



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 **2008**

* For identification only

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Characteristics of GEM

Growth Enterprise Market (“GEM”) has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim 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. GUO Zhi Rong (*Chairman*) (Appointed on 3 March 2008 as *Executive Director and Chairman*)
Mr. JIANG Bin (Appointed on 3 March 2008)
Mr. HOU Cheng Bao
Mr. SUN Min Biao (Removed on 3 March 2008)
Mr. YANG De Xiang (Removed on 3 March 2008)

Non-executive Directors

Mr. ZHOU Pei Lin
Mr. LI Jian Hua (Appointed on 3 March 2008)
Mr. ZHU Hui Liang (Appointed on 3 March 2008)
Mr. LU Guo Zhang (Removed on 3 March 2008)

Independent Non-executive Directors

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)
Mr. JIANG Lei (Removed on 3 March 2008)
Mr. HUANG Zhen Hua (Removed on 3 March 2008)
Ms. XIAO Wei Hong (Removed on 3 March 2008)

Supervisors

Mr. MIU Jin Xiang (*Chairman*) (Appointed on 3 March 2008)
Mr. SHEN Yong (Appointed on 3 March 2008)
Mr. ZHU Xia Zheng (Removed on 3 March 2008)
Mr. JIN Hong (Removed on 3 March 2008)
Mr. DING Shao Hua (Resigned on 31 August 2008)

Audit Committee

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)
Mr. HUANG Zhen Hua (Removed on 3 March 2008)
Mr. JIANG Lei (Removed on 3 March 2008)
Ms. XIAO Wei Hong (Removed on 3 March 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. HOU Cheng Bao
Mr. CHENG Wai Pui

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

Mr. CHENG Wai Pui
Flat B, 21/F, Tower 26
City One Shatin
New Territories
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

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

Registered Office

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

Company website

www.mudanauto.com

Principal place of business in Hong Kong

Unit 2705, The Center
99 Queen's Road Central, Central, Hong Kong

Stock Code

8188

Chairman's Report

To: All Shareholders

On behalf of the Board of Directors (the "Board") 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' review.

After duly taking office on 3 March 2008, the newly appointed Board of Directors immediately commenced investigation of the Company's situation, and has put all efforts in performing their duties on disclosure of information according to the requirements of the Listing Rules of the GEM of the Stock Exchange.. During the year, focuses of the Board's performance of duties were as below:

1. Enhanced the communication with our auditors and spare no effort in providing them with greatest convenience in assisting them to perform duties. The Company has issued the related financial statements for 2005, 2006 and 2007 afterwards and has disclosed the related quarterly and interim financial information on time according to the Listing Rules, aiming to informing our shareholders the operating situation of the Company.
2. In order to strengthen our internal control, the Company has engaged Access Capital Limited as financial advisor, and has appointed Shine Wing to assess the Company's internal control and provide guidelines on this regard. The Company has also appointed new company secretary and qualified accountant to provide professional opinions to the Company from time to time. With an aim to resume Mudan's production and its market competitiveness, we have put more efforts in recruiting talents and established a comprehensive organization. Accordingly, we have resumed our production successfully in 3rd quarter and has passed the ISO9001 quality system certification review and the 3C quality certification for some of our products. All these were our efforts made to procure resumption of trading of our shares on the Stock Exchange.
3. We have undertaken transfer of shares in accordance with the instructions of our major shareholders and have made proper disclosure of information and application for approval in regard to transfer of shareholdings. The Board will, in strict compliance with the applicable laws in Hong Kong and the PRC, the Listing Rules, and undertakings made by the directors, coordinate with acquirers actively, with an aim to achieve smooth transition of the Company and protect the interests of our shareholders during the process and in the long term.

In viewing to the Company's current situation, the directors is of the opinion that they have acted in the best interest of the Company and the shareholders and have properly performed the duties of the directors of a listed company. However, they were unable to assure the final results of such restructuring. Shareholders and investors of the Company should exercise carefully when dealing in the shares of the Company.

Mudan Automobile Shares Company Limited

Chairman

Guo Zhi Rong

Zhangjiagang City, Jiangsu Province, China
31 March 2009

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT

Business review and outlook for 2008 is as follows:

Since the third quarter of 2008, the Company had resumed its production and commended global staff recruitment and established a healthy company organizations. The production and operation of the Company has been gradually returned to normal orbit.

Staff recruitment

For the purpose of the resumption of normal production, the directors and competent key staff jointly reorganized management teams for resumption of production and operation and management, and successfully resumed and established seven departments of the Company such as the production department, the administration department, the finance department, the sales department, the technical & quality department, the procurement department and the general manager office. The numbers of staff as at 31 December 2008 increased to 225 from approximately 40 as at the beginning of the year.

System certification

Pursuant to the relevant regulations, resumption of production of automobile enterprise from suspension must regain certification for quality assurance system and relevant products and pass the tests before the launch of sale. Accordingly, the Company, based on the staff recruitment and the construction of organizations, started to carry out overall examination and maintenance of the production equipments, manufacturing of frock clamps for production purpose and simple molds and trial production. All these have passed ISO9001 quality system certification review and partial resumed 3C quality certification for productions.

Sales of products

Mudan Auto brand has a history of over 30 years and 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. Accordingly, the Company has sold over 200 vehicles with various kinds of Mudan Auto brand since its production resumption in 2008.

FINANCIAL REVIEW

Turnover

Total turnover for the fiscal year 2008 amounted to RMB10,698,243, representing a decrease of 96.74% compared to that of RMB327,743,441 generated in 2007. Turnover from light, medium and large-sized buses amounted to RMB5,495,080, RMB533,076 and RMB4,670,085 respectively (2007: RMB90,785,994, RMB193,476,895 and RMB43,480,552). Of which, sales for light-sized, medium-sized and large-sized buses decreased by 93.94%, 99.72% and 89.26% respectively.

The Company recorded a loss before tax in the amount of RMB78,519,809 in 2008 (2007: RMB129,874,279).

Management Discussion and Analysis

Cost of sales and gross profit

Cost of sales decreased from RMB315,727,543 in 2007 to RMB17,901,505 in 2008. Profit margin of the Company's products decreased from 3.67% in 2007 to 67.33% of marginal loss of the Company's products in 2008.

Other operating income

Other operating income for the fiscal year 2008 amounted to RMB8,125,997 (2007: RMB3,421,533), which included the income of reversal of a trade payable and welfare fund payable approximately RMB1,770,000 and 6,044,195, respectively (2007: the sale of scrap materials of approximately RMB3,261,839).

Distribution expenses and general and administrative expenses

Distribution expenses in 2008 amounted to RMB4,748,250 (2007: RMB27,920,631), representing a significant decrease of approximately 82.99% compared to the same period of last year. The reason was that as competition in the market of buses is severe, the Company was in a state of suspension of operation and pending for restructuring. The Company did not have any market development cost incurred in 2008 (2007: RMB5,395,604).

The total general and administrative expenses for the fiscal year 2008 was RMB65,323,353 representing a decrease of 38.02% as compared to the amount of RMB105,398,998 in the corresponding period of 2007. Such a decrease was mainly attributable to significant decrease of the employee compensation due to business in a state of ceasing operation and pending for restructuring.

