Company Limited ("Chengdu New Dadi"), Foshan City Shunde Ganghua Shiye Company Limited ("Shunde Ganghua"), Foshan City Heli Car Trading Company Limited ("Foshan Heli") and Foshan City Shunde Zhongyu Car Trading Company Limited ("Shunde Zhongyu")

Pursuant to the S&P Agreements on 25 February 2008, two substantial shareholders of the Company, namely, Jiangsu Mudan and 張家港市直屬公有資產經營有限公司 (Zhangjiagang Municipal Public Assets Management Co. Ltd., "ZMPAM"), which hold approximately 35.23% and 33.47% of the issued share capital of the Company respectively, and two minority shareholders, 張家港市直屬公有資產經營有限公司 (Zhangjiagang Municipal Public Assets Management Co. Ltd., "ZMPAM") and 張家港市牡丹汽車附件有限公司 (Zhangjiagang Municipal Mudan Car Accessories Co. Ltd., "ZMMCA") have signed their respective memorandum and agreements for the intended disposal of their entire respective interests to the proposed acquirers on Date of Joint Announcement at a total consideration of RMB51,680,540.

The S&P Agreements are subject to a number of conditions and will not become unconditional before, inter alia, the resumption of trading of the H Shares of the Company in the Stock Exchange.

#### **Agreement between Jiangsu Mudan and 成都新大地汽車有限責任公司 (Chengdu New Dadi Motor Company Limited, "Chengdu New Dadi")**

Pursuant to the agreement signed between Jiangsu Mudan and Chengdu New Dadi dated 25 February 2008 (the "First Disposal Agreement"), Chengdu New Dadi agrees to buy and the Jiangsu Mudan agrees to sell 100,340,000 domestic shares of the Company, representing 35.23% of the issued share capital of the Company.

The consideration paid by Chengdu New Dadi to Jiangsu Mudan is estimated to be RMB21,467,800. Chengdu New Dadi agreed to pay a deposit of RMB984,000 to Jiangsu Mudan 15 working days after the date of the First Disposal Agreement. The remaining balance of the consideration will be paid by Chengdu New Dadi to Jiangsu Mudan upon transfer of the said 100,340,000 domestic shares of the Company from Jiangsu Mudan to Chengdu New Dadi.

The First Disposal Agreement shall only take effect upon fulfillment of the conditions, which include, all necessary approval of the relevant government and regulatory authorities have to be obtained, force majeure situation has not been occurred and the Second Disposal Agreement become effective.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 28. Post balances sheet event (continued)

#### **Agreement between ZMPAM and 佛山市順德港華實業有限公司 (Fushan City Shunde Ganghua Shiye Company Limited, “Shunde Ganghua”)**

Pursuant to the agreement signed between ZMPAM and Shunde Ganghua dated 25 February 2008 (the “Second Disposal Agreement”), Shunde Ganghua agrees to buy and ZMPAM agrees to sell 95,310,000 domestic shares of the Company, representing approximately 33.47% of the issued share capital of the Company.

The consideration paid by Shunde Ganghua to ZMPAM is estimated to be RMB30,052,200. Shunde Ganghua agreed to pay a deposit of RMB9,015,660 to ZMPAM 5 working days after the date of the Second Disposal Agreement. The remaining balance of the consideration will be paid by Shunde Ganghua to ZMPAM upon transfer of the said 95,310,000 domestic shares of the Company from ZMPAM to Shunde Ganghua.

The Second Disposal Agreement shall only take effect upon fulfillment of the conditions, which include, all necessary approval of the relevant government and regulatory authorities have been obtained.

#### **Agreement between ZMMBA and 佛山市合力汽車貿易有限公司 (“Foshan Heli Car Trading Company Limited, “Foshan Heli”)**

Pursuant to the agreement signed between ZMMBA and Foshan Heli dated 25 February 2008 (the “Third Disposal Agreement”), Foshan Heli agrees to buy and ZMMBA agrees to sell 300,000 domestic shares of the Company, representing approximately 0.11% of the issued share capital of the Company.

The consideration paid by Foshan Heli to ZMMBA is estimated to be RMB80,000 upon completion of the Third Disposal Agreement.

The Third Disposal Agreement shall only take effect upon fulfillment of the conditions, which include, all necessary approval of the relevant government and regulatory authorities have been obtained and the Second Disposal Agreement become effective.

#### **Agreement between ZMMCA and 佛山市順德眾裕汽車貿易有限公司 (“Foshan Shunde Zhongyu Car Trading Company Limited, “Shunde Zhongyu”)**

Pursuant to the agreement signed between ZMMCA and Shunde Zhongyu dated 25 February 2008 (the “Fourth Disposal Agreement”), Shunde Zhongyu agrees to buy and ZMMCA agrees to sell 300,000 domestic shares of the Company, representing approximately 0.11% of the issued share capital of the Company.

The consideration paid by Shunde Zhongyu to ZMMCA is estimated to be RMB80,000 upon completion of the Fourth Disposal Agreement.

The Fourth Disposal Agreement shall only take effect upon fulfillment of the conditions, which include, all necessary approval of the relevant government and regulatory authorities have been obtained and the Second Disposal Agreement become effective.



## Notes to the Financial Statements

(Expressed in Renminbi)

### 28. Post balances sheet event (continued)

#### Memorandum

A memorandum was also signed among all the parties mentioned in the sections, namely Jiangsu Mudan, ZMPAM, ZMMBA, ZMMCA, Chengdu New Dadi, Shunde Ganghua, Foshan Heli, Shunde Zhongyu. The memorandum requires that, among other things, that the First Disposal Agreement, the Second Disposal Agreement, the Third Disposal Agreement and the Fourth Disposal Agreement will be terminated, if the trading of the H shares of the Company cannot be resumed.

