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 **2009**

* For identification only

Contents

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"), collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Corporate Information

Executive Directors
Mr. LI Zi Hao *(Chairman)* (Appointed on 29 October 2009)
Ms PAN Li Chan (Appointed on 29 October 2009)
Mr. GUO Zhi Rong *(Chairman)* (Resigned on 29 October 2009 as *Executive Director and Chairman*)
Mr. JIANG Bin (Resigned on 29 October 2009)
Mr. HOU Cheng Bao (Resigned on 29 October 2009)

Non-Executive Directors
Mr. CHAN Man (Appointed on 29 October 2009)
Mr. ZHOU Pei Lin (Resigned on 29 October 2009)
Mr. LI Jian Hua (Resigned on 29 October 2009)
Mr. ZHU Hui Liang (Resigned on 29 October 2009)

Independent Non-executive Directors
Mr. WANG Rui Hua (Appointed on 29 October 2009)
Mr. HUANG Cheng Ye (Appointed on 29 October 2009)
Mr. GUO Hong (Appointed on 29 October 2009 and resigned on 3 March 2010)
Mr. WANG Cheng Cai (Resigned on 29 October 2009)
Mr. GAO Xue Fei (Resigned on 29 October 2009)
Mr. YAO Zhi Ming (Resigned on 29 October 2009)

Supervisors
Mr. WANG Bo *(Chairman)* (Appointed on 29 October 2009)
Mr. WANG Wei Qi (Appointed on 29 October 2009)
Mr. ZHOU Zhi Cheng (Appointed on 29 October 2009)
Mr. MIU Jin Xiang *(Chairman)* (Resigned on 29 October 2009)
Mr. SHEN Yong (Resigned on 29 October 2009)

Audit Committee
Mr. WANG Rui Hua *(Chairman)* (Appointed on 29 October 2009)
Mr. HUANG Cheng Ye (Appointed on 29 October 2009)
Mr. GUO Hong *(Chairman)* (Appointed on 29 October 2009 and resigned on 3 March 2010)
Mr. WANG Cheng Cai *(Chairman)* (Resigned on 29 October 2009)
Mr. GAO Xue Fei (Resigned on 29 October 2009)
Mr. YAO Zhi Ming (Resigned on 29 October 2009)

Remuneration Committee
Mr. WANG Rui Hua *(Chairman)* (Appointed on 29 October 2009)
Mr. HUANG Cheng Ye (Appointed on 29 October 2009)
Mr. GUO Hong (Appointed on 29 October 2009 and resigned on 3 March 2010)
Mr. GAO Xue Fei *(Chairman)* (Resigned on 29 October 2009)
Mr. WANG Cheng Cai (Resigned on 29 October 2009)
Mr. YAO Zhi Ming (Resigned on 29 October 2009)

Compliance Officer
Mr. LI Zi Hao (Appointed on 29 October 2009)
Mr. HOU Cheng Bao (Resigned on 29 October 2009)

Company Sercetary
Mr. LUI Tin Nang

Authorised representatives
Mr. LI Zi Hao
Mr. LUI Tin Nang

Authorised Person to accept services of process and notice in Hong Kong
Mr. LUI Tin Nang
Flat C, 13/F, Block 1
The Waterfront
1 Austin Road
Kowloon
Hong Kong

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

Corporate Information

Principal bankers

Bank of China, Zhangjiagang Branch
Zhangjiagang Rural Commercial Bank,
Zhangjiangang City Branch
Construction Bank of China, Zhangjiagang Branch

Hong Kong branch share registrar and transfer office

Hong Kong Registrars Limited
Room 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East, Wanchai, 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

Room 2610-11, 26/F
Tower II, Lippo Centre
89 Queensway, 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 and its subsidiaries (the "Group") for shareholders' review.

The Company was incorporated on 18 September 1998 under the approval of Jiangsu Provincial People's Government. Current holders of domestic shares are Chengdu New Dadi Motor Company Limited, Foshan City Shunde Ganghua Shiye Company Limited, Foshan City Shunde Zhongyu Car Trading Company Limited and Foshan City Heli Car Trading Company Limited. The major products of the Company are the series of light, medium-sized and large-sized buses, with over 35 models including MD6601, MD6701, MD6750 and MD6110. On 18 December 2001, Mudan Auto was listed on GEM of the Stock Exchange.