The Company's expenses on salaries, wages and bonus for the fiscal year 2008 amounted to RMB2,995,944 as compared to RMB35,515,002 in 2007, representing a decrease of RMB32,519,058.

In the fiscal year of 2008, the net finance income of RMB3,543,254 comprised bank interests and interests on other borrowings, bank charges and interest income, representing approximately 33.12% of sales. Net finance expenses amounted to RMB8,744,136 in year of 2007.

Material investments and capital assets

The Company did not have any plan for material investments or acquisition of any material capital asset for 2008 and in the foreseeable future.

Exposure in exchange rate fluctuations

The Company has foreign currency transactions, 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 2008.

Management Discussion and Analysis

Financial resources and liquidity

The financial position of the Company comprised capital deficiency which amounted to RMB8,267,534 as at 31 December 2008 (2007: shareholders' equity of RMB70,252,275). Current assets amounted to RMB48,302,564 in total as at 31 December 2008 (2007: RMB134,173,885), of which RMB3,669,714 (2007: RMB11,780,245) were cash and bank balances. As at 31 December 2008, approximately RMB9,089,340 (2007: RMB28,321,490) was pledged deposits and the Company did not have any bill payable in 2008 (2007: RMB16,232,150). As at 31 December 2008, the Company did not have any short-term bank loans (2007: Nil) nor any long-term bank loans (2007: nil).

Contingent liabilities

Please refer to Note 27 of the financial statements.

Charges on assets

As at 31 December 2008, 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 net liabilities, was 27.60 (2007: 3.6) as at 31 December 2008.

Capital structure

During the year, there has been no change in the Company's share capital. As at 31 December 2008, the Company's operations were financed mainly by shareholders' equity and internal resources. The Company will continue to adopt its treasury policy of placing the Company cash and cash equivalents in interest bearing deposits.

Employee information

During the year, the average number of employees of the Company was 208 (2007: 1,793). Employees' remuneration included Directors' emoluments and the relevant cost of all staffs of approximately RMB3,336,378 (2007: RMB40,063,483). They were remunerated in accordance with their performance and market condition. Officially employed staff is entitled to social insurance. The Company does not have share option scheme.

Trade receivables written off

As at 31 December 2008, 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\$20,656,121.7 (RMB18,193,912), representing approximately 21.3% of the Company's total market capitalization as at 31 December 2008. The Company had lost contact with the Customer and the Trade Receivables had been written off on the balance sheet date of 2005.



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 present the Report of the Board of Directors and the audited financial statements of the Company for the year ended 31 December 2008 as follows.

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 7. Revenue of the Company in 2008 all comprises the sale of automobiles in the PRC.

Major customers and suppliers

The Company’s sales to the five largest customers for the year ended 31 December 2008 accounted for more than 30% of the Company’s turnover for the year (2007: less than 30%). Sales to the largest customer accounted for approximately 51.07% of the Company’s turnover for the year. Sales to the five largest customers accounted for approximately 93.62% of the Company’s turnover for the year.

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

	Percentage of the Company’s total purchases	
	2008	2007
The largest supplier	21.72%	39.08%
Five largest suppliers in aggregate	48.40%	58.79%

Save for Zhangjiagang Jishun Transportation Industrial Co., Ltd, being the second largest supplier for the year ended 31 December 2008, which is an associate of Jiangsu Mudan Automobile Group Co., Ltd, 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 the major customers and suppliers of the Company.

Financial statements

The results of the Company for the year ended 31 December 2008 and the financial situation of the Company and the Group as at 31 December 2008 are contained on pages 28 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 2008 (2007: Nil).

Report of the Board of Directors

Charitable donations

There was no charitable donation made by the Company during the year (2007: Nil).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Company during the year are set out in Note 16 to the financial statements.

Share capital

Details of the share capital movements of the Company during the year are set out in Note 24 to the financial statements.

Reserves provision

Details of the movements in reserves of the Company during the year are set out in the section headed Statement of Changes in Equity in the independent auditor's report.

Distributable reserves

As at 31 December 2008 the Company did not have any reserves available for distribution to shareholders.

Disclosure of interests 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 2008, none of the Directors, supervisors and chief executive of the Company had any interest and short position in shares, underlying shares or debentures 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 Rule 5.46 of the GEM Listing Rules.

2. Substantial shareholders of the Company and other persons

Save as disclosed below, as at 31 December 2008, no person had registered an interest or a short position in the shares or underlying shares of the Company, which was required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Report of the Board of Directors

Long positions in the shares

Name of shareholder	Number of shares (domestic shares)	Nature of Interest	Approximate Percentage of the Issued Share Capital (Domestic shares and H shares)
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, Jin Mao and 虹達 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. GUO Zhi Rong (<i>Chairman</i>)	(Appointed on 3 March 2008 as <i>Executive Director and Chairman</i>)
Mr. JIANG Bin	(Appointed on 3 March 2008)
Mr. HOU Cheng Bao	
Mr. SUN Min Biao	(Removed on 3 March 2008)
Mr. YANG De Xiang	(Removed on 3 March 2008)

Non-executive Directors

Mr. ZHOU Pei Lin	
Mr. LI Jian Hua	(Appointed on 3 March 2008)
Mr. ZHU Hui Liang	(Appointed on 3 March 2008)
Mr. LU Guo Zhang	(Removed on 3 March 2008)

Independent Non-executive Directors

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)
Mr. JIANG Lei	(Removed on 3 March 2008)
Mr. HUANG Zhen Hua	(Removed on 3 March 2008)
Ms. XIAO Wei Hong	(Removed on 3 March 2008)

Supervisors

Mr. MIU Jin Xiang (<i>Chairman</i>)	(Appointed on 3 March 2008)
Mr. SHEN Yong	(Appointed on 3 March 2008)
Mr. ZHU Xia Zheng	(Removed on 3 March 2008)
Mr. JIN Hong	(Removed on 3 March 2008)
Mr. DING Shao Hua	(Resigned on 31 August 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.

The Company has received annual confirmations of independence from Mr Wang Cheng Cai, Mr Gao Xue Fei and Mr Yao Zhi Ming pursuant to Rule 5.09 of the GEM Listing Rules, and as at the date of the report, still consider them to be independent.

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 a term of three years.

Save as disclosed above, 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

Save as disclosed in note 26 in the notes to the financial statements, no contract of significance to the Company's business has been entered into by the Company during the year under review or as at 31 December 2008 in which a Director or Supervisor of the Company was materially interested, 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 15.

