



**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)**



**Annual Report 2007**

\* For identification only

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## 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. 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. HOU Cheng Bao

### Authorized representatives

Mr. SUN Min Biao (Resigned on 3 March 2008)  
Mr. HOU Cheng Bao

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

Messrs. Tsun & Partners  
Suites1002-3, Aon China Building, 29 Queen's Road  
Central, Central, Hong Kong

### Auditors

Lo & Kwong CPA Co Ltd

### 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**

Suites 1002-3 Aon China Building  
29 Queen's Road Central, Central Hong Kong

### **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 2007 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 23 April 2008, there are altogether 14 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 2007 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 2007 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  
30 April 2008

## Management Discussion and Analysis

### Business Review and Prospect

After a review on relevant information of the Company by the Board of Directors, business review and outlook for 2007 is as follows:

- 1. Cost management.** In response to the intense market competition, and to further lower the internal cost, in particular when the profitability of the Company has obviously been declining, the Company implemented a “united” cost settlement management system at the beginning of the year, so as to manage and regulate every procedure during the whole process starting from orders approval to payment collections in a comprehensive manner, in order to allow cost management be enhanced under the protection of a management system.
- 2. Quality control.** The Company engaged experts from Tianjin Huacheng Certification Centre to promote and implement the TS16949 automobile industry standards, which is a corresponding management system with modification made taking into account of the actual situation. The Company has successfully passed the annual 3C supervisory examination and the supervisory examination of ISO9001:2000 quality control system. The Company Quality Inspection Centre successfully obtained the quality certificate issued by Jiangsu Bureau of Quality and Technical Supervision.
- 3. Technology management.** At the request of experts for approval of chassis production qualification, the Company engaged a professional software company to study and adjust the situation of the Company. Consolidating the actual and successful experiences of companies in the industry, the Company had completed the Mudan PDM system and carried out preliminary implementation. As such, basic technical information of the Company had been managed and improved systematically and introductory work of major automobile technical documents had also been finished.
- 4. Cooperation with other companies.** Firstly, communication and cooperation with competent authorities of the industry should be strengthened. In order to enhance the position of the Company in the industry, the Company had convened a seminar on the development of public transportation vehicles in cities during the Zhangjiagang Technology Festival and had entered into a cooperation agreement with City Automobile Professional Committee of the Ministry of Construction to undertake the specialized scheme for the development of AMT city bus. Secondly, cooperation and communication with companies within the industry should be strengthened. In order to enhance the self-production capability of chassis, the Company had entered into a cooperation agreement with Anhui Jiang Huai Automobile Co., Ltd. and hence actively procured Jiang Huai to set up a chassis subsidiary at our Company. As a result, the transportation cost of chassis was lowered and the responsive speed of on-site service on chassis was improved.
- 5. Structure streamlining.** As a result of being seriously lack of capital and with an increase of disputes over debt, the Company has ceased production in October. In around November, except a small number of key personnel and security staff, the Company had laid off remaining employees and offered them with corresponding compensation.

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

### FINANCIAL REVIEW

#### Turnover

Total turnover for the fiscal year 2007 amounted to approximately RMB327,743,441, representing a decrease of 40.59% compared to that of RMB551,676,336 generated in 2006. Turnover from light, medium and large-sized series of buses amounted to RMB90,785,994, RMB193,476,895 and RMB43,480,552 respectively (2006: RMB166,898,947, RMB302,196,484 and RMB82,580,905). Of which, sales for light-sized, medium-sized and large-sized series of buses decreased by 45.60%, 35.98% and 47.35% respectively.

The Company recorded a total loss before tax in the amount of RMB129,874,279 in 2007 (2006: profit before tax of RMB59,713,930).

#### Cost of sales and gross profit

Cost of sales decreased from approximately RMB521,205,708 in 2006 to approximately RMB315,727,543 in 2007. Marginal profit of the Company's products decreased from 5.52% in 2006 to 3.67% in 2007.

#### Other operating income

Other operating income for the fiscal year 2007 amounted to approximately RMB3,421,533 (2006: RMB11,484,258), which included the sale of scrap materials of approximately RMB3,261,839 (2006: RMB7,250,379).

#### Distribution expenses and general and administrative expenses

Distribution expenses in 2007 amounted to RMB27,920,631 (2006: RMB42,208,688), representing a slight decrease of approximately 33.85% compared to the same period last year. The reason was that as competition in the market of buses is severe, the Company was in a state of ceasing operation and pending for restructuring. Among which market development cost incurred in 2007 amounted to RMB5,395,604 (2006: RMB19,155,371).

The total general and administrative expenses for the fiscal year 2007 was RMB105,398,998, representing a great increase of 130.35% as compared to the amount of RMB45,756,641 in the corresponding period of 2006. Such a great increase was mainly attributable to the employee compensation due to business closure of RMB59,232,189 for the year 2007.

The Company's expenses on salaries, wages and bonus for the fiscal year 2007 amounted to RMB35,515,002 as compared to RMB43,921,825 in 2006, representing a decrease of RMB8,406,823.