BUSINESS REVIEW

1. **Completion of Restructuring and Acquisition Completion for Smooth Transition of Management**

   In 2009, the Company completed all the formalities of the equity transfer of domestic shares in the first half of the year and timely announced the significant issue of filing for approval in the PRC in compliance with the requirements of the local authorities. The general offer made in accordance with the Code on Takeovers and Mergers triggered by the transfer of such domestic shares closed in the latter half of the year and the extraordinary general meeting was successfully held at the end of October for establishing the new Board and the new Supervisory Committee. With the efforts of the new Board taken in serving all shareholders, the operation of the Company has been put on the right track; the overall targets for the year of adjustment, transaction and resumption and outline of the future development plan have been mapped out to lead the new operation team to achieve annual management goals as well as its targets and mission.

2. **Business Re-vitalized following Resumption of Production and Operation**

   Driven by the demand of the sales market, different factors of production of the Company were gradually back to normal in 2009. During the peak seasons of market demand, the speed of daily production of 3 large-sized buses and 5 light buses was realised, which is capable of satisfying the resumed production and delivery requirements of the sales market. During the peak production period, the workshops would operate round the clock to ensure that the quality products with required quantity could be delivered to customers. The vitality of Mudan Auto has been revived.

3. **Achieving Two Breakthroughs in Technology Upgrade and Research and Development**

   Firstly, the establishment of technology research team, we have recruited additional staff in the field extensively, experienced technical staff were engaged during the year to build up step by step a relatively well-rounded team with division of labour in product technology, process procedure, quality control, after-sales technical guidance, technology transfer and technical cooperation and the like, so as to lay a solid foundation in upgrading the production technology and quality assurance of Mudan Auto.

   Secondly, we followed closely the market trend. The Company in 2009 developed new bus models to meet the market needs and to enhance our overall competitiveness. New model of double-decker bus and new energy bus (bus purely operated by electricity) were the two principal product series in technology development of the Company. Of which the new model of double-decker bus, which was developed in cooperation with Chengdu New Dadi Motor Company Limited employing the new technology for city buses domestically and abroad, in satisfying the particular demand for large passenger carrying capacity of public buses in large cities of the PRC. It has become one of the new products of the Company which enjoyed relatively high profit margin and satisfactory market response. New energy bus (bus purely operated on electricity) is one of the projects promoted by the New National Energy Strategy. The Company has leveraged on its experience of the nearly 30 years experiences in the field of development of passenger cars and cooperated closely with a number of domestic and overseas companies with significant competitive advantages in the area of new energy bus to engage in trial production. Trial production of sample cars has been completed, the phase of monitoring of operation data is about to begin.

4. **Results Improved Significantly by Reconstructing Sales Network**

With the aim of reshaping its image and gradually expanding the sales network of Mudan Auto, the Company attained an achievement in respect of establishment of sales team, the choice of sales platforms and timely release of new products. Turnover of approximately RMB110 million was achieved for the year ended 31 December 2009, an increase of 930.96% as compared with the corresponding period of last year. The sales team was built through the recruitment of a team with outstanding performance in sales and management. For the sales platform, Mudan Auto had on one hand, reactivated the original points of sales with the step up in marketing and implemented the sales approach combining both direct and indirect sales methods. MD 6703 luxurious light buses rolling off the production line and double-decker bus launch was successfully held in June 2009 and roadshow exhibitions of the Mudan series were conducted in every major market and region, so as to provide customers with a zero-distance contact with the products of Mudan Auto, which promoted better understanding and cooperation.

Prospects

1. **Technology Innovation, Transfer and Development**

Shaping of the original Mudan luxury light bus model ART(COASTER) into a high-end model by cooperation with Chengdu New Dadi Motor Company Limited. Such work will be carried out through joint development in high-powered special chassis for the light bus and further optimisation of the structure of bus body and the interior to materialise the upgrading and face lifting of existing traditional medium-sized buses of Mudan Auto.

New energy bus (bus purely operated on electricity) which is currently in preliminary trial production has been developed with the cooperation of distinguished partners over the past few years. Trial operation on national demonstration routes and preliminary commercial operations are expected to be completed in 2010. It will be the major item for commercial production of Mudan Auto in the future.

We will explore the viability of introducing high-end small vehicles in PRC from abroad to help Mudan Auto develop high-end, small-sized vehicles by absorbing the relevant technology and introduction of comprehensive production technology.

Chairman's Report

2. Implementation of New Sales Strategy

Double-decker buses are one of the new auto models developed by the Group in 2009. The Company will seek cooperation with banks and public transport companies in the area of financing and aim to build up a link of production and sales and involve more actively in the procurement system of public transport vehicles. Double-decker buses are one of our leading products in 2010. The amount of signed intention orders has already exceeded RMB100 million.