Major related party transactions

Particulars of major 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	2008	2007
Purchases from a related company	(i)	538,659	10,950,540
Rent paid for prepaid lease payments	(ii)	–	905,500
Rent paid for a property	(iii)	–	100,000
Rent paid for a production line	(iv)	–	100,000
Sales of steels	(v)	1,683,947	976,532
Reimbursement of electricity charges	(vi)	1,728,271	1,479,217

- (i) This represents purchases of raw materials from a related company Zhangjiagang Jishun Transportation Industrial Co., Ltd. ("Jiangjiagang Jishun") during the year. Jiangjiagang Jishun is an associate of the existing controlling shareholders of the Company.
- (ii) The Company has entered into lease agreements with Jiangsu Mudan whereby the Company is granted rights to use three (2007: 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 2008 was RMB905,500 (2007: RMB905,500). As the Company has reduced the manufacturing and distribution activities in PRC substantially since October 2007, so Jiangsu Mudan exempted this rent expense during the year under review.
- (iii) The Company has entered into a lease agreement with Jiangsu Mudan whereby the company is granted rights to use a property in the PRC for a term of 20 years. The annual fixed rental payment for the year ended December 31, 2008 was RMB100,000 (2007: RMB100,000). As the Company has reduced the manufacturing and distribution activities in PRC substantially since October 2007, so Jiangsu Mudan exempted this rent expense during the year under review.
- (iv) The Company has entered into a lease agreement with Jiangsu Mudan whereby the Company is granted rights to use a production line in the PRC for a term of 20 years. The annual fixed rental payment for the year ended December 31, 2008 was RMB100,000 (2007: RMB100,000). As the Company has reduced the manufacturing and distribution activities in PRC substantially since October 2007, so Jiangsu Mudan exempted this rent expense during the year under review.

Report of the Board of Directors

- (v) For the year ended 31 December 2008, the Company sold steel to a related party (Zhangjiagang Jishun) which amounted to RMB1,683,947 (2007: RMB976,532).
- (vi) For the year ended 31 December 2008, the Company provided the other services to a related company (Zhangjiagang Jishun) which amounted to RMB1,728,271 (2007: RMB1,479,217). The other services included reimbursement of electricity charges (which was calculated at cost).
- (vii) During the year ended 31 December 2007, Jiangsu Mudan repaid the Company a total of approximately RMB142,000,000 which is in the excess of the 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.
- (viii) During the years ended 31 December 2007 and 2008, Jiangsu Mudan allowed the company to use the trademark of "Mudan", certain of its sales offices, office equipment and public facilities at nil consideration.
- (ix) 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:

	2008	2007
Members of the directors and the key management		
Short-term benefits	320,400	1,219,429
Post-employment benefits	-	-
	320,400	1,219,429

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

Save as disclosed above and in note 26 in the notes to the financial statements, no contract of significance had been entered into between the Company and the controlling shareholders of the Company during the year under review.

Connected transaction

During the year under the review, the Company had entered into the following connected transaction with its connected person (as defined in the GEM Listing Rules), which is required to be disclosed in this annual report:

Sale of steel to Zhangjiagang Jishun

On 25 March 2008, the Company sold steel of an aggregate amount of approximately RMB1.68 million to Zhangjiagang Jishun.

Zhangjiagang Jishun is an associate (within the meaning of the GEM Listing Rules) of Jiangsu Mudan, the existing controlling shareholder of the Company and thus a connected person of the Company.

Report of the Board of Directors

Directors' view

The Directors (including the Independent Non-executive Directors) are of the view that the above transaction was entered into in the Company's ordinary course of business and the terms are on normal commercial terms and are fair and reasonable.

Competing interests

The current Board confirmed 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 2008.

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.

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.

Sufficiency of public float

Based on information that is publicly available to the Company and within knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Audit Committee

The Audit Committee of the Company was established with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the Committee were to review and monitor the financial reporting process and internal control of the group. As at the date of this 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 of the Audit Committee. The Company's financial statements for the year ended 31 December 2008 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.

Retirement scheme

Particulars of retirement scheme of the Group are contained in the financial statements, note 10.

Report of the Board of Directors

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.

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 office 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 office 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 from 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 auditors. The Financial Report of the Company for the year ended 31 December 2008 was audited by Lo & Kwong C.P.A. Co Ltd.

By order of the Board
Mudan Automobile Shares Company Limited
Guo Zhi Rong
Chairman

Zhangjiagang City, Jiangsu Province, China

31 March 2009

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 2008, 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
MIU Jin Xiang

Zhangjiagang City, Jiangsu Province, China

31 March 2009

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr Guo Zhi Rong (郭志榮), aged 34, 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 Guo 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 33, 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 (周培淋), 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 52, 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 Hui Liang (朱惠良), aged 43, 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 64, 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 57, 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 64, 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 MIU Jin Xiang (繆金祥), male, aged 57, 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 SHEN Yong (沈勇), male, aged 33, 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 Zi Hao (李子豪), aged 44, he has extensive operation and management experience in the automotive industry in the PRC. He is currently the chairman of Ningxia New Dadi Motor Co., Ltd., as well as the president and chairman of the Board of Chengdu New Dadi Motor Co., Ltd. and the chairman of the Foshan Funde Rixing Development Company Limited. He obtains the master's degree of Tsinghua University and University of Wales(英國威爾士大學).He is studying for the PhD degree of senior MBA of Inter American University. He joined the Company in 2008.

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 45, 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. CHENG Wai Pui (鄭偉培), aged 42, is the company secretary and the authorised representative of the Company. He obtained a bachelor degree in business from Monash University in Australia in 1994. He was awarded as a certified practising accountant of CPA Australia in 1998. Before joining the Company, Mr. Cheng was the company secretary and financial controller of two listed companies in Hong Kong, and has over 10 years of the fields of auditing and accounting. He joined the Company in February 2009.

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

Corporate governance practice

Save for those deviations disclosed below, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) set out in the GEM Listing Rules throughout the year under review.

Code of conduct for directors carrying out securities transactions

During the year ended 31 December 2008, the current Board did not discover any non-compliance with the requirements of securities 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 date of this report, 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 17 to 19 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.

There is no relationship (including financial, business, family or otherwise) among member of the Board of Directors.

The members of the Board of Directors during the year and as at the date of this report are set out below. 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.

Executive Directors

Mr. GUO Zhi Rong (<i>Chairman</i>)	(Appointed on 3 March 2008 as <i>Executive Director and Chairman</i>)
Mr. JIANG Bin	(Appointed on 3 March 2008)
Mr. HOU Cheng Bao	
Mr. SUN Min Biao	(Removed on 3 March 2008)
Mr. YANG De Xiang	(Removed on 3 March 2008)

Non-executive Directors

Mr. ZHOU Pei Lin	
Mr. LI Jian Hua	(Appointed on 3 March 2008)
Mr. ZHU Hui Liang	(Appointed on 3 March 2008)
Mr. LU Guo Zhang	(Removed on 3 March 2008)

Independent Non-executive Directors

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)
Mr. JIANG Lei	(Removed on 3 March 2008)
Mr. HUANG Zhen Hua	(Removed on 3 March 2008)
Ms. XIAO Wei Hong	(Removed on 3 March 2008)

Corporate Governance Report

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.

Each of the Non-executive Directors and Independent Non-executive Directors is appointed for a term of three years.

According to the Code provision A.1.1 and A.1.3 of the CG 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 confirm the 9 Board meetings had been held during the year ended 31 December 2008 and the notifications had been sent at least 14 days before the regular meetings.

