



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)
(Stock Code: 8188)



Interim Report 2006

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market 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.

SUMMARY

- In the first half year of 2006, the raw material prices were staying high. The competition in the industry became more fierce. The Company recorded a turnover of RMB251,066,050 (2005: RMB267,559,134) for the six months ended 30 June 2006 (“Six Months” or “the Half Yearly Period”), representing a decrease of 6.16% from the corresponding period in 2005.
- For the six months ended 30 June 2006, the loss attributable to the shareholders of the Company was RMB19,427,582 (2005: RMB13,277,307).
- For the six months ended 30 June 2006, the loss per share was RMB0.068.

RESULTS

The Board of Directors (the "Board") of the Company hereby announce that the unaudited results of the Company for the three months and six months ended 30 June 2006 together with comparative unaudited figures for the corresponding periods in 2005 are as follows:

UNAUDITED INCOME STATEMENT

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2006	2005	2006	2005
		RMB	RMB	RMB	RMB
Turnover	2	107,897,853	153,343,085	251,066,050	267,559,134
Cost of sales		(98,899,231)	(142,673,379)	(236,949,901)	(250,305,746)
Gross profit		8,998,622	10,669,706	14,116,149	17,253,388
Other operating income		3,837,410	1,260,439	4,761,563	1,753,232
Distribution expenses		(6,018,359)	(6,790,460)	(13,440,991)	(11,757,449)
General and administrative expenses		(10,069,420)	(9,449,409)	(18,852,099)	(16,679,737)
Other operating (expense)/income		(1,124,161)	5,300	(1,862,795)	(56,623)
Net finance costs		(2,327,125)	(2,395,487)	(4,149,409)	(3,740,118)
Loss before taxation	5	(6,703,033)	(6,699,911)	(19,427,582)	(13,227,307)
Income tax expenses	3	-	-	-	-
Loss attributable to equity holders		(6,703,033)	(6,699,911)	(19,427,582)	(13,227,307)
Loss per share					
- basic	4	(0.024)	(0.024)	(0.068)	(0.046)

BALANCE SHEET

		As at	As at
		30 June 2006	31 December 2005
	<i>Note</i>	RMB	<i>RMB</i>
		Unaudited	Audited
Non-current assets			
Property, plant and equipment	6	205,083,815	212,432,426
Construction in progress		1,858,213	–
Total non-current assets		206,942,028	212,432,426
Current assets			
Inventories		74,782,036	78,891,231
Trade and other receivables	7	107,148,689	100,107,497
Amounts due from a shareholder		133,767,933	125,899,382
Pledged deposits		350,355,343	318,346,739
Bank balances and cash		12,662,783	107,288,298
Total current assets		678,716,784	730,533,147

		As at	As at
		30 June 2006	31 December 2005
	<i>Note</i>	RMB	<i>RMB</i>
		Unaudited	Audited
Current liabilities			
Short-term bank loans	8	124,200,000	170,100,000
Trade and other payables	9	129,111,449	157,434,090
Bills payables	9	381,209,000	351,658,940
Amounts due to shareholders		–	2,684,850
Amounts due to related companies		–	14,657
Income tax payable		10,725,461	1,232,552
		<hr/>	<hr/>
Total current liabilities		645,245,910	683,125,089
		<hr/>	<hr/>
Net current assets		33,470,874	47,408,058
		<hr/>	<hr/>
Net assets		240,412,902	259,840,484
		<hr/>	<hr/>
Equity and liabilities			
Share capital	10	284,800,000	284,800,000
Statutory surplus reserve		15,421,641	15,421,641
Statutory public welfare fund		15,421,641	15,421,641
Accumulated losses		(75,230,380)	(55,802,798)
		<hr/>	<hr/>
Total capital and reserves		240,412,902	259,840,484
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>RMB</i>	Statutory surplus reserve <i>RMB</i>	Statutory public welfare <i>RMB</i>	(Accumulated losses)	Total capital and reserves <i>RMB</i>
				retained earnings <i>RMB</i> unaudited	
Balance at 1 January, 2005	284,800,000	15,421,641	15,421,641	38,400,164	354,043,446
Loss for the six months end 30 June 2005	-	-	-	(13,227,307)	(13,227,307)
Balance at 30 June 2005	284,800,000	15,421,641	15,421,641	25,172,857	340,816,139
Balance at 1 January, 2006	284,800,000	15,421,641	15,421,641	(55,802,798)	259,840,484
Loss for the six months end 30 June 2006	-	-	-	(19,427,582)	(19,427,582)
Balance at 30 June 2006	284,800,000	15,421,641	15,421,641	(75,230,380)	240,412,902