Mudan Auto has demonstrated vitality. Opportunities and challenges lie ahead under the circumstance of the increase in domestic demand, maintaining steady growth and with the financial crisis still overshadowing the international market. All members of the Board of Mudan Auto will act for the utmost benefits of the shareholders and evaluate the current situation from the perspective of the Company, implement innovative technology and management, to enhance the corporate competitiveness and spare no efforts in developing Mudan Auto to be the most competitive corporation in bus production of comprehensive models in China.

Mudan Automobile Shares Company Limited
LI Zi Hao
Chairman

Shunde, Foshan City, Guangdong Province, the PRC
30 March 2010

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT

Business review and outlook for year 2009 is as follows:

The Group has met the achievement of mass production of new type double-decker buses are one of the new products the Group developed during 2009. On the basis of the previous trial production, the Group's technical research, development, production and manufacturing departments have continuously upgraded and improved the manufacturing technology and technical conditions.

Mudan Auto's testing center and quality system passed the examination

In the fiscal year 2009, Mudan Auto's testing center passed the annual examination by the provincial quality and technological department. The approved testing center satisfies the testing requirements of the State applicable to newly produced automobiles, and has the capabilities and qualifications for opening for business of providing testing services to vehicles in use in the market.

The Company has been building a sound product quality management system continuously, laying a foundation for enhancing the quality of Mudan Auto's complete vehicle products. In the fiscal year 2009, the quality management system of the Company has passed the annual inspection by external experts.

Trial production of electric automobiles commenced

Electric automobile is one of the main directions of the development of new energy vehicles in China. Mudan Auto's electric automobiles research and development project has been well on track since July 2009. It is expected that the trial production of two sample vehicles will be completed towards the end of the year and the testing stage will begin accordingly. Relevant departments of Zhangjiagang Municipal Government and Jiangsu Provincial Government have paid great attention and devoted extensive support to Mudan Auto's electric automobiles trail production project.

Three new models of Mudan launched in the market with small scale production

Upgrading and face lifting of three models of Mudan Auto, namely MD6703, MD6110 and MD5061 were completed in the fiscal year 2009. The trial production of new models was successful and limited quantity of which was launched in the market, among which, the double-decker MD6110, one of the new products of the Company, has enjoyed relatively high profit margin and satisfactory market response.

Staff recruitment

The numbers of staff as at 31 December 2009 decreased to 163 from approximately 225 at the beginning of the year.

Sales of products

The Mudan Auto brand owned by the Group 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 564 (2008: 200) vehicles with various kinds of models of automobile under the Mudan Auto and other brands for the fiscal year 2009.

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

Total turnover for the fiscal year 2009 amounted to RMB110,295,640, representing an increase of 930.96% compared to that of RMB10,698,241 generated in 2008. Turnover from light, medium and large-sized buses amounted to RMB13,240,068, RMB19,642,751 and RMB77,412,821 respectively (2008: RMB5,495,080, RMB533,076 and RMB4,670,085). Sales for light-sized, medium-sized and large-sized buses increased by 140.94%, 3,584.79% and 1,557.63% respectively.

The Company recorded a profit before taxation of RMB780,758 in 2009 (2008: loss before taxation in the amount of RMB78,519,809).

Cost of sales and gross profit

Cost of sales increased from RMB17,901,505 in 2008 to RMB133,530,190 in 2009. Marginal loss of the Company's products decreased from 67.33% in 2008 to 21.07% of marginal loss of the Company's products in 2009.

Other operating income

Other operating income for the fiscal year 2009 amounted to RMB82,467,720 (2008: RMB8,125,997), which included the income waive of other borrowings and recovery the allowance for bad and doubtful for debts of RMB63,281,111 and RMB18,509,369, respectively (2008: reversal of a trade payable and welfare fund payable were RMB1,770,000 and RMB6,044,195 respectively).

Distribution expenses and general and administrative expenses

Distribution expenses in 2009 amounted to RMB3,141,898 (2008: RMB4,748,250), representing a significant decrease of approximately 33.83% compared to the same period of 2008.

The total general and administrative expenses for the fiscal year 2009 was RMB30,738,290 representing a significant decrease of 52.94% as compared to the amount of RMB65,323,353 in the corresponding period of 2008.

The Company's expenses on salaries, wages and bonus for the fiscal year 2009 amounted to RMB5,668,892 as compared to RMB2,995,944 in 2008, representing an increase of RMB2,672,948.