In the fiscal year of 2007, the net finance income of RMB8,744,136 comprised bank interests and interests on other borrowings, bank charges and interest income, representing approximately 2.67% of sales. Net finance costs amounted to RMB2,081,358 in year of 2006.

## Management Discussion and Analysis

### Material investments and capital assets

The Company did not have any plan for material investments or acquisition of material capital assets for 2007 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 2007.

### Financial resources and liquidity

The financial position of the Company comprised shareholders' equity which amounted to approximately RMB70,252,275 as at 31 December 2007 (2006: RMB200,126,554). Current assets amounted to approximately RMB134,173,885 as at 31 December 2007 (2006: RMB484,052,409), of which approximately RMB11,780,245 (2006: RMB6,291,628) were cash and bank balances. Approximately RMB28,321,490 (2006: RMB168,383,360) was placed as pledged deposits to secure certain banks in issuing bill payable of approximately RMB16,232,150 as at 31 December 2007 (2006: RMB174,786,700). As at 31 December 2007, the Company did not have any short-term bank loans (2006: RMB139,400,000) nor any long-term bank loans (2006: nil)

### Contingent liabilities

Please refer to Note 25 of the financial statements.

### Charges on assets

As at 31 December 2007, the Company had repaid all its short term bank loan and there was no asset pledged.

### Gearing ratio

The Company's gearing ratio, which is calculated from total liabilities divided by total net assets, was 3.6 (2006: 2.4) as at 31 December 2007.

### Capital structure

During the year, there has been no change in the Company's share capital. As at 31 December 2007, 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.

## Management Discussion and Analysis

### Employee information

During the year, the average number of employees of the Company was 1,793 (2006: 2,111). Employees' remuneration included Directors' emoluments and the relevant cost of all staff of approximately RMB40,063,483 (2006: RMB49,377,747). 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 share option scheme.

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

As at 31 December 2007, 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 2007.

As at 31 December 2007, 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 2007. 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 31 December 2007, it is subject to disclosure pursuant to the requirement under rule 17.17 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 (collectively the “Group”) for the year ended 31 December 2007.

### 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 (2006: less than 30%).

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

	<b>Percentage of the Company’s total purchases</b>	
	<b>2007</b>	2006
The largest supplier	<b>39.08%</b>	36.83%
Five largest suppliers in aggregate	<b>58.79%</b>	59.03%

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 2007 and the financial situation of the Company and the Group as at 31 December 2007 are contained on pages 30 to 61 in the financial statements.

### Final dividend

The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2007 (2006: Nil).

### Charitable donations

There was no charitable donation made by the Company during the year (2006: 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 21(a).

### Reserves

Details of the movements in reserves of the Company during the year are contained in the financial statements, note 21(b) to 21(d).

### Distributable reserves

As of 31 December 2007 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 2007, 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 2007, 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

<b>Name of shareholder</b>	<b>Number of shares (domestic shares)</b>	<b>Nature of Interest</b>	<b>Approximate Percentage of the Issued Share Capital (Domestic shares and H shares)</b>
Zhangjiagang Municipal Public Assets Management Co., Ltd (“ZMPAM”)	95,310,000	Beneficial owner	33.47%
Jiangsu Mudan Automobile Group Co., Ltd (“Jiangsu Mudan”)	100,340,000	Beneficial owner	35.23%
Zhangjiagang Jin Mao Investment Development Co., Ltd. (“Jin Mao”)	100,340,000	Interest of a controlled corporation ( <i>Note 1</i> )	35.23%
張家港虹達運輸有限公司 (「虹達」)	100,340,000	Interest of a controlled corporation ( <i>Note 1</i> )	35.23%

Notes:

1. Jin Mao and 虹達 each has 19.35% interests in Jiangsu Mudan. Accordingly, Jin Mao and 虹達 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 (domestic shares and H Shares) of the Company.

### 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 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 2007 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 2007, 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")**

For the year ended 31 December 2007, the Company purchased goods, mainly steel, automobile parts and components, from ZMAAC, ZMBPC and ZAAF and the total purchases amounted to approximately RMB10,905,540.

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 28 to 29 of the Report of Independent Auditor.

- 2. Financial assistance to Jiangsu Mudan**

- a) Payment for projects*

For the year ended 31 December 2007, Jiangsu Mudan made payments on behalf of the Company for its projects for a total amount of RMB100,000. 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.

- b) Advances*

For the year ended 31 December 2007, the Company had advanced a total amount of RMB8,030,000 to Jiangsu Mudan as unsecured loans and bearing no interest while Jiangsu Mudan had also advanced a total amount of RMB144,200,000 to the Company as unsecured loans and bearing no interest. 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.



## Report of the Board of Directors

### c) *Steel Sales*

For the year ended 31 December 2007, the Company sold steel of a total of RMB834,898. The Company and Jiangsu Mudan have not entered into any agreement with regard to the above mentioned payment, the Company also has not disclosed the above mentioned payment pursuant to GEM Listing Rules.