UNAUDITED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2006 RMB Unaudited	2005 RMB Unaudited
Net Cash (outflows)/inflows from operating activities	(8,906,485)	26,934,916
Net cash outflows from investing activities	(3,661,016)	(335,627)
Net cash outflow from financing activities	(82,058,014)	(61,343,686)
Net decrease in cash and cash equivalents	(94,625,515)	(34,744,397)
Cash and cash equivalents at beginning of year	107,288,298	58,547,175
Cash and cash equivalents at end of period	<u>12,662,783</u>	<u>23,802,778</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u>12,662,783</u>	<u>23,802,778</u>

Notes:

1. Basis of preparation and accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. IFRS includes International Accounting Standards and interpretations. These financial statements also comply with the applicable disclosure provisions of the GEM Listing Rules.

The measurement basis used in the preparation of the interim results is historical cost except for certain financial instruments which are measured at fair values.

The accounting policies have been consistently applied by the Company and are consistent with those used in the 2005 annual financial statements.

2. turnover and segmental information

The principal activities of the Company are the manufacture and sales of automobiles in the PRC. Turnover represents income arising from the sales of automobiles net of value added tax.

The Directors consider the Company operates within a single business.

An analysis of the Company's revenue by geographical regions is as follows:

	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2006	2005	2006	2005
	RMB	RMB	RMB	RMB
Sales of automobiles:				
The PRC	86,197,511	129,851,376	213,839,242	238,985,652
Overseas market	21,700,342	23,491,709	37,226,808	28,573,482
Total	107,897,853	153,343,085	251,066,050	267,559,134

3. Income tax expense

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

4. Basic loss per share

The calculation of loss per share for the three months and six months ended 30 June 2006 is based on the unaudited loss attributable to equity holders of about RMB6,703,033 and RMB19,427,582 respectively (2005: loss of RMB6,699,911 and RMB13,227,307) divided by the weighted average number of shares in issue of the Company during the respective period. For the three months and six months ended 30 June 2006, the weighted average number of shares in issue is 284,800,000 and 284,800,000 respectively (2005: 284,800,000 and 284,800,000). No diluted loss per share is presented as there were no dilutive potential ordinary shares outstanding.

5. Loss before taxation

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

	For the three months ended 30 June		For the six months ended 30 June	
	2006	2005	2006	2005
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	unaudited	unaudited	unaudited	unaudited
(a) Net finance costs				
Interest on bank advances and other borrowing repayable	3,555,788	2,924,235	7,634,445	5,782,655
Bank charges	57,313	144,177	246,726	303,261
Interest income	(688,814)	(672,925)	(2,764,016)	(2,345,798)
	3,524,287	2,395,487	5,117,155	3,740,118
(b) Other items				
Depreciation	4,752,777	4,649,285	115,798,675	9,273,435
Research and development expenses	880,629	222,615	1,355,723	326,688
	5,635,416	4,871,900	117,154,398	9,600,123

6. Property, plant and equipment

During the Half Yearly Period, the Company had additions to property, plant and equipment in the amount of RMB3,661,016 (2005: RMB2, 681,425).

7. Trade and other receivables

Trade and other receivables comprise:

	As at	As at
	30 June 2006	31 December 2005
	RMB	RMB
	Unaudited	Audited
Trade debtors and bills receivable	86,829,485	78,033,753
Advance deposits to suppliers	18,935,943	16,650,512
Other debtors	1,383,261	5,423,232
	<hr/> 107,148,689 <hr/>	<hr/> 100,107,497 <hr/>

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

	As at	As at
	30 June 2006	31 December 2005
	RMB	RMB
	Unaudited	Audited
Within 3 months	10,522,741	28,172,515
Over 3 months but less than 6 months	16,982,152	27,932,994
Over 6 months but less than 12 months	7,760,068	12,824,890
Over 1 year but less than 2 years	12,461,635	4,533,937
Over 2 years	39,102,889	4,569,417
	<hr/> 86,829,485 <hr/>	<hr/> 78,033,753 <hr/>

Customers are normally granted credit terms of three months to twelve months (31 December 2005: three months to twelve 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 eighteen months (31 December 2005: eighteen months).

8. Short term Bank Loans

Among the short-term bank loans as at 30 June 2006, RMB88,000,000 has no pledge (2005: RMB128,000,000). 2006:RMB36,200,000 was pledged over plant, building and bills receivables (2005: RMB42,100,000).