In the fiscal year of 2009, the net finance expenses amounted to RMB301,895 comprised interests on other borrowings and short-term bank borrowings. Net finance income amounted to RMB3,543,254 in year of 2008.

Material investments and capital assets

As at the date of this report, the Company did not have any plan for material investments or acquisition of any material capital asset for 2009 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 regularly consider hedging significant foreign currency exposure should such need arises.

Significant investments held

The Company has no significant investments held during the year of 2009.

Financial resources and liquidity

The financial position of the Company comprised capital deficiency which amounted to RMB7,486,776 as at 31 December 2009 (2008: RMB8,267,534). Current assets amounted to RMB53,963,992 in total as at 31 December 2009 (2008: RMB48,302,564), of which RMB6,660,902 (2008: RMB3,669,714) were cash and bank balances. As at 31 December 2009, RMB15,247,325 (2008: RMB9,089,340) was pledged deposits and the deposits amounted to RMB15,205,068 (2008: Nil), have been pledged to bills payables. As at 31 December 2009, the Company has short-term bank borrowings of RMB10,000,000 (2008: Nil) and did not have any long-term bank loans (2008: nil).

As at 31 December 2009, the Company had other borrowings of RMB67,956,113 (2008: Nil) from Jinmao and Jangsu Mudan. The Group's buildings are pledged as collateral security to secure the other borrowings. Such borrowings would not be demanded for repayment on or before 1 January 2011.

Charges on assets

As at 31 December 2009, the Company had short-term bank borrowings of RMB10,000,000 and other borrowings of RMB67,956,113 which were secured by certain plants and equipments of RMB149,448,671 (2008: Nil).

Gearing ratio

The Company's gearing ratio, which is calculated from total liabilities divided by net liabilities, was 28.73 (2008: 27.60) as at 31 December 2009.

Capital structure

During the year 2009, there has been no change in the Company's share capital. As at 31 December 2009, the Company's operations were financed mainly by shareholders' equity, internal resources, bank borrowings and other borrowings. The Company will continue to adopt its treasury policy of placing the Company's cash and cash equivalents in interest bearing deposits.

Management Discussion and Analysis

Employee information

During the year, the average number of employees of the Company was 190 (2008: 208). Employees' remuneration included Directors' emoluments and the relevant cost of all staffs were approximately RMB6,220,825 (2008: RMB3,336,378). They were remunerated in accordance with their performance and market condition. Officially employed staff are entitled to social insurance. As at the date of this report, the Company does not have any share option scheme.

Major customers and suppliers

The Company's sales to the five largest customers for the year ended 31 December 2009 accounted for less than 30% of the Company's turnover for the year (2008: more than 30%). Sales to the largest customer accounted for approximately 25.80% of the Company's turnover for the year 2009. Sales to the five largest customers accounted for approximately 70.39% of the Company's turnover for the year 2009.

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

	Percentage of the Company's total purchases	
	2009	2008
The largest supplier	**60.79%**	21.72%
Five largest suppliers in aggregate	**80.48%**	48.40%

Zhangjiagang Jishun Transportation Industrial Co., Ltd, is the largest supplier of the Group for the year ended 31 December 2009. Zhangjiagang Jishun Transportation Industrial Co., Ltd. is an associate of Jiangsu Mudan Automobile Group Co., Ltd.

Foshan Shunde Zhongyu Car Trading Company Limited is the largest customer of the Group for the year ended 31 December 2009, is a shareholder of the Company.

Beijing Huaxia Dan Ni Vehicle Investment Limited, is one of the five largest customers for the year ended 31 December 2009, which Mr. Li Zi Hao and Ms. Pan Li Chan have indirect beneficial interest in Beijing Huaxia Dan Ni Vehicle Investment Limited.

Save as disclosed above, none of 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.

Report of the Board of Directors

The Board presents their annual report for 2009 together with the audited financial statements of the Group for the year ended 31 December 2009.

Principal activities

The principal activities of the Group are the manufacturing and sale of light-sized, medium-sized and large-sized buses under the brand names of "牡丹" and trademark of "". During the year, there was not material change in the business nature of the Group. An analysis of the main business and geographical distribution of business during the financial year of the Group is contained in the consolidated financial statement, note 8. Revenue of the Group in 2009 mainly comprises the sale of automobiles in the PRC.

Financial statements

The results of the Group for the year ended 31 December 2009 and the financial position of the Company and the Group as at 31 December 2009 are contained on pages 36 to 75 in the consolidated financial statements.