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

For the year ended 31 December 2007, the raw materials sold to ZMBPC by the Company amounted to RMB141,634. 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.

For the year ended 31 December 2007, the Company paid electricity expenses for ZMBPC amounted to RMB1,479,217. Such payments were made continuously throughout the year. Such transactions were conducted pursuant to the agreement the Company and ZMBPC entered into on 6 March 2000, and in accordance with water and electricity expenses settlement method stipulated in such agreement and actual water and electricity volume used.

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.

### 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 2007.

### 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 current Directors cannot confirm whether the Audit Committee held any meeting during 2007. As at 31 December 2007, 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 2007 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.

### Bank loans

Particulars of bank loans as at 31 December 2007 are contained in the financial statements, note 19.

### 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 62 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 2007 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

30 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 2007, 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

30 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 2007, 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 20 to 22 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 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.

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 year ended 31 December 2007 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.

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.

### **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 2007. 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.

## Corporate Governance Report

### Remuneration Committee

The Company did not set up any Remuneration Committee for the year ended 31 December 2007. 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

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 Audit Committee meeting had been held in 2007, 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.

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.

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 2007 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 2007 RMB '000</b>	For the year ended 31 December 2006 RMB '000
Type of service		
To carry out audit for the Company	<b>850</b>	900
<i>Notes:</i>		
Services provided by CCIF CPA Limited	-	-
Services provided by Lo & Kwong CPA Co Ltd	<b>850</b>	900

### 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.

## Corporate Governance Report

### 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 AUTOMOBILES 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 Automobiles Shares Company Limited (the "Company") set out on pages 30 to 61, which comprise the balance sheet as at 31 December 2007, 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 all shareholders, 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 24 to the financial statements which disclosed certain related party transactions. Due to the 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 (ix) to (xiv) in that note. In addition, we were unable to carry out relevant procedures necessary to satisfy ourselves that the disclosure in note 24 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 RMB189,792,794 were fairly stated at 31 December 2007. As stated in note 13 to the financial statements, in light of the substantial reduction of business operation and the continuing operation loss experienced by the Company regarding for the year ended 31 December 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 RMB189,792,794 as of 31 December 2007 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 31 December 2007 should be recognised.
3. As disclosed in note 25, up to the date of this report, the Company had contingent liabilities amounting to approximately RMB7,149,890 in respect of involving in a number of litigation 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 RMB7,149,890 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 adjustment 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 31 December 2007 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  
30 April 2008

## Income Statement

For the year ended 31 December 2007

(Expressed In Renminbi)

	Notes	2007	2006
Turnover	4	<b>327,743,441</b>	551,676,336
Cost of sales		<b>(315,727,543)</b>	(521,205,708)
<b>Gross profit</b>		<b>12,015,898</b>	30,470,628
Other operating income	5	<b>3,421,533</b>	11,484,258
Distribution expenses		<b>(27,920,631)</b>	(42,208,688)
General and administrative expenses		<b>(105,398,998)</b>	(51,236,257)
Other operating expenses	6	<b>(3,247,945)</b>	(6,142,513)
Net finance expenses	8(a)	<b>(8,744,136)</b>	(2,081,358)
<b>Loss before tax</b>	8	<b>(129,874,279)</b>	(59,713,930)
Income tax expenses	9	–	–
<b>Loss for the year attributable to the equity holders of the Company</b>		<b>(129,874,279)</b>	(59,713,930)
Dividend	10	–	–
Loss per share – basic	11	<b>(0.46)</b>	(0.21)

The notes on pages 34 to 61 form part of these financial statements.

## Balance Sheet

At 31 December 2007

(Expressed in Renminbi)

	Notes	2007	2006
<b>Non-current assets</b>			
Property, plant and equipment	13	<b>189,792,794</b>	200,467,389
Construction in progress	14	–	709,583
		<b>189,792,794</b>	201,176,972
<b>Current assets</b>			
Inventories	15	<b>36,310,034</b>	73,605,517
Trade and other receivables	16	<b>56,267,216</b>	101,917,401
Amount due from a shareholder	17	<b>1,494,900</b>	133,854,503
Pledged deposits	18	<b>28,321,490</b>	168,383,360
Cash and cash equivalents		<b>11,780,245</b>	6,291,628
		<b>134,173,885</b>	484,052,409
<b>Current liabilities</b>			
Short-term bank loans	19	–	139,400,000
Trade and other payables	20	<b>127,130,899</b>	165,633,481
Bills payables	20	<b>16,232,150</b>	174,786,700
Amounts due to shareholders	17	<b>6,080,075</b>	2,039,508
Amounts due to a related company		<b>103,038,728</b>	2,010,586
Income tax payable		<b>1,232,552</b>	1,232,552
		<b>253,714,404</b>	485,102,827
<b>Net current assets</b>			
		<b>(119,540,519)</b>	(1,050,418)
		<b>70,252,275</b>	200,126,554
<b>Capital and reserves</b>			
Share capital	21(a)	<b>284,800,000</b>	284,800,000
Statutory surplus reserve	21(b)	<b>15,421,641</b>	15,421,641
Statutory public welfare fund	21(c)	<b>15,421,641</b>	15,421,641
Accumulated losses	21(d)	<b>(245,391,007)</b>	115,516,728
		<b>70,252,275</b>	<b>200,126,554</b>

The financial statements on pages 30 to 61 were approved and authorised for issue by the board of directors on 30 April 2008 and are signed on its behalf by:

**Kuo Zhi Yung**  
Director

**Jiang Bin**  
Director

The notes on pages 34 to 61 form part of these financial statements.