9. Trade payables, other payables and bills payables

Trade and other payables comprise:

	As at	As at
	30 June 2006	31 December 2005
	RMB	RMB
	Unaudited	Audited
Trade creditors	101,041,906	91,224,595
Bills payable	381,209,000	351,658,940
Accrued salaries, bonus and welfare fund	10,779,334	14,691,874
Other payables	17,290,209	51,517,621
	<hr/>	<hr/>
	510,320,449	509,093,030
	<hr/> <hr/>	<hr/> <hr/>

An ageing analysis of trade payables and bills payables is as follows:

	As at 30 June 2006	As at 31 December 2005
	RMB	RMB
	Unaudited	Audited
Within 3 months	446,653,499	400,702,376
Over 3 months but less than 6 months	12,518,884	20,495,813
Over 6 months but less than 12 months	9,109,030	5,868,297
Over 1 year	13,969,493	15,817,049
	<hr/> 482,250,906 <hr/>	<hr/> 442,883,535 <hr/>
	<hr/> 482,250,906 <hr/>	<hr/> 442,883,535 <hr/>

10. Share Capital

	As at 30 June 2006		As at 31 December 2005	
	Number of Shares	%	Number of Shares	%
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each	196,250,000	68.9	196,250,000	68.9
H shares of RMB1.00 each	88,550,000	31.1	88,550,000	31.1
	<hr/> 284,800,000 <hr/>	<hr/> 100 <hr/>	<hr/> 284,800,000 <hr/>	<hr/> 100 <hr/>
Total	<hr/> 284,800,000 <hr/>	<hr/> 100 <hr/>	<hr/> 284,800,000 <hr/>	<hr/> 100 <hr/>

11. Reserves

Other than the net loss for the six months ended 30 June 2006, there were no movement to or from reserves of the Company during the relevant period (2005: Nil).

BUSINESS REVIEW AND PROSPECTS

FINANCIAL REVIEW

Results performance

In the first half year of 2006, the ever raising raw material prices and the more keen competition in the industry, the Company recorded turnover of RMB251,066,050 (2005: of RMB:267,559,134) and a loss of RMB19,427,582 (2005: loss of RMB:13,227,307) for the six months ended 30 June 2006 respectively, among which the turnover represented a decrease of approximately 6.16% as compared to those of the Company for the corresponding period in 2005.

During the period, loss per share is approximately RMB0.068 (2005: loss of RMB0.046).

The unaudited turnover of the Company for the three months ended 30 June 2006 (the “quarterly period”) was RMB107,897,853, representing a decrease of approximately 29.64% as compared to those of the corresponding period in 2005. The unaudited loss for the quarterly period was RMB6,703,033.

Sales of buses

The revenue of the light-sized series of buses was RMB107,313,414 (2005: RMB93,895,758) for the Half Yearly Period. The revenue of medium and large-sized series of buses amounted to RMB92,982,437 and RMB50,770,199 respectively for the Half Yearly Period (2005: RMB124,313,610 and RMB49,349,766). Compared to the same corresponding period in 2005, revenue for light-sized, medium-sized and large-sized series of buses increased/(decreased) by 14.29%, (25.20)% and 2.88% respectively.

During the quarterly period, revenue of light, medium and large-sized series of buses amounted to RMB27,302,247, RMB54,481,669 and RMB26,113,937 respectively (2005: RMB58,764,673, RMB64,898,273 and RMB29,680,139). Compared to the same corresponding period in 2005, revenue for light-sized and large-sized series of buses decreased by 53.54%, 16.05% and 12.02% respectively.

Overseas market

For the six months ended 30 June 2006, the overseas sales revenue amounted to RMB37,226,808 (2005: RMB: 28,573,482), which represent a rise of approximately 30.28% as compared to those of the corresponding period in 2005.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales and gross profits

The cost of the sales of the Company for the Six Months was RMB236,949,901 (2005: RMB250,305,746). The unaudited gross profit margin of the Company was approximately 5.62%, about 0.83% lower than the unaudited gross profit margin of the Company of approximately 6.45% for the corresponding Half Yearly Period in 2005. The decrease mainly resulted from the decreasing revenue during the Half Yearly Period.

Other Operating Income

Other operating income of the Company during the quarterly period and the Half Yearly Period was about RMB3,837,410 and RMB4,761,563 respectively (2005: RMB1,260,439 and RMB1,753,232).

Other operating income mainly comprises sale of scrap materials and steel.

Distribution expenses and general administrative expenses

The Company continues to expand its sales and marketing network. As a result, distribution expenses for the Six Months was in the sum of RMB13,440,991, represents a increase of approximately 14.32% as compared to the amount from RMB11,757,449, in the corresponding period in 2005.

The total general and administrative expenses for the Half Yearly Period was approximately RMB18,852,099, represents an increase of approximately 13.02% as compared to the amount of RMB16,679,737 in the corresponding six months period in 2005.