The Board meeting should be held at least once quarterly and regular board meeting should be held once every three months. The Directors could attend the meetings in person or by means of electronic communications. Set out below is the number of board meetings held by the Company in 2008 and the attendance of each Director:

Number of Board meetings held in 2008: 9

Details of individual attendance of each Director:

	Attendance in 2008 (%)
Executive Directors	
Mr. GUO Zhi Rong	100%
Mr. JIANG Bin	100%
Mr. HOU Cheng Bao	89%
Mr. SUN Min Biao	0%
Mr. YANG De Xiang	0%
Non-executive Directors	
Mr. ZHOU Pei Lin	100%
Mr. LI Jian Hua	100%
Mr. ZHU Hui Liang	56%
Mr. LU Guo Zhang	0%
Independent non-executive Directors	
Mr. WANG Cheng Cai	100%
Mr. GAO Xue Fei	78%
Mr. YAO Zhi Ming	100%
Mr. JIANG Lei	0%
Mr. HUANG Zhen Hua	0%
Ms. XIAO Wei Hong	0%

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

Corporate Governance Report

Chairman and Chief Executive Officer

In addition, Mr LI Jing Shan was appointed as Chief Executive Officer (general manager of the Company) by the Company on 10 April 2008 and he resigned as the general manager of the Company on 29 December 2008, and the Company appointed Mr Li Zi Hao as the general manager on the same date. The chairman of the Board is appointed by the Board itself, who is responsible for the leadership of effective operation of the Board, and ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner. The chief executive officer is appointed by the Board, responsible for the management of daily operations of the Company and the implementation of the strategies and plans determined by the Board.

Remuneration Committee

On 10 April 2008, the Company set up the Remuneration Committee pursuant to the CG Code and 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 the 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.

During the year, the remuneration committee held two meetings. All members of the Remuneration Committee attended the meeting during which the responsibilities of the remuneration committee were defined and matters such as the remuneration policy, incentive mechanism of the Directors and senior management of the Group were reviewed. The chairman of the remuneration committee provides recommendations on the Board of meeting in which the independent non-executive Directors have attended for the approval of the Board after each meeting.

Nomination of Directors

The Company has not experienced any casual vacancy for members of the Board during the year. In the event that there is such circumstance, the Director appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after his appointment. The Board selects and nominates candidates based on whether they possess the skills and experience required by the Group's development.

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.

Corporate Governance Report

Internal Control

To enhance the internal control system of the Company, the Directors are responsible for reviewing the internal control and risk management system of the Company periodically to ensure its effectiveness and efficiency. With the support of the internal audit department, they have reviewed the practices, procedures, expenditure and internal control of the Company. The management will regularly monitor the concerns as reported by the internal audit department to ensure appropriate remedial measures have been implemented. The Board or senior management can also request the internal audit group to review specific areas of concern and report significant findings of such review to the Board and the audit committee.

During the year under review, the Company has appointed an independent auditor to conduct an overall review on the internal control systems of the Company. Based on the recommendations made by such independent auditor, the Company has made improvements to its internal control systems.

Audit Committee

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 Mr. WANG Cheng Cai who possesses the appropriate professional qualification required by Rule 5.05 (2) of the GEM Listing Rules. As at the date of this 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.

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 and to review the financial reports of the Company;
- (5) to be responsible 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 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 2008 with its external auditors.

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. During 2008, the Audit Committee convened five meetings, at which the quarterly, interim and annual results were primarily discussed and reviewed and the internal control procedures of the Group were also discussed and reviewed. The attendance of each Director is as follow:

Mr. Wang Cheng Cai	100%
Mr. Gao Xue Fei	100%
Mr. Yao Zhi Ming	100%

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:

	For the year ended 31 December 2008 RMB'000	For the year ended 31 December 2007 RMB'000
Type of service		
To carry out audit for the Company	430	850

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 Company. During the presentation of the quarterly interim and annual financial statements to the shareholders, the Directors should allow the shareholders to consider and understand the different aspects of the condition and prospects of the Company.

Accounting period

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

Accounting record

The Directors should be responsible for ensuring that the Company keeps its accounting record. The record should disclose the Company's financial condition reasonably and accurately and can be applied to the financial statements prepared according to the applicable laws and applicable accounting standards.

Sustainable operation

Despite the Company resumed production in third quarter in 2008 and its production and sale were just recovered, the Directors believes that if 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.

Corporate Governance Report

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) publish the Group's latest and major information in the company's 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.

By order of the Board

Mudan Automobile Shares Company Limited

Guo Zhi Rong

Chairman

Zhangjiagang City, Jiangsu Province, China

31 March 2009

Independent Auditor's Report



1304, 13/F
Shanghai Industrial Investment Bldg,
60 Hennessy Road
Wanchai, Hong Kong

TO THE SHAREHOLDERS OF MUDAN AUTOMOBILES SHARES COMPANY LIMITED INCORPORATED IN 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 28 to 61, which comprise the balance sheet as at 31 December 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with International Standards on Auditing issued by the International Accounting Standard Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

As disclosed in note 27, up to the date of this report, the Company had contingent liabilities amounting to approximately RMB75,023,136 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 RMB75,023,136 up to the date of this report is fairly stated.

Independent Auditor's Report

Material fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the adoption of the going concern basis in preparing such financial statements. As set out in note 2 to the financial statements, the financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of certain financing and share capital restructuring plans and the debt restructuring result reached with the creditors and, among other things, the financial support from the potential new substantial shareholder. We consider that appropriate disclosures have been made in such financial statements concerning the relevant material uncertainty, but the inherent uncertainties surrounding the circumstances under which the Company might successfully continue to adopt the going concern basis are so extreme, we have disclaimed our opinion on material uncertainty relating to the going concern basis.

The financial statements of the Company do not include any adjustment that would be necessary if the Company failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the value of the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

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 and material fundamental uncertainty relating to going concern basis paragraph, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company as at December 31, 2008 and of its loss and cash flows for the year then ended in accordance with International 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
31 March 2009

Income Statement

For the year ended 31 December 2008

(Expressed In Renminbi)

	Notes	2008	2007
Turnover	7	10,698,243	327,743,441
Cost of sales		(17,901,505)	(315,727,543)
Gross (loss) profit		(7,203,262)	12,015,898
Other operating income	8	8,125,997	3,421,533
Distribution expenses		(4,748,250)	(27,920,631)
General and administrative expenses		(65,323,353)	(105,398,998)
Other operating expenses	9	(12,914,195)	(3,247,945)
Net finance income (expenses)		3,543,254	(8,744,136)
Loss before taxation	11	(78,519,809)	(129,874,279)
Income tax expenses	12	–	–
Loss for the year attributable to the equity holders of the Company		(78,519,809)	(129,874,279)
Dividend	13	–	–
Loss per share – basic	14	(0.27)	(0.46)

The notes on pages 32 to 61 form part of these financial statements.