## Statement of Changes in Equity

For the year ended 31 December 2007

(Expressed in Renminbi)

	Share capital (Note 21(a))	Statutory surplus reserve (Note 21(b))	Statutory public welfare fund (Note 21(c))	(Accumulated losses) retained earnings (Note 21(d))	Total capital and reserves
<b>Balance at 1 January 2006</b>	284,800,000	15,421,641	15,421,641	(55,802,798)	259,840,484
Loss for the year	-	-	-	(59,713,930)	(59,713,930)
<b>Balance at 31 December 2006 and 1 January 2007</b>	284,800,000	15,421,641	15,421,641	(115,516,728)	200,126,554
Loss for the year	-	-	-	(129,874,279)	(129,874,279)
<b>Balance at 31 December 2007</b>	284,800,000	15,421,641	15,421,641	(245,391,007)	70,252,275

The notes on pages 34 to 61 form part of these financial statements.

## Cash Flow Statement

For the year ended 31 December 2007

(Expressed in Renminbi)

	2007	2006
<b>Operating activities</b>		
Loss before taxation	(129,874,279)	(59,713,930)
Allowance for bad and doubtful debts	–	4,760,141
Depreciation of property, plant and equipment	18,624,665	18,817,564
Net finance expenses	8,945,036	1,643,142
Operating cashflow before movements in working capital	(102,304,578)	(34,493,083)
Decrease in inventories	37,295,483	5,285,714
Decrease (increase) in trade and other receivables	45,650,185	(6,570,048)
(Increase) in amounts due from (to) shareholders	(5,133,246)	(140,154,064)
(Decrease) in trade and other payables and bills payables	(197,057,132)	(113,672,849)
Decrease in amount due to a related company	101,028,142	1,995,929
<b>Net cash (used in) operating activities</b>	<b>(120,521,146)</b>	<b>(287,608,401)</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(6,911,831)	(3,543,285)
Proceeds from disposal of property, plant and equipment	184,344	7,687
Increase in construction in progress	(153,000)	(4,026,512)
Interest received – from Jiangsu Mudan	–	6,315,313
– others	2,727,863	5,816,281
Decrease in pledged deposits	140,061,870	149,963,379
<b>Net cash from investing activities</b>	<b>135,549,246</b>	<b>154,532,863</b>
<b>Financing activities</b>		
Advances from Jiangsu Mudan	144,200,000	432,551,604
Repayment of advances from/advances to Jiangsu Mudan	(8,030,000)	(300,998,000)
Proceeds from discounting of bills received from Jiangsu Mudan	–	5,000,000
Repayment to banks in respect of bills issued to Jiangsu Mudan	–	(60,000,000)
New bank loans raised	–	139,400,000
Repayment of bank loans	(139,400,000)	(170,100,000)
Interest paid	(9,539,483)	(13,774,736)
<b>Net cash from (used in) financing activities</b>	<b>(12,769,483)</b>	<b>32,078,868</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,488,617</b>	<b>(100,996,670)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>6,291,628</b>	<b>107,288,298</b>
<b>Cash and cash equivalents at end of year</b>	<b>11,780,245</b>	<b>6,291,628</b>
<b>Analysis of cash and cash equivalent</b>		
<b>Bank balance and cash</b>	<b>11,780,245</b>	<b>6,291,628</b>

The notes on pages 34 to 61 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 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.

The Company's principal activities are the manufacture and sales of automobiles.

These financial statements have been approved for issued by the Board of Director on 30 April 2008.

## 2. Basis of preparation of financial statements

As detailed disclosure made in note 25 and 27B 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 23 April 2008, the amount frozen is about RMB1,865,333. 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 RMB59,232,189 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 27C 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, 張家港市牡丹富車配件有限公司(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 27C.

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.

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 1 January 2006. 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 results and the financial position of the Company.

IAS 23 (Amendment)	Borrowing Costs <sup>1</sup>
IFRS 8	Operating Segments <sup>1</sup>
IFRIC 11	IFRS2 – Group and Treasury Share Transactions <sup>2</sup>
IFRIC 12	Service Concession Arrangements <sup>3</sup>
IFRIC 13	Customer Loyalty Programmes <sup>4</sup>
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction <sup>3</sup>

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

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

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.
- <sup>2</sup> Effective for annual periods beginning on or after 1 March 2007.
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2008.
- <sup>4</sup> Effective for annual periods beginning on or after 1 July 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. 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 equipment	8 years

##### (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.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (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 receivable. 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 policy adopted is 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) 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.