Final dividend

The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2009 (2008: Nil).

Charitable donations

There was charitable donation amounting to RMB156,194 made by the Group during the year (2008: Nil).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

Report of the Board of Directors

Share capital

Details of the share capital movements of the Company during the year are set out in Note 26 to the consolidated financial statements.

Reserves provision

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

Distributable reserves

As at 31 December 2009, the Group 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

Saved as disclosed in the paragraph headed "Substantial shareholders of the Company and other persons" below in this report, as at 31 December 2009, 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 Securities and Futures Ordinance (Cap 571 Laws of Hong Kong ("SFO")), which would be required, pursuant to section 352 of the SFO, to be entered in the register of the Company or which would 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 2009, 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.

Long positions in ordinary shares of RMB1.00 each in the Company

Name	Number of Shares held	Nature of Interests	Approximate percentage of shareholding in same class of securities	Approximate percentage of shareholding in the registered capital
Chengdu New Dadi Motor Company Limited* ("Chengdu New Dadi")	100,340,000 (L) Domestic Shares *(Note 1)*	Beneficial owner	51.13%	35.23%
China Auto Union (Chengdu) Company Limited ("CAU")	100,340,000 (L) Domestic Shares *(Note 1)*	Interest of controlled corporation	51.13%	35.23%
Foshan City Shunde Rixin Development Company Limited, ("Shunde Rixin")	100,340,000 (L) Domestic Shares *(Note 1)*	Interest of controlled corporation	51.13%	35.23%
Foshan City Shunde Ganghua Shiye Company Limited* ("Shunde Ganghua")	95,310,000 (L) Domestic Shares *(Note 2)*	Beneficial owner	48.57%	33.47%
Li Zi Hao ("Mr. Li")	100,340,000 (L) Domestic Shares *(Note 1)*	Interest of controlled corporation	51.13%	35.23%
	95,310,000 (L) Domestic Shares *(Note 2)*	Interest of spouse	48.57%	33.47%
	10,080,824 (L) H Shares *(Note 3)*	Interest of controlled corporation	11.38%	3.54%
Pan Li Chan ("Ms. Pan")	95,310,000 (L) Domestic Shares *(Note 2)*	Interest of controlled corporation	48.57%	33.47%
	100,340,000 (L) Domestic Shares *(Note 1)*	Interest of spouse	51.13%	35.23%
	10,080,824 (L) H Shares *(Note 3)*	Interest of spouse	11.38%	3.54%
Cheerbond Investment International Limited ("Cheerbond")	10,080,824 (L) H Shares *(Note 3)*	Beneficial owner	11.38%	3.54%

Report of the Board of Directors

Name	Number of Shares held	Nature of Interests	Approximate percentage of shareholding in same class of securities	Approximate percentage of shareholding in the registered capital
Innovation Assets Limited ("Innovation")	5,890,000 (L) H Shares *(Note 4)*	Interest of controlled corporation	6.65%	2.07%
SW Kingsway Capital Holdings Limited	5,890,000 (L) H Shares *(Note 4)*	Interest of controlled corporation	6.65%	2.07%
SW Kingsway Capital Group Limited ("Kingsway Group")	5,890,000 (L) H Shares *(Note 4)*	Interest of controlled corporation	6.65%	2.07%
World Developments Limited ("World Development")	5,890,000 (L) H Shares *(Note 4)*	Interest of controlled corporation	6.65%	2.07%
Kingsway Lion Spur Technology Limited ("Lion Spur")	4,900,000 (L) H Shares	Beneficial owner	5.53%	1.72%

"L" denotes Long position

Notes:

1. Chengdu New Dadi, a limited company incorporated in the PRC, is owned as to 50% by Shunde Rixin and 50% by 中汽聯汽車技術(成都)有限責任公司 (Auto Union (Chengdu) Company Limited). Each of Mr. Li and Ms. Pan is a director of Chengdu New Dadi. Shunde Rixin is a limited company incorporated in the PRC and is owned as to 80% by Mr. Li and 20% by Ms. Pan, who are both executive Directors (appointed on 29 October 2009). Each of Shunde Rixin and CAU is deemed to be interested in the 100,340,000 Domestic Shares held by Chengdu New Dadi.