Balance Sheet

At 31 December 2008

(Expressed in Renminbi)

	Notes	2008	2007
Assets and liabilities			
Non current assets			
Property, plant and equipment	16	171,643,007	189,792,794
Construction in progress	17	–	–
		171,643,007	189,792,794
Current assets			
Inventories	18	30,538,016	36,310,034
Trade and other receivables	19	5,005,494	56,267,216
Amount due from a shareholder	20	–	1,494,900
Pledged deposits	21	9,089,340	28,321,490
Bank balances and cash	22	3,669,714	11,780,245
		48,302,564	134,173,885
Current liabilities			
Trade and other payables	22	109,775,687	127,130,899
Bills payables	22	–	16,232,150
Amount due to a shareholder	20	5,147,671	6,080,075
Amounts due to related companies	20	112,057,195	103,038,728
Income tax payable		1,232,552	1,232,552
		228,213,105	253,714,404
Net current liabilities		(179,910,541)	(119,540,519)
Net (liabilities) assets		(8,267,534)	70,252,275
Capital and reserves			
Share capital	24	284,800,000	284,800,000
Statutory surplus reserve		15,421,641	15,421,641
Statutory public welfare fund		15,421,641	15,421,641
Accumulated losses		(323,910,816)	(245,391,007)
		(8,267,534)	70,252,275

The financial statements on pages 28 to 61 were approved and authorised for issue by the board of directors on 31 March 2009 and are signed on its behalf by:

Guo Zhi Rong
Director

Jiang Bin
Director

Statement of Changes in Equity

For the year ended 31 December 2008

(Expressed In Renminbi)

	Equity attributable to equity holders of the Company				
	Share capital	Statutory surplus reserve (Note 1)	Statutory public welfare fund (Note 2)	Accumulated losses (Note 3)	Total capital and reserves
At 1 January 2007	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)
At 31 December 2007 and 1 January 2008	284,800,000	15,421,641	15,421,641	(245,391,007)	70,252,275
Loss for the year	-	-	-	(78,519,809)	(78,519,809)
At 31 December 2008	284,800,000	15,421,641	15,421,641	(323,910,816)	(8,267,534)

Notes:

1. 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 2008 (2007: Transfer of RMB Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

2. 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 2008 (2007: Transfer of RMB:Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

3. Retained profits (Accumulated losses)

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;
- (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 December 31, 2008 (2007: Nil).

Cash Flow Statement

For the year ended 31 December 2008

(Expressed In Renminbi)

	2008	2007
Operating activities		
Loss before taxation	(78,519,809)	(129,874,279)
Adjustments for:		
Allowance for bad and doubtful debts	41,119,806	–
Reversal of a trade payable	(1,770,000)	–
Reversal of welfare fund payable	(6,044,195)	–
Litigation claims	12,912,943	–
Depreciation of property, plant and equipment	18,211,376	18,624,665
Net finance (income) expenses	(3,543,254)	8,945,036
Operating cashflow before movements in working capital	(17,633,133)	(102,304,578)
Decrease in inventories	5,772,018	37,295,483
Decrease in trade and other receivables	10,995,127	45,650,185
Decrease in amount due from (to) a shareholder	(290,715)	(1,903,246)
Decrease in trade and other payables and bills payables	(38,686,110)	(197,057,132)
Increase in amounts due to related companies	9,018,467	101,028,142
Net cash used in operating activities	(30,824,346)	(117,291,146)
Investing activities		
Acquisition of property, plant and equipment	(61,589)	(6,911,831)
Proceeds from disposal of property, plant and equipment	–	184,344
Increase in construction in progress	–	(513,000)
Interest received	3,543,254	2,727,863
Decrease in pledged deposits	19,232,150	140,061,870
Net cash from investing activities	22,713,815	135,549,246
Financing activities		
Advances from Jiangsu Mudan	–	144,200,000
Advances from Jinmao Investment Co.,Ltd	–	(8,030,000)
Repayment of bank loans	–	(139,400,000)
Interest paid	–	(9,539,483)
Net cash used in financing activities	–	(12,769,483)
Net (decrease) increase in cash and cash equivalents	(8,110,531)	5,488,617
Cash and cash equivalents at beginning of the year	11,780,245	6,291,628
Cash and cash equivalents at end of the year	3,669,714	11,780,245

The notes on pages 32 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 Company's principal activities are the manufacture and sales of automobiles.

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

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

These financial statements have been approved for issued by the Board of Director on 31 March 2009

2. Basis of preparation of financial statements

The Company suffered a loss of RMB78,519,809 for the year ended 31 December 2008 and as at 31 December 2008 the Company had net current liabilities and net liabilities of RMB179,910,541 and RMB8,267,534 respectively.

As detailed disclosure made in note 27 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 16 Jan 2009, the amount frozen is about RMB 75,023,136. 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.

As disclosed in note 29 to the financial statements, the Board announces that on 25 February 2008, two substantial shareholders of the Company, namely, Jiangsu Mudan and 張家港市直屬公有資產經營有限公司 (Zhangjiagang Municipal Public Assets Management Co. Ltd., "ZMPAM"), which hold approximately 35.23% and 33.47% of the entire issued share capital of the Company respectively, and two minority shareholders, 張家港市牡丹客車配件有限公司 (Zhangjiagang Municipal Mudan Bus Accessories Co. Ltd., "ZMMBA") and 張家港市牡丹汽車附件有限公司 (Zhangjiagang Municipal Mudan Car Accessories Co. Ltd., "ZMMCA") have signed their respective memorandum and agreements for the intended disposal of their entire respective interests to the proposed acquirers upon fulfillment of the conditions as mentioned in note 29B.

The management of the Company has taken the following measures:

- i) Carry out debt restructuring with its creditors. Up to the date of approval of these financial statements, the Company has reached agreements with its creditors in respect of debt restructuring. Also, the management is working hard for finalisation of all court litigations. Therefore, the financial statements have been prepared on the assumption that the Company will continue to operate as a going concern;
- ii) The management of the Company is considering to strengthen the capital base of the Company and provide immediate cash flow through various financing activities and capital restructuring;
- iii) The management of the Company continues to take action to strengthen cost control in respect of various administrative and other operating expenses, and is actively seeking new investment and business opportunities to pursue profitable businesses that would bring positive cash flow.
- iv) The management of the Company is in the opinion that the Company would obtain continuous financial support from the proposed acquirers for the production and operation.

The management of the Company believes that, in the light of the measures taken to date, together with the expected results of other measures in progress, the Company will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, notwithstanding that the Company had recorded a significant amount of loss for the year and had overdue debts as at 31 December 2008, the management of the Company is of the opinion that it is appropriate to prepare these financial statements 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 2008. 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.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Significant accounting policies (continued)

(a) Statement of compliance (continued)

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 or not relevant for the Group's operations. 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.

IFRS (Amendment)	Improvements to IFRS ¹
IAS 1 (Revised)	Presentation of Financial Statements ²
IAS 32 and IAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
IAS 23 (Revised)	Borrowing Costs ²
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedge Items ³
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
IFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ²
IFRS 3 (Revised)	Business Combinations ³
IFRS 8	Operating Segments ²
IFRIC-INT 13	Customer Loyalty Programmes ⁴
IFRIC-INT 15	Agreements for the Construction of Real Estate ²
IFRIC-INT 16	Hedges of a Net Investment in a Foreign Operation ⁵
IFRIC-INT 17	Distributions of Non-cash Assets to Owners ³

1 Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5 which are effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 January 2009.

3 Effective for annual periods beginning on or after 1 July 2009.

4 Effective for annual periods beginning on or after 1 July 2008.

5 Effective for annual periods beginning on or after 1 October 2008.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Significant accounting policies (continued)

(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.

(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.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Significant accounting policies (continued)

(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.

Loans and receivables

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

Financial liabilities and equity

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

Notes to the Financial Statements

(Expressed in Renminbi)

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

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.

(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.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Significant accounting policies (continued)

(g) Taxation

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi)

3. Significant accounting policies (continued)

(h) Revenue recognition

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

(i) Sales of goods

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

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

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

(ii) Service income/management fees

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

(iii) Interest income

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

Notes to the Financial Statements

(Expressed in Renminbi)

3. Significant accounting policies (continued)

(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.