## Notes to the Financial Statements

*(Expressed in Renminbi)*

### 3. Significant accounting policies (continued)

#### (g) Taxation (continued)

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.

#### (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.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (h) Revenue recognition (continued)

##### (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.

#### (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.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 3. Significant accounting policies (continued)

#### (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.

### 4. Turnovers 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 if 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 on business segment for two years ended 31 December 2006 and 2007, 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:

	<b>2007</b>	2006
<b>Revenue</b>		
PRC	<b>278,387,317</b>	492,146,907
Other countries	<b>49,356,124</b>	59,529,429
	<b>327,743,441</b>	551,676,336

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

## Notes to the Financial Statements

(Expressed in Renminbi)

### 5. Other operating income

	2007	2006
Net income from sales of scrap materials and steels	3,261,839	7,250,379
Other income	159,694	4,233,879
	<b>3,421,533</b>	11,484,258

### 6. Other operating expenses

	2007	2006
Donations	150,000	71,000
Litigation fee	131,029	294,970
Repairs and maintain fee for vehicles and parts	536,553	2,622,839
Others	2,430,364	3,153,704
	<b>3,247,946</b>	6,142,513

### 7. Staff costs

	2007	2006
Salaries, wages and bonus	35,515,002	43,921,825
Contributions to retirement benefit scheme	4,548,481	5,455,922
	<b>40,063,483</b>	49,377,747
Average number of employees during the year	<b>1,793</b>	2,111

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% (2006: 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.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 8. Loss before taxation

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

#### (a) Net finance expenses/(income):

	2007	2006
Interest on bank loans and other borrowings repayable within five years	<b>9,452,115</b>	9,368,796
Interest on discounting of bills receivable	<b>953,176</b>	2,026,864
Bank charges	<b>200,900</b>	438,216
Interest income from Jiangsu Mudan	–	(6,315,313)
Interest from bank deposits	<b>(2,727,863)</b>	(5,816,281)
Interest expense from instalment sales	<b>865,808</b>	2,379,076
	<b>8,744,136</b>	(2,081,358)

#### (b) Other items:

	2007	2006
Auditors' remuneration	<b>850,000</b>	935,000
Allowance for bad and doubtful debts	–	4,760,141
Depreciation on property, plant and equipment	<b>18,624,665</b>	18,817,564
Operating lease rentals in respect of prepaid lease payments, properties and equipment	<b>1,105,500</b>	1,105,500

### 9. Income tax expenses

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.

The tax charge for the year can be reconciled to the profit per the income statements as follows:

	2007	2006
(Loss)/profit before tax	<b>(129,874,279)</b>	(59,713,930)
Tax at applicable tax rate of 33% (2006: 33%)	<b>(42,858,512)</b>	(19,705,596)
Tax effect of tax losses not recognised	<b>42,858,512</b>	19,705,596
Over provision of deferred taxation	–	–
Tax charge for the year	–	–

## Notes to the Financial Statements

(Expressed in Renminbi)

### 10. Dividend

No dividend was paid or proposed for the year ended 31 December 2007, nor has any dividend been proposed since the balance sheet date (2006:Nil).

### 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 RMB 129,874,279 (2006:RMB 59,713,930) and based on the weighted average number of shares in issue during the year of 284,800,000 (2006: 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' emolument

For the year ended 31 December 2007

	Salaries, allowance and other benefits	Retirement benefit scheme contribution	Total emuneration
Name of directors			
Sun Ming Biao (Note)	–	–	–
Huo Bao Cheng	109,482	9,469	118,951
Yang De Xiang (Note)	–	–	–
Lu Guo Zhang (Note)	–	–	–
Zhou Pei Lin	–	–	–
	<b>109,482</b>	<b>9,469</b>	<b>118,951</b>
Name of independent directors			
Huang Zheng Hua (Note)	111,500	–	111,500
Xiao Wei Hong (Note)	–	–	–
	<b>111,500</b>	<b>–</b>	<b>111,500</b>
Name of supervisors			
Zhu Xia zheng (Note)	45,984	4,173	50,157
Ding Shao Hua (Note)	30,217	4,470	34,687
Jin Hong (Note)	76,201	8,643	84,844
	<b>152,402</b>	<b>17,286</b>	<b>169,688</b>
<b>Total</b>	<b>373,384</b>	<b>26,755</b>	<b>400,139</b>

Notes: Recalled on 3 March 2008.

## Notes to the Financial Statements

(Expressed in Renminbi)

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

For the year ended 31 December 2006

	Salaries, allowance and other benefits	Retirement benefit scheme contribution	Total remuneration
Name of directors			
Sun Ming Biao (Note)	–	–	–
Huo Bao Cheng	85,500	13,289	98,789
Yang De Xiang (Note)	35,568	8,859	44,427
	121,068	22,148	143,216
Name of independent directors			
Lu Guo Zhang (Note)	76,038	13,289	89,327
Zhou Pei Lin	35,568	–	35,568
Jiang Lei (Note)	57,000	–	57,000
Huang Zheng Hua (Note)	171,000	–	171,000
Xiao Wei Hong (Note)	34,200	–	34,200
	373,806	13,289	387,095
Name of supervisors			
Zhu Xia zheng (Note)	–	–	–
Ding Shao Hua	39,368	5,867	45,235
Jin Hong (Note)	49,662	6,273	55,935
	89,030	12,140	101,170
Total	583,904	47,577	631,481

Notes: Recalled on 3 March 2008.