2. Shunde Ganghua, a limited company incorporated in the PRC, is wholly and beneficially owned by Ms. Pan, who is also the sole director of Shunde Ganghua. By virtue of the provisions of part XV of the SFO, Ms Pan is deemed to be interested in the 95,310,000 Domestic Shares held by Shunde Ganghua and Mr. Li, as the spouse of Ms. Pan, is deemed to be interested in 95,310,000 Domestic Shares in which Mr. Li is interested.

3. Cheerbond, a limited company incorporated in Hong Kong, is wholly and beneficially owned by Mr. Li, who is the spouse of Ms. Pan and the sole director of Cheerbond. By virtue of the provisions of part XV of the SFO, Mr. Li is deemed to be interested in the 10,080,824 H Shares held by Cheerbond and Ms. Pan, as the spouse of Mr. Li, is deemed to be interested in the 10,080,824 H Shares in which Mr. Li is interested.

4. Kingsway Brokerage Limited, wholly owned by Kingsway Group, is beneficially interested in 990,000 H Shares. Lion Spur is wholly owned by Kingsway Group, which is wholly owned by SW Kingsway Capital Holdings Limited. SW Kingsway Capital Holdings Limited is owned as to 74% by World Development, which is wholly owned by Innovation Assets. By virtue of the provisions of Part XV of the SFO, Kingsway Group, World Developments and Innovation Assets are deemed to be interested in the 4,900,000 H Shares held by Lion Spur and the 990,000 H Shares held by Kingsway Brokerage Limited.

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.

Directors and Supervisors

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

Executive Directors

Mr. LI Zi Hao *(Chairman)*	(Appointed on 29 October 2009)
Ms. PAN Li Chan	(Appointed on 29 October 2009)
Mr. GUO Zhi Rong *(Chairman)*	(Resigned on 29 October 2009 as *Executive Director and Chairman*)
Mr. JIANG Bin	(Resigned on 29 October 2009)
Mr. HOU Cheng Bao	(Resigned on 29 October 2009)

Non-executive Directors

Mr. CHAN Man	(Appointed on 29 October 2009)
Mr. ZHOU Pei Lin	(Resigned on 29 October 2009)
Mr. LI Jian Hua	(Resigned on 29 October 2009)
Mr. ZHU Hui Liang	(Resigned on 29 October 2009)

Report of the Board of Directors

Independent Non-executive Directors

Mr. WANG Rui Hua	(Appointed on 29 October 2009)
Mr. HUANG Cheng Ye	(Appointed on 29 October 2009)
Mr. GUO Hong	(Appointed on 29 October 2009 and resigned on 3 March 2010)
Mr. WANG Cheng Cai	(Resigned on 29 October 2009)
Mr. GAO Xue Fei	(Resigned on 29 October 2009)
Mr. YAO Zhi Ming	(Resigned on 29 October 2009)

Supervisors

Mr. WANG Bo *(Chairman)*	(Appointed on 29 October 2009)
Mr. WANG Wei Qi	(Appointed on 29 October 2009)
Mr. ZHOU Zhi Cheng	(Appointed on 29 October 2009)
Mr. MIU Jin Xiang *(Chairman)*	(Resigned on 29 October 2009)
Mr. SHEN Yong	(Resigned on 29 October 2009)

In accordance with the Articles of Association of the Company, each of the Directors and the Supervisors is appointed for 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. HUANG Cheng Ye and Mr. WANG Rui Hua pursuant to Rule 5.09 of the GEM Listing Rules, and as at the date of the report, still consider them to be independent.

An extraordinary general meeting of the Company will be held on 29 April 2010 to consider and, if thought fit, approve the following changes in the composition of the Board:

(1) the proposed appointment of Mr. PAN Jin Rong as a director of the Company;

(2) the proposed appointment of Mr. LIANG Bo Qi as a director of the Company; and

(3) the proposed appointment of Mr. WU Bing Jian as a director of the Company.

Directors' service contracts

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.

Directors' and Supervisors' interests in contracts

Save as disclosed in note 28 to the consolidated 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 2009 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 consolidated financial statement, note 16.

Major related party transactions

Particulars of material transactions between the Group 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	**2009** **RMB**	2008 RMB
Purchases from shareholders/a related company	(i)	**68,751,515**	538,659
Rent paid for prepaid lease payments	(ii)	**–**	–
Rent paid for a property	(iii)	**–**	–
Rent paid for a production line	(iv)	**–**	–
Sales of steels	(v)	**–**	1,683,947
Reimbursement of electricity charges	(vi)	**750,000**	1,728,271
Sales of buses and buses parts	(vii)	**37,730,085**	–
Trademark	(viii)	**–**	–

(i) This represents purchases of materials and finished goods during 2009 from a shareholder (Chengdu New Dadi); and from Zhangjiagang Jishun Transportation Industrial Co., Ltd., an associate of the controlling shareholder of the Company prior to 16 June 2009.