(l) Operating leases

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

(m) Segment reporting

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

Notes to the Financial Statements

(Expressed in Renminbi)

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Company assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will affect the depreciation charges in the year in which the estimates change.

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceeds its recoverable amount, in accordance with the Company's accounting policy.

The Company tests annually whether property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the net asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates such as the future revenue and discount rates, taking into account the existing business expansion plan going forward, the current sales orders on hand and other strategic new business development. The management had reviewed the Company's property, plant and equipment for impairment using cash flow projections and valuation report prepared by an independent professional valuer. No impairment loss was provided for both years.

Notes to the Financial Statements

(Expressed in Renminbi)

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Allowance for inventories

The management of the Company reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Company carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

Allowance for bad and doubtful debts

Management regularly reviews the recoverability and age of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Company takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

5. Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Company's capital structure. The overall strategy of the Company remained unchanged during the two years ended 31 December 2008 and 2007.

Notes to the Financial Statements

(Expressed in Renminbi)

6. Financial instruments

a. Financial risk management objectives and policies

The Company's major financial instruments include trade receivables, other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables and accruals, amount due to shareholders and amount due to a related company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

As at 31 December 2008, the Company has certain concentration of credit risk as 3,528,665 (2007: 10,371,060) of the total trade receivables were due from the Company's top five largest customers. In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company has no cash flow interest-rate risk as there are no bank and other borrowings which bear floating and fixed interest rates. The Company historically has not used any financial instruments to hedge potential fluctuations in interest rates.

Currency risk

Most of the Company's monetary assets and liabilities are denominated in RMB, and the Company conducts its business transactions principally in RMB. The exchange rate risk of the Company is not significant.

Notes to the Financial Statements

(Expressed in Renminbi)

6. Financial instruments (continued)

a. Financial risk management objectives and policies (continued)

Liquidity risk

For the management of the Company's liquidity risk, the Company monitors and maintains a sufficient level of cash and cash equivalents considered adequate by management to finance the Company's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

The following table details the contractual maturities at the balance sheet date of the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Company can be required to pay:

	On demand or within one year	Total undiscounted cash flow	Carrying amount
At 31 December 2008			
Financial liabilities			
Trade and other payables	109,775,687	109,775,687	109,775,687
Amount due to a shareholder	5,147,671	5,147,671	5,147,671
Amounts due to related companies	112,057,195	112,057,195	112,057,195
	226,980,553	226,980,553	226,980,553

	On demand or within one year	Total undiscounted cash flows	Carrying amount
At 31 December 2007			
Financial liabilities			
Trade and other payables	127,130,899	127,130,899	127,130,899
Bills payables	16,232,150	16,232,150	16,232,150
Amount due to a shareholder	6,080,075	6,080,075	6,080,075
Amounts due to related companies	103,038,728	103,038,728	103,038,728
	252,481,852	252,481,852	252,481,852

b. Fair value

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated balance sheet approximate to the corresponding carrying amounts due to their short-term maturities.

Notes to the Financial Statements

(Expressed in Renminbi)

6. Financial instruments (continued)

c. Categories of financial instruments

	2008	2007
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	5,005,494	56,267,216
Amount due from a shareholder	–	1,494,900
Pledged bank deposits	9,089,340	28,321,490
Bank balances and cash	3,669,714	11,780,245
	17,764,548	97,863,851
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables	109,775,687	127,130,899
Bills payables	–	16,232,150
Amount due to a shareholder	5,147,671	6,080,075
Amounts due to related companies	112,057,195	103,038,728
	226,980,553	252,481,852

7. 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 of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Business segments

The Company had only one business segment for the two years ended December 31, 2007 and 2008, which was 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:

	2008	2007
Revenue		
PRC	10,698,243	278,387,317
Other countries	–	49,356,124
	10,698,243	327,743,441

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

Notes to the Financial Statements

(Expressed in Renminbi)

8. Other operating income

	2008	2007
Net income from sales of scrap materials and steels	311,802	3,261,839
Reversal of a trade payable	1,770,000	–
Reversal of welfare fund payable	6,044,195	–
Other income	–	159,694
	8,125,997	3,421,533

9. Other operating expenses

	2008	2007
Litigation claims	12,912,943	–
Donations	–	150,000
Litigation fee	–	131,029
Repairs and maintain fee for vehicles and parts	–	536,553
Others	1,252	2,430,363
	12,914,195	3,247,945

10. Staff costs

	2008	2007
Salaries, wages and bonus	2,995,944	35,515,002
Contributions to retirement benefit scheme	340,434	4,548,481
	3,336,378	40,063,483
Average number of employees during the year	208	1,793

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% (2007: 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)

11. Loss before taxation

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

(a) Net finance income (expenses):

	2008	2007
Interest on bank loans and other borrowings repayable within five years	–	(9,452,115)
Interest on discounting of bills receivable	–	(953,176)
Bank charges	(48,383)	(200,900)
Interest income from installment sales	3,204,019	–
Interest from bank deposits	387,618	2,727,863
Interest expense from installment sales	–	(865,808)
	3,543,254	(8,744,136)

(b) Other items:

	2008	2007
Auditors' remuneration	456,995	850,000
Impairment losses on trade and other receivable	41,119,806	–
Depreciation on property, plant and equipment	18,211,376	18,624,665
Operating lease rentals in respect of prepaid lease payments, properties and equipment	–	1,105,500

12. 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.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "NEW LAW") by Order No. 63 issued by the Tenth National Peoples Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008.

Notes to the Financial Statements

(Expressed in Renminbi)

12. Income tax expenses (continued)

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

	2008	2007
(Loss) profit before tax	(78,519,809)	(129,874,279)
Tax at applicable tax rate of 25% (2007: 33%)	(19,629,952)	(42,858,512)
Tax effect of tax losses not recognised	19,629,952	42,858,512
Tax charge for the year	-	-

13. Dividend

No dividend was paid or proposed for the year ended December 31, 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

14. 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 RMB78,519,809 (2007: RMB 129,874,279) and based on the weighted average number of shares in issue during the year of 284,800,000 (2007: 284,800,000).

No diluted loss per share have been presented for the two years ended 31 December 2008 and 2007 as there was no dilutive potential ordinary share outstanding for both years.

15. Directors' and employees' emoluments

(a) Directors' emoluments

Details of emoluments paid by the Group to the directors during the year are as follows:

For the year ended December 31, 2008

	Salaries, allowance and other benefits	Retirement benefit scheme contribution	Total remuneration
Executive Directors			
GUO Zhi Rong (Note)	108,000	-	108,000
JIANG Bin (Note)	70,200	-	70,200
HOU Cheng Bao	70,200	-	70,200
ZHOU Pei Lin (Note)	-	-	-
LI Jian Hua (Note)	-	-	-
ZHU Hui Liang (Note)	-	-	-
	248,400	-	248,400
Independent non-executive			
WANG Cheng Cai (Note)	-	-	-
GAO Xue Fei (Note)	-	-	-
YAO Zhi Ming (Note)	-	-	-
	-	-	-
Total	248,400	-	248,400

Note: appointed on 3 March 2008.