Employees' remuneration:

During the year, the five highest paid individuals of the Company included one director (2006: one directors), details of whose emoluments are set out above. The emoluments of the remaining four employees (2006: four employees) are as follows:

	2007	2006
Salaries, allowance and other benefits	592,765	524,709
Retirement benefit scheme contributions	23,408	13,289
	616,173	537,998

## 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 1 January 2006	142,405,624	179,258,184	3,528,154	3,453,325	328,645,287
Additions	419,269	1,760,839	886,227	476,950	3,543,285
Transfer from construction in progress	3,316,929	–	–	–	3,316,929
Disposals	–	(749,000)	(100,200)	–	(849,200)
Balance at 31 December 2006 and 1 January 2007	146,141,822	180,270,023	4,314,181	3,930,275	334,656,301
Additions	1,088,522	4,446,479	548,505	828,325	6,911,831
Transfer from construction in progress	1,222,583	–	–	–	1,222,583
Disposals	–	–	(384,500)	–	(384,500)
Balance at 31 December 2007	148,452,927	184,716,502	4,478,186	4,758,600	342,406,215
<b>Accumulated depreciation and impairment:</b>					
Balance at 1 January 2006	28,852,752	84,615,785	1,496,375	1,247,948	116,212,861
Charge for the year	4,350,699	13,728,239	466,257	272,369	18,817,564
Eliminated on disposals	–	(741,313)	(100,200)	–	(841,513)
Balance at 31 December 2006 and at 1 January 2007	33,203,451	97,602,712	1,862,432	1,520,317	134,188,912
Charge for the year	4,456,670	13,357,465	434,620	375,910	18,624,665
Eliminated on disposals	–	–	(200,156)	–	(200,156)
Balance at 31 December 2007	37,660,121	110,960,177	2,096,896	1,896,227	152,613,421
<b>Net carrying amount:</b>					
At 31 December 2007	110,792,806	73,756,325	2,381,290	2,862,373	189,792,794
At 31 December 2006	112,938,371	82,667,311	2,451,749	2,409,958	200,467,389

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



## Notes to the Financial Statements

(Expressed in Renminbi)

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

Owing to the lack of working capital of the Company, the manufacturing and distribution activities in PRC has been reduced substantially since October 2007. In light of the substantial reduction of business operation and the continuing operating loss experienced by the Company for the year ended 31 December 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 RMB189,792,794 is fairly stated as at 31 December 2007.

### 14. Construction in progress

	2007	2006
Balance at 1 January	709,583	–
Additions	513,000	4,026,512
Transferred to property, plant and equipment	(1,222,583)	(3,316,929)
Balance at 31 December	–	709,583

### 15. Inventories

	2007	2006
Raw materials	18,489,123	21,504,420
Work in progress	5,660,188	19,168,106
Finished goods	12,160,723	32,932,991
	36,310,034	73,605,517
Inventories stated at net realisable value	–	25,264,061

### 16. Trade and other receivables

	2007	2006
Trade debtors and bills receivable	87,171,493	123,618,144
Less: Allowance for bad and doubtful trade receivable	44,974,499	(46,757,096)
	42,196,994	76,861,048
Advance deposits to suppliers	10,091,977	19,732,341
Other debtors	3,978,245	5,324,012
	56,267,216	101,917,401

## Notes to the Financial Statements

(Expressed in Renminbi)

### 16. Trade and other receivables (continued)

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

	2007	2006
Within 3 months	<b>2,187,300</b>	26,416,280
Over 3 months but less than 6 months	<b>15,286,190</b>	28,831,154
Over 6 months but less than 1 year	<b>19,495,458</b>	15,463,675
Over 1 year but less than 2 years	<b>4,907,879</b>	3,103,715
Over 2 years	<b>320,167</b>	3,046,224
	<b>42,196,994</b>	76,861,048

Customers are normally granted credit terms of 3 months to 12 months (2006: 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 (2006: 24 months).

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

Amounts due from/(to) a shareholder/a related company are unsecured, interest free and repayment on demand. The balances arose from the related party transactions are disclosed in note 25.

On 31 October and 1 November 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 31 December 2004 to 1 November 2007. As a result, there is no outstanding indebtedness owing by Jiangsu Mudan to the Company.

### 18. 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.

### 19. Short-term bank loans

	2007	2006
Secured bank loans	–	48,000,000
Unsecured bank loans	–	91,400,000
	–	139,400,000

As mentioned in Note 17 above, upon repayment from Jiangsu Mudan of RMB142,000,000, the Company immediately repaid all short term bank loans. The Company has not applied for bank loans thereafter, therefore, there was no short term bank loan as of the balance sheet date.