(ii) The Company has entered into lease agreements with Jiangsu Mudan whereby the Company is granted rights to use three (2008: three) pieces of land in the PRC on which its buildings are erected for a term of 20 years. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2009, the annual rental payment for the year ended 31 December 2009 was Nil.

(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. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2009, the annual rental payment for the year ended 31 December 2009 was Nil.

(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. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2009, the annual rental payment for the year ended 31 December 2009 was Nil.

(v) For the year ended 31 December 2009, the Company sold steel to its a related party (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB Nil (2008:RMB 1,683,947).

(vi) For the year ended 31 December 2009, the Company provided the other services to its related company (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB750,000 (2008:RMB 1,728,271). The other services included reimbursement of electricity charges.

(vii) For the year ended 31 December 2009, the Company sales the buses and buses parts to shareholders 佛山市順德眾裕汽車貿易有限公司 and Chengdu New Dadi Motor Company Limited and a related party 北京華夏丹尼汽車投資股份有限公司 Beijing Huaxia Dan Ni Vehicles Investment Limited*.

(viii) During the years ended 31 December 2008 and 2009, 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:

	2009 RMB	2008 RMB
Members of the directors and the key management		
Short-term benefits	**655,200**	320,400
Post-employment benefits	**13,104**	–
	668,304	320,400

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 28 to the consolidated 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 transactions and continuing connected transactions

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 the annual report.

Sale of Buses and buses parts to Chengdu New Dadi and Foshan City Shunde Zhongyu Car Trading Company Limited

During the year, the Company sold buses and buses parts of an aggregate amount of approximately RMB30.31 million to Chengdu New Dadi and Foshan City Shunde Zhongyu Car Trading Company Limited.

Purchase of vehicles and vehicle parts from Chengdu New Dadi

Reference is made to the Company's announcement dated 15 December 2009 ("December Announcement") in which the Company announced that on 6 January 2009, the Company as purchaser and Chengdu New Dadi as vendor entered into two agreements ("Relevant Purchase Agreements") to purchase vehicles and vehicle parts with an aggregate amount of RMB91,000,000 from Chengdu New Dadi during the period from 6 January 2009 to 30 June 2010.

Report of the Board of Directors

As disclosed in the December Announcement, Chengdu New Dadi became a substantial shareholder and thus connected person of the Company following the change in control of the Company on 16 June 2009 and the transactions contemplated under the Relevant Purchase Agreements constituted continuing connected transactions for the Company, which is subject to disclosure requirement under Rule 20.41 of the GEM Listing Rules.

Pursuant to the Relevant Purchase Agreements, the Group purchased vehicles and vehicle parts from Chengdu New Dadi for an aggregate amount of RMB66.88 million for the year ended 31 December 2009.

Directors' view

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

Views of the independent non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or terms no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors confirm that in respect of the connected transactions and the continuing connected transactions mentioned above, the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

Lo and Kwong C.P.A. Company Limited, the auditor of the Company, have performed certain agreed-upon procedures on the continuing connected transactions pursuant to Rule 20.38 of the GEM Listing Rules and confirmed to the Board that the transactions:

(i) have received approval of the Board;

(ii) are in accordance with the pricing policies of the Group;

(iii) have been entered into in accordance with the terms and conditions under the relevant agreements governing the transactions; and

(iv) did not exceed the cap disclosed in previous announcement.

Directors' interests in competing business

As at the date of this report, the following Directors or their respective associates have interests in the following businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group pursuant to the GEM Listing Rules:

Name of Director	Name of entity which business is considered to compete or likely to compete with the business of the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Mr. LI Zi Hao	Chengdu New Dadi	manufacturing and sale of vehicles and accessories of vehicles	Director
	Shunde Rixin	trading of vehicles and accessories of vehicles	Director
Ms. PAN Li Chan	Chengdu New Dadi	manufacturing and sale of vehicles and accessories of vehicles	Director
	Shunde Rixin	trading of vehicles and accessories of vehicles	Shareholder
Mr. CHAN Man	Chengdu New Dadi	manufacturing and sale of vehicles and accessories of vehicles	Director

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

During the year, the Group 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 Group 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.

Trading of the H shares of the Company has been suspended since 2:30pm of 29 March 2005 and will remain suspended until further notice.