Notes to the Financial Statements

(Expressed in Renminbi)

15. Directors' and employees' emoluments (continued)

(a) Directors' emoluments (continued)

For the year ended December 31, 2007

	Salaries, allowance and other benefits	Retirement benefit scheme contribution	Total remuneration
Executive Directors			
Sun Ming Biao (Note)	-	-	-
Huo Cheng Bao	109,482	9,469	118,951
Yang De Xiang (Note)	-	-	-
Lu Guo Zhang (Note)	-	-	-
	109,482	9,469	118,951
Independent non-executive			
Huang Zhen Hua (Note)	111,500	-	111,500
Xiao Wei Hong (Note)	-	-	-
	111,500	-	111,500
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
	152,402	17,286	169,688
Total	373,384	26,755	400,139

Notes: Recalled on 3 March 2008.

None of the directors of the Company waived or agreed to waive any emoluments paid by the Company and no incentive payment for joining the Company or compensation for loss of office was paid or payable to any director of the Company during two years ended 31 December 2008 and 2007.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Company, one director (2007: one director), whose emoluments are included in the disclosures in note(a) above. The emoluments of the remaining individual for the two years ended 31 December 2008 and 2007 were as follows:

	2008	2007
Salaries, allowance and other benefits	400,800	592,765
Retirement benefit scheme contributions	11,250	23,408
	412,050	616,173

Notes to the Financial Statements

(Expressed in Renminbi)

16. Property, plant and equipment

	Buildings	Machinery and Equipment	Motor Vehicles	Other Equipment	Total
Cost:					
At 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)
At 31 December 2007 and 1 January 2008	148,452,927	184,716,502	4,478,186	4,758,600	342,406,215
Additions	–	–	–	61,589	61,589
At 31 December 2008	148,452,927	184,716,502	4,478,186	4,820,189	342,467,804
Accumulated depreciation and impairment losses:					
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)
At 31 December 2007 and at 1 January 2008	37,660,121	110,960,177	2,096,896	1,896,227	152,613,421
Charge for the year	4,051,547	13,349,766	434,370	375,693	18,211,376
At 31 December 2008	41,711,668	124,309,943	2,531,266	2,271,920	170,824,797
Net carrying amount:					
At 31 December 2008	106,741,259	60,406,559	1,946,920	2,548,269	171,643,007
At 31 December 2007	110,792,806	73,756,325	2,381,290	2,862,373	189,792,794

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

Upon the resumption of the manufacturing and distribution activities since October 2008, 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 RMB171,643,007 is fairly stated as at 31 December 2008.

17. Construction in progress

	2008	2007
Balance at 1 January	–	709,583
Additions	–	513,000
Transferred to property, plant and equipment	–	(1,222,583)
Balance at 31 December	–	–

Notes to the Financial Statements

(Expressed in Renminbi)

18. Inventories

	2008	2007
Raw materials	12,645,883	18,489,123
Work in progress	6,139,900	5,660,188
Finished goods	11,752,233	12,160,723
	30,538,016	36,310,034

19. Trade and other receivables

	2008	2007
Trade and other receivables	79,547,269	87,171,493
Less: Allowance for doubtful trade and other receivables	(75,448,604)	(44,974,499)
	4,098,665	42,196,994
Advance deposits to suppliers	165,992	10,091,977
Other debtors	740,837	3,978,245
	5,005,494	56,267,216

An ageing analysis of trade and other receivables (net of allowance for doubtful debts) is as follows:

	2008	2007
Within 3 months	1,227,636	2,187,300
Over 3 months but less than 6 months	70,000	15,286,190
Over 6 months but less than 1 year	–	19,495,458
Over 1 year but less than 2 years	2,801,029	4,907,879
Over 2 years	–	320,167
	4,098,665	42,196,994

Customers are normally granted credit terms of 3 months to 12 months (2007: 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 installments over a period of not more than 24 months (2007: not more than 24 months).

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the company satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for bad and doubtful debts is as follows:

	2008	2007
Balance at beginning of the year	44,974,499	44,974,499
Impairment loss recognised during the year	30,474,105	–
	75,448,604	44,974,499

At each of the balance sheet dates, the Company's trade and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. The Company does not hold any collateral over the balances.

Notes to the Financial Statements

(Expressed in Renminbi)

20. Amounts due from/(to) a shareholder/related companies

Amounts due from/(to) a shareholder/related companies are unsecured, interest free and repayment on demand.

21. Bank balances/pledged bank deposits

Bank balances carry interest at market rates which range from 0.36% to 0.72% (2007: 0.72%) per annum. The pledged deposits carry fixed interest rate of 1.71% (2007: 1.98%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

22. Trade and other payables and bills payables

	2008	2007
Trade payables	70,649,182	75,678,707
Bills payable	–	16,232,150
Accrued salaries, bonus and welfare fund	743,423	6,080,082
Other payables	38,383,082	45,372,110
	109,775,687	143,363,049

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

	2008	2007
Due within 3 months	18,486,460	324,305
Due after 3 months within 6 months	–	39,050,972
Due after 6 months within 1 year	–	37,649,460
Due over 1 year	52,162,722	14,886,120
	70,649,182	91,910,857

23. Deferred taxation

At the balance sheet date, the Company has estimated the unused tax losses of approximately RMB17,234,043 (2007: RMB15,415,082) available for offset against future profits. No deferred tax asset has been recognized in respect of the unused tax losses due to the unpredictability of future profits stream. Such tax losses can be carried forward for 5 years from the year 12 which the respective loss arose.

Notes to the Financial Statements

(Expressed in Renminbi)

24. Share Capital

Share capital

	Number of shares	Amount
Authorised:		
At 31 December 2007 and 31 December 2008		
Domestic shares of RMB 1.00 each	196,250,000	196,250,000
H shares of RMB 1.00 each	88,550,000	88,550,000
	284,800,000	284,800,000
Issued and fully paid:		
At 31 December 2007 and 31 December 2008		
Domestic shares of RMB 1.00 each	196,250,000	196,250,000
H shares of RMB 1.00 each	88,550,000	88,550,000
	284,800,000	284,800,000

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

25. Operating lease commitments

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings and a production line which fall due as follows:

	2008	2007
Within one year	1,105,500	1,105,500
In the second to fifth years inclusive	4,422,000	4,422,000
Over five years	9,459,520	10,565,020
	14,987,020	16,092,520

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)

26. 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	2008	2007
Purchases from a related company	(i)	538,659	10,950,540
Rent paid for prepaid lease payments	(ii)	–	905,500
Rent paid for a property	(iii)	–	100,000
Rent paid for a production line	(iv)	–	100,000
Sales of steels	(v)	1,683,947	976,532
Reimbursement of electricity charges	(vi)	1,728,271	1,479,217

- (i) This represents purchases of raw materials from 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 (2007: 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 2008 was RMB905,500 (2007: RMB905,500). But the Company has reduced the manufacturing and distribution activities in PRC substantially since October 2007, so Jiangsu Mudan exempted this rent expense this year.
- (iii) The Company has entered into a lease agreement with Jiangsu Mudan whereby the company is granted rights to use a property in the PRC for a term of 20 years. The annual fixed rental payment for the year ended December 31, 2008 was RMB100,000 (2007: RMB100,000). But the Company has reduced the manufacturing and distribution activities in PRC substantially since October 2007, so Jiangsu Mudan exempted this rent expense this year.
- (iv) The Company has entered into a lease agreement with Jiangsu Mudan whereby the Company is granted rights to use a production line in the PRC for a term of 20 years. The annual fixed rental payment for the year ended December 31, 2008 was RMB100,000 (2007: RMB100,000). But the Company has reduced the manufacturing and distribution activities in PRC substantially since October 2007, so Jiangsu Mudan exempted this rent expense this year.
- (v) For the year ended 31 December 2008, the Company sold steel to a related party (Zhangjiagang Jishun Transportation Industrial Co., Ltd) which amounted to RMB1,683,947 (2007: RMB976,532).