## Notes to the Financial Statements

(Expressed in Renminbi)

### 20. Trade And Other Payables And Bills Payables

	2007	2006
Trade creditors	<b>75,678,707</b>	84,512,737
Bills payable	<b>16,232,150</b>	174,786,700
Accrued salaries, bonus and welfare fund	<b>6,080,082</b>	13,167,671
Other payables	<b>45,372,110</b>	67,953,073
	<b>143,363,049</b>	340,420,181

The Company has invoiced RMB170,145,250 bills payable while the total purchase of the year is RMB276,352,831.

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

	2007	2006
Due within 3 months	<b>324,305</b>	233,237,621
Due after 3 months within 6 months	<b>39,050,972</b>	9,918,597
Due after 6 months within 1 year	<b>37,649,460</b>	2,720,988
Due over 1 year	<b>14,886,120</b>	13,422,231
	<b>91,910,857</b>	259,299,437

### 21. Capital and reserves

#### (a) Share capital

	2007	2006
Registered, issued and fully paid:		
196,250,000 (2006: 196,250,000) domestic shares of RMB1.00 each	<b>196,250,000</b>	196,250,000
88,550,000 (2006: 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

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

## Notes to the Financial Statements

*(Expressed in Renminbi)*

### 21. Capital and reserves (continued)

#### (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 2007 (2006: Transfer of RMB Nil) 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 2007 (2006: Transfer of RMB Nil) 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)*

### 21. 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 2007 (2006: Nil).

### 22. Financial instruments – risk management

Financial assets of the Company include cash and cash equivalents, pledged deposits, trade and other receivables, and amount due from a shareholder and a related company. Financial liabilities of the Company include trade and other payables, bills payable, amounts due to shareholders and related companies. The Company does not hold or issue financial instruments for trading purposes. The Company had no positions in derivatives contracts at 31 December 2007 and 2005. 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. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

#### (b) Interest rate risk

The interest rates risk of the bank loans of the Company.

#### (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)

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

#### (d) Fair value

The Carrying amounts of financial assets and liabilities approximate to their respective fair values as at 31 December 2006 and 2007.

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.

### 23. 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:

	2007	2006
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>10,565,020</b>	11,670,520
	<b>16,092,520</b>	17,198,020

The Company leases rights to use one (2006: one) production line, three (2006: three) pieces of land and a property (2006: 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)

### 24. Materials related party transactions

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	2007	2006
Purchases from shareholders/ a related company	(i)	<b>10,950,540</b>	22,620,624
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>976,532</b>	739,132
Sales of passenger car	(vi)	–	846,700
Reimbursement of electricity charges	(vii)	<b>1,479,217</b>	1,518,545
Interest income	(viii)	–	6,315,281

- (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 (2006: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 31 December 2006 was RMB 905,500 (2006: 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 31 December 2007 was RMB 100,000 (2006: 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 31 December 2007 was RMB 100,000 (2006: RMB 100,000).
- (v) For the year ended 31 December 2007, the Company sold steel to its shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd) and a related party (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB 976,532 (2006:RMB 739,132).
- (vi) For the year ended 31 December 2007, the Company sold the passenger cars to its shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd, Zhangjiagang Mudan Automobile Accessories Co., Ltd and Zhangjiagang Automobile Accessories Co., Ltd) which amounted to RMB Nil (2006: 846,700).
- (vii) For the year ended 31 December 2007, the company provided the other services to its shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd) and a related company (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to 1,479,217(2006:RMB 1,518,545). The other services included reimbursement of electricity charges.

## Notes to the Financial Statements

*(Expressed in Renminbi)*

### **24. Materials related party transactions (continued)**

- (viii) During the year ended 31 December 2007, There were no interest income received from its ultimate holding company, Jiangsu Mudan (2006: RMB 6,315, 281).
- (ix) For the year ended 31 December 2007, 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 Nil (2006: RMB 60,000,000). On the other hand, the company received certain bills from Jiangsu Mudan, totaling 5,000,000 (2006: RMB 82,000,000). 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 31 December 2007.
- (x) During the years ended 31 December 2006 and 2007, Jiangsu Mudan allowed the company to use the trademark of "Mudan", certain of its sales offices, office equipment and public facilities at nil consideration.
- (xi) During the year ended 31 December 2007, Jiangsu Mudan made payment for material on behalf of the company which amounted to RMB Nil. (2006: RMB 73,000).
- (xii) During the year ended 31 December 2007, Jiangsu Mudan made payments for certain expenses on behalf of the company which amounted to RMB Nil (2006: RMB 481,897).
- (xiii) As At 31 December 2007, certain bank loans of the company totaling RMB Nil (2006: RMB 30,000,000) were guaranteed by Jiangsu Mudan. None of the Directors, supervisors, management shareholders or substantial shareholders of the Company and their respective associates has any interest in any businesses which directly or indirectly compete with the business of the Company for the year ended 31 December 2007.
- (xiv) For the year ended 31 December 2007, the Company utilised its bills facilities and instructed its bankers to issue certain bills to Zhangjiagang Mudan Bus Parts Co., Ltd, The total value of bills issued/transferred to Jiangsu Mudan amounted to RMB Nil (2006: RMB 300,998,000).