Among which, the employees' social insurance fees and housing accumulation funds results from the policy reasons, and the management payout fees amounted to about RMB6,403,407, represents a decrease of 13.75% as compared to the amount of RMB7,424,488 in the corresponding six months period in 2005.

Material investments and financial assets

The Company did not have any plan for material investments and acquisition of material capital assets for the six months ended 30 June 2006 and at present it does not have other future plans for material investments or capital assets.

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 six months.

Financial resources and liquidity

The shareholders equity amounted to RMB240,412,912 as at 30 June 2006 (31 December 2005: RMB259,840,484). Current assets amounted to RMB678,716,784 as at 30 June 2006 (31 December 2005: RMB730,533,147), of which RMB12,622,783 were cash and bank balances (31 December 2005: RMB107,288,298). As at 30 June 2006, the Company has a short-term bank loans of about RMB124,200,000 (31 December 2005: RMB170,100,000). The short-term bank loans are repayable within one year.

Contingent Liabilities

As at 30 June 2006, the Directors were not aware of any material contingent liabilities.

Charges on assets

As at 30 June 2006, the short-term bank loans was RMB36,200,000 secured by plant, buildings and bills receivables (31 December 2005: the short-term bank loans was RMB42,100,000) secured by plant and buildings.

Gearing ratio

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 2.7 as at 30 June 2006 (31 December 2005: 2.1).

Capital Structure

During the six months ended 30 June 2006, there is no change in the Company's share capital. As at 30 June 2006, the Company's operations were financed mainly by shareholder's 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

As at 30 June 2006, the Company employed 2,048 employees (2005: 2,045). Staff cost was approximately RMB16,948,127 for the six months ended 30 June 2006, representing a decrease of 20.35% as compared with that of approximately RMB21,279,270 for the corresponding period in 2005.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

INTERESTS DISCLOSEABLE 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 30 June 2006, 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 30 June 2006, the Directors are not aware of any other interests and short positions in shares and underlying shares of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to the terms of 2nd and 3rd of 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.

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

Notes:

1. ZMPAM has 33.4% 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 the 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.
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 the 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.

COMPETING INTEREST

The current Board discovered that none of the original Directors, supervisors, management shareholders and substantial shareholders of the Company and their respective associates (for definition, refer to “GEM Listing Rules”) has any interest in any business which directly or indirectly compete with business of the Company for the six months ended 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

During the six months ended 30 June 2006, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company’s listed shares.

AUDIT COMMITTEE

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 Company. As at 30 June 2006, 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 from appointments at the Extraordinary General Meeting held on 3 March 2008. As at the date of this Announcement, 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 six months ended 30 June 2006 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.

CODE OF CONDUCT FOR DIRECTORS CARRYING OUT SECURITIES TRANSACTIONS

During the six months ended 30 June 2006, 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.

DISCLOSURE OF TRADE RECEIVABLE PURSUANT TO RULES 17.15 AND 17.17 OF THE GEM LISTING RULES

As at 30 June 2006, 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 30 June 2006.

As at 30 June 2006, 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 of 2005.

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 30 June 2006, it is subject to disclosure pursuant to the requirement under rule 17.17 of the GEM Listing Rules.

CORPORATE GOVERNANCE PRACTICE

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

CHAIRMAN AND MANAGING DIRECTOR

The former Chairman of the Company, Mr SUN Min Biao was also the Chief Executive of the Company as at 30 June 2006. Therefore during the six months, 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.

AUDIT COMMITTEE

According to Code provision C.3.3(e)(i), the Audit Committee shall liaison with the Board, senior management and appointed qualified accountant of the issuer. The Committee shall hold at least one meeting each year with the auditor of the issuer. The current Directors cannot confirm whether any Board meeting had been held in 2006, but the current Directors and the Audit Committee pledged that from now on meeting of the Audit Committee will be held regularly to discuss related matters.

REMUNERATION COMMITTEE

The Company did not set up any Remuneration Committee for the six months ended 30 June 2006. 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.

BOARD MEETING

According to the Code provision A.1.1 and A.1.3 of the Corporate Code, Board meetings should be held regularly and the Company should send notifications to every Director 14 days before the regular Board meeting is held. The current Directors cannot confirm whether any Board meeting had been held during the Six Months and whether notifications had been sent at least 14 days before the regular meetings, but the current Directors pledged that from now on Board meetings will be held regularly each year and notifications of Board meetings will be sent at least 14 days before regular meetings of the Board of Directors.

INTERNAL CONTROL

During the Six Months, 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.

By order of the Board

Mudan Automobile Shares Company Limited

GUO ZHI RONG

Chairman

Zhangjiagang City, Jiangsu Province, the PRC

30 April 2008