Notes to the Financial Statements

(Expressed in Renminbi)

26. Materials related party transactions (continued)

- (vi) For the year ended 31 December 2008, the Company provided the other services to a related Company (Zhangjiagang Jishun Transportation Industrial Co., Ltd) which amounted to RMB1,728,271 (2007: RMB1,479,217). The other services included reimbursement of electricity charges.
- (vii) During the year end 31 December 2007 Jiangsu Mudan repaid the Company a total of approximately RMB142,000,000 which is in the excess of the 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.
- (viii) During the years ended 31 December 2007 and 2008, Jiangsu Mudan allowed the Company to use the trademark of "Mudan", certain of its sales offices, office equipment and public facilities at nil consideration.
- (ix) 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:

	2008	2007
Members of the directors and the key management		
Short-term benefits	320,400	1,219,429
Post-employment benefits	-	-
	320,400	1,219,429

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

Notes to the Financial Statements

(Expressed in Renminbi)

27. Contingent liabilities

Up to the date of this report, the Company had contingent liabilities amounting to approximately RMB75,023,136 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 RMB331,193 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 RMB1,539,902 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;
- iii. 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 RMB618,723 to the plaintiff for payment of metal accessories supplied by the plaintiff to the Company;
- iv. On or about 21 September 2007, 蘇州市司偉金屬製品有限公司 (Suzhou City Siwei 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;
- v. On or about 7 April 2008, 南京康尼機電新技術有限公司 (Nanjing Hongne Mechanical New Technology Limited) filed its writ with 南京市雨花區人民法院 (the Nanjing City Yufa District People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB556,340 in relation to the vehicle accessories and materials provided by the plaintiff.
- vi. On or about 21 April 2008, 安徽江淮汽車股份有限公司 (Anhui Jianghuai Vehicles Shares Company Limited) filed its writ with 合肥市中級人民法院 (the Hefei City Middle People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB36,337,910 in relation to the chassis provided by the plaintiff.
- vii. On or about 16 May 2008, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicles 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 a total of RMB5,239,755 in relation to the chassis provided by plaintiff.
- viii. On or about 16 July 2008, 南京依維柯汽車有限公司 (Nanjing Iveco Motor Company Ltd.) filed its writ with 南京市玄武區人民法院 (the Nanjing City Xuan Wu District People's Court) against the Company. It is stated in the writ that the Company has failed to pay the debt of RMB28,486,438.
- ix. On or about 31 July 2008, 神木縣公共交通有限責任公司公共汽車分公司 (Shenmu County Public Traffic Company Limited Bus branch) 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 shall indemnify RMB171,800.

Notes to the Financial Statements

(Expressed in Renminbi)

27. Contingent liabilities (continued)

- x. On or about 20 August 2008, 常州市鴻協安全玻璃有限公司 (Changzhou Hongxie Safety Glass 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 the debt of automobile glass of RMB961,984.
- xi. On or about 20 August 2008, 張家港保稅區宇松貿易有限公司 (Zhangjiahang tax-protected District Yusong Trading 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 the loan debt of RMB44,373.

28. Ultimate holding company

The directors consider the ultimate holding company as at 31 December 2008 to be Zhangjiagang Municipal Public Assets Management Co., Ltd, which is a state-owned enterprise established in the PRC.

29. 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)

29. 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.

Agreement between ZMPAM and 佛山市順德港華實業有限公司 (Foshan 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.

Notes to the Financial Statements

(Expressed in Renminbi)

29. 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”) (continued)

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.

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.

Notes to the Financial Statements

(Expressed in Renminbi)

29. 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”) (continued)

Possible change in shareholdings

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

Before the completion

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

After the completion

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

During the year, the Company purchased motor vehicles from Chengdu New Dadi totalling RMB5,060,000 and sold vehicles accessories to Chengdu New Dedi totalling RMB4,747,536.

Notes to the Financial Statements

(Expressed in Renminbi)

C. Debt re-structuring for the amount due to a related company

As at the balance sheet date, the Company due to a related company, Zhangjiagang Jin Mao Investment Development Company Limited (“Jin Mao”) was RMB 104,417,391. On 11 January 2009, an agreement signed between the Company and Jin Mao states that Jin Mao agrees to waive RMB 63,281,111 from the total amount due from the Company. The maturity date of the remaining balance of RMB 41,136,280 would be extended and the amount would be unsecured and non-interest bearing. First repayment would be required on or before year 2011 and the remaining balance has to be fully repaid on or before 31 December 2013.

On 12 January 2009, a PRC solicitor Jiangsu Guo Rui (江蘇國瑞律師事務所) issued a legal concerning the above debt restructuring. The solicitor stated in the letter that “after reviewing the articles of association of Jin Mao, the related resolution of the board, and the approval documents of Zhangjiagang Municipal Public Assets Management Committee, our firm is of the opinion that the above-mentioned undertaking is the bona fide undertaking made by Jin Mao. It’s disposal of assets and rights has fulfilled the company’s internal voting procedures as required by laws, administrative rules and the company’s articles of association and not violating the related requirements under existing PRC laws, administrative rules and regulatory documents in force. Therefore, such undertaking is legal and effective.”

Five Year Summary

(Expressed in Renminbi)

	Year ended 31 December				
	2008	2007	2006	2005	2004
Results					
Turnover	10,698,243	327,743,441	551,676,336	513,137,945	638,563,780
(Loss)/Profit from operations	(82,063,063)	(121,130,143)	(57,632,572)	(92,549,661)	13,589,326
Net finance income (expenses)	3,543,254	(8,744,136)	(2,081,358)	2,106,514	(8,977,575)
(Loss)/Profit before tax	(78,519,809)	(129,874,279)	(59,713,930)	(90,443,147)	4,611,751
Income tax expense	-	-	-	(3,759,815)	(6,430,712)
Loss for the year attributable to the equity holders of the Company	(78,519,809)	(129,874,279)	(59,713,930)	(94,202,962)	(1,818,961)
Assets and liabilities					
Property, plant and equipment	171,643,007	189,792,794	200,467,300	212,432,426	226,331,755
Construction in progress	-	-	709,503	-	60,000
Net deferred tax assets	-	-	3,759,815	10,190,527	-
Total current assets	48,302,564	134,173,885	484,052,490	730,533,147	782,446,534
Total current liabilities	(228,213,105)	(253,714,404)	(485,102,827)	(683,125,089)	(658,554,658)
	(8,267,534)	70,252,275	200,126,544	259,840,484	354,043,446
Share capital	284,800,000	284,800,000	284,800,000	284,800,000	284,800,000
Reserves	(293,067,534)	(214,547,725)	(84,673,446)	(24,959,516)	69,243,446
	(8,267,534)	70,252,275	200,126,554	259,840,484	354,043,446