## Notes to the Financial Statements

(Expressed in Renminbi)

### 24. Materials related party transactions (continued)

(xvii) 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:

	2007	2006
Members of the directors and the key management		
Short-term benefits	1,219,429	1,194,035
Post-employment benefits	-	-
	<b>1,219,429</b>	<b>1,194,035</b>

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

### 25 Contingent liabilities

Up to the date of this report, the Company had contingent liabilities amounting to approximately RMB7,149,890 in respect of involving in a number of litigations in the PRC, the details of which are stated as follows:

- i. On or about 17 September 2007, 湖南汽車車橋廠 (Human 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 5 September 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 1,539,902 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;
- iii. On or about 31 August 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;
- iv. On or about 21 September 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 21 September 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;

## Notes to the Financial Statements

(Expressed in Renminbi)

### 25. Contingent liabilities (continued)

- vi. On or about 30 October 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 24 July 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 12 February 2007. The plaintiff sought a compensation of a total of RMB 155,745.
- viii. On or about 17 October 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 5 November 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 11 December 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 12 December 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.
- xii. On or about 25 February 2008, 無錫市上工電器有限公司 (Wuxi City Shanggong Electric Co., Ltd.) 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 RMB198,760 to the plaintiff for payment of fans for buses supplied by the plaintiff to the Company;
- xiii. On or about 5 March 2008, 河北省晉州市福利汽車材料廠 (Hebei Province Jinzhou City Fuli Automobile Materials Factory) 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 RMB434,117 to the plaintiff for payment of automobile accessories for production use supplied by the plaintiff to the Company;
- xiv. On or about 25 February 2008, 陸春明 (Lu Chunming) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company and a sales staff of the Company. It is stated in the writ that the Company and a sales staff of the Company has failed to pay commission to the plaintiff, and thus claim for an amount of RMB177,330.

Presently, part of the bank accounts of the Company have already been frozen following filing of the above lawsuits. Up to 23 April 2008, the amount frozen is about RMB1,865,333. 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.

## Notes to the Financial Statements

*(Expressed in Renminbi)*

### 26. Ultimate holding company

The directors consider the ultimate holding company as at 31 December 2007 to be Zhangjiagang Municipal Public Assets Management Co., Ltd, which is a state-owned enterprise established in the PRC.

### 27. Post balance 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 12 October 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)

### 27. Post balance sheet event (continued)

- B 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 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)

### 27. 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 entire 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)

### 27. 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
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All Domestic Shares	196,250,000	68.92
Public (H shares)	88,550,000	31.08
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	284,800,000	100.00
	<hr/>	

#### 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
	<hr/>	
All Domestic Shares	196,250,000	68.92
Public (H shares)	88,550,000	31.08
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	284,800,000	100.00
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## Five Year Summary

(Expressed in Renminbi)

	2007	Year ended 31 December			
		2006	2005	2004	2003
<b>Results</b>					
Turnover	<b>327,743,441</b>	551,676,336	513,137,945	638,563,780	910,111,382
<b>(Loss)/Profit from operations</b>	<b>(121,130,143)</b>	(57,632,572)	(92,549,661)	13,589,326	(20,708,972)
Net finance income (costs)	<b>(8,744,136)</b>	(2,081,358)	2,106,514	(8,977,575)	(2,200,106)
<b>(Loss)/Profit before tax</b>	<b>(129,874,279)</b>	(59,713,930)	(90,443,147)	4,611,751	(22,909,078)
Income tax (expense)/benefit	-	-	(3,759,815)	(6,430,712)	7,493,996
<b>(Loss)/Profit attributable to shareholders</b>	<b>(129,874,279)</b>	(59,713,930)	(94,202,962)	(1,818,961)	(15,415,082)
<b>Assets and liabilities</b>					
Property, plant and equipment	<b>189,792,794</b>	200,467,300	212,432,426	226,331,755	230,311,093
Construction in progress	-	709,503	-	60,000	3,930,699
Net deferred tax assets	-	3,759,815	10,190,527	-	-
Total current assets	<b>134,173,885</b>	484,052,490	730,533,147	782,446,534	859,441,244
Total current liabilities	<b>(253,714,414)</b>	(485,102,827)	(683,125,089)	(658,554,658)	(748,011,156)
Total assets less current liabilities	<b>70,235,275</b>	200,126,544	259,840,484	354,043,446	355,862,407
Non-current liabilities	-	-	-	-	-
	<b>70,252,275</b>	200,126,554	259,840,484	354,043,446	355,862,407
Share capital	<b>284,800,000</b>	284,800,000	284,800,000	284,800,000	284,800,000
Reserves	<b>(214,547,725)</b>	(84,673,416)	(24,959,516)	69,243,446	71,062,407
	<b>70,252,275</b>	200,126,554	259,840,484	354,043,446	355,862,407