#### Possible change in shareholdings

For the ease of reference, a table which shows the changes in the shareholdings of the Company immediately before and after the completion of the S&P Agreements is set out as follows:

#### Before the completion

	No. of shares	% owned
Jiangsu Mudan	100,340,000	35.23
ZMPAM	95,310,000	33.47
ZMMBA	300,000	0.11
ZMMCA	300,000	0.11
All Domestic Shares	196,250,000	68.92
Public (H shares)	88,550,000	31.08
	284,800,000	100.00

#### After the completion

	No. of shares	% owned
Chengdu New Dadi	100,340,000	35.23
Shunde Ganghua	95,310,000	33.47
Foshan Heli	300,000	0.11
Shunde Zhongyu	300,000	0.11
All Domestic Shares	196,250,000	68.92
Public (H shares)	88,550,000	31.08
	284,800,000	100.00

## Notes to the Financial Statements

(Expressed in Renminbi)

### 29. Reconciliation of loss and net assets under international financial reporting ('IFRSs') and PRC accounting rules and regulations

	Notes	2005		2004	
		Loss attributable to the equity holders of the Company	Net assets as at 31 December	Loss attributable to the equity holders of the Company	Net assets as at 31 December
As determined pursuant to PRC accounting rules and regulations		<b>(89,370,595)</b>	<b>262,471,792</b>	2,557,951	351,002,070
Adjustments:					
Recognition of net deferred tax assets	(i)	<b>(3,759,815)</b>	–	(6,430,712)	3,759,815
Restatement of instalment receivables	(ii)	<b>(1,908,374)</b>	<b>(1,908,374)</b>	2,136,000	(718,439)
Restatement of investments in unit trust	(iii)	–	–	(92,500)	–
Restatement of prepaid expenditure	(iv)	<b>(722,934)</b>	<b>(722,934)</b>	–	–
Restatement of deposit forfeited	(v)	<b>1,558,756</b>	–	10,300	–
As determined pursuant to IFRS		<b>(94,202,962)</b>	<b>259,840,484</b>	(1,818,961)	354,043,446

Notes:

- (i) This represents the recognition of deferred tax assets in respect of the IFRSs adjustments, certain accounting depreciation in excess of tax depreciation and certain provision for accounting purposes for the year ended 31 December 2005.
- (ii) Under the PRC accounting rules and regulations, instalment receivables are stated at their cost less allowance for bad and doubtful accounts. Pursuant to IFRSs, instalment receivables are determined by discounting the expected future cash flows at an imputed rate of interest. The interest element is recognised as interest income as it is earned on a time proportion basis that takes into account the imputed rate of interest.
- (iii) Under the PRC accounting rules and regulations, investments in unit trusts are stated at lower of cost or fair value. Pursuant to IFRSs investments in unit trusts are stated at fair value. The investment was disposed during the year ended 31 December 2004.
- (iv) Under the PRC accounting rules and regulations, the long-term prepayments need to be amortised during the beneficial period. Pursuant to IFRSs those amounts need to be recognised as the expense when it is incurred.
- (v) Under the PRC accounting rules and regulations, waive of deposits forfeited should be recognised as capital reserve. Pursuant to IFRSs those amounts which need not to repay should be recognised as other operating income.

## Five Year Summary

(Expressed in Renminbi)

	2005	Year ended 31 December			
		2004	2003	2002	2001
<b>Results</b>					
Turnover	<b>513,137,945</b>	638,563,780	910,111,382	888,526,140	857,038,069
<b>(Loss)/Profit from operations</b>	<b>(92,549,661)</b>	13,589,326	(20,708,972)	70,080,883	77,671,765
Net finance income (costs)	<b>2,106,514</b>	(8,977,575)	(2,200,106)	(1,498,461)	(4,539,496)
<b>(Loss)/Profit before tax</b>	<b>(90,443,147)</b>	4,611,751	(22,909,078)	68,582,422	73,132,269
Income tax (expense)/benefit	<b>(3,759,815)</b>	(6,430,712)	7,493,996	(20,909,723)	(23,702,448)
<b>(Loss)/profit attributable to shareholders</b>	<b>(94,202,962)</b>	(1,818,961)	(15,415,082)	47,672,699	49,429,821
<b>Assets and liabilities</b>					
Property, plant and equipment	<b>212,432,426</b>	226,331,755	230,311,093	177,332,713	177,719,337
Construction in progress	–	60,000	3,930,699	428,000	–
Net deferred tax assets	–	3,759,815	10,190,527	1,611,772	5,047,112
Total current assets	<b>730,533,147</b>	782,446,534	859,441,244	564,739,422	415,351,153
Total current liabilities	<b>(683,125,089)</b>	(658,554,658)	(748,011,156)	(348,562,418)	(240,225,816)
Total assets less current liabilities	<b>259,840,484</b>	354,043,446	355,862,407	395,549,489	357,891,786
Non-current liabilities	–	–	–	(20,000,000)	(20,000,000)
	<b>259,840,484</b>	354,043,446	355,862,407	375,549,489	337,891,786
Share capital	<b>284,800,000</b>	284,800,000	284,800,000	284,800,000	284,800,000
Reserves	<b>(24,959,516)</b>	69,243,446	71,062,407	90,749,489	53,091,786
	<b>259,840,484</b>	354,043,446	355,862,407	375,549,489	337,891,786