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 two Independent Non-executive Directors, namely Mr WANG Rui Hua and Mr HUANG Cheng Ye, of which Mr WANG Rui Hua is also the Chairman of the Audit Committee. The Group's financial statements for the year ended 31 December 2009 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 Note 11 to the consolidated financial statements.

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 76 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.

Report of the Board of Directors

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.

Auditor

The consolidated financial statements for the year ended 31 December 2009 was audited by Lo and Kwong C.P.A. Company Limited. The Company will present resolution to be passed in the next Annual General Meeting of Shareholders of the Company to appoint Lo and Kwong C.P.A. Company Limited as the Group's auditor.

On behalf of the Board
Mudan Automobile Shares Company Limited
LI Zi Hao
Chairman

Shunde, Foshan City, Guangdong Province, the PRC

30 March 2010

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. LI Zi Hao (李子豪), aged 45, is the Chairman of the Board and the chief executive officer of the Company. He has extensive operation and management experience in the automobile industry in the People's Republic of China ("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 and the chairman of the Shunde Rixin. He has been admitted to the degree of Master of Business Administration in University of Wales, Prifysgol Cymru. He joined the Company in 2008 and is now the general manager of the Company. Mr. LI is the husband of Ms. PAN Li Chan, an executive Director. His current salary as general manager of the Company is RMB11,000 per month.

As at the date of this report, Mr. LI is deemed to be interested in 195,650,000 Domestic Shares and 10,080,824 H-shares of the Company ("H-Shares"), representing approximately 72.24% of the entire issued share capital of the Company, pursuant to Part XV of the Securities and Futures Ordinance (Chapter 571 of SFO.

He is a director of Chengdu New Dadi, which is a substantial shareholder. Mr. LI is also the sole director of Shunde Rixin (which in turn holds 50% interest in Chengdu New Dadi) and holds 80% interest in Shunde Rixin. Mr. LI is also the sole shareholder and director of Cheerbond Investment International Limited, a shareholder beneficially interested in 10,080,824 H-Shares.

He has been appointed as an executive Director for a term of three years commencing from 29 October 2009.

Ms. PAN Li Chan (潘麗嬋), aged 42, has more than 10 years of business and experience in the automobile industry in the PRC. She is also a director of Chengdu New Dadi and is also head of the financial department of the Company. Ms. PAN is the wife of Mr. LI, an executive Director. Ms. PAN's current salary as head of the financial department of the Company is RMB8,000 per month.

As at the date of this report, Ms. PAN is deemed to be interested in 195,650,000 Domestic Shares and 10,080,824 H-Shares, representing approximately 72.24% of the entire issued share capital of the Company, pursuant to Part XV of the SFO.

She is a director of Chengdu New Dadi, which is a substantial Shareholder. Ms. PAN holds 20% interest in Shunde Rixin (which in turn holds 50% interest in Chengdu New Dadi).

She is also the sole shareholder and sole director of Shunde Ganghua, a substantial Shareholder.

She has been appointed as an executive Director for a term of three years commencing from 29 October 2009.

Profiles of Directors, Supervisors and Senior Management

Non-executive Director

Mr. CHAN Man (陳文), aged 65, has extensive business and management experience in the automobile manufacturing industry. He is currently the chairman of Lebon Trading Company (聯邦貿易公司), which is principally engaged in business related to car audio and accessories. He is also a director of Chengdu New Dadi, which is a substantial Shareholder.

He has been appointed as a non-executive Director for a term of three years commencing from 29 October 2009.

Independent Non-executive Directors

Mr. WANG Rui Hua (王瑞華), aged 48, is a Professor in Accountancy in the Central University of Finance and Economics (中央財經大學), where he obtained his Doctorate Degree in Management Science, and is also a non-practising registered accountant in the PRC. He is currently the manager of the MBA Education Center of Central University of Finance and Economics (中央財經大學) and a visiting professor of the State Grid Senior Training Centre of the State Grid Corporation of China (國家電網公司高級培訓中心). He is also the Supervisor (監事) of Beijing Rural Commercial Bank (北京農村商業銀行股份有限公司), an independent director of Beijing Zhong Ke San Huan High-Tech Company Limited (北京中科三環高技術股份有限公司), a company listed on the Shenzhen Stock Exchange, an independent director of Beijing Dynamic Power Company Limited (北京動力源科技股份有限公司), a company listed on the Shanghai Stock Exchange and an independent director of Inner Mongolia Mengxi Cement Company Limited (內蒙古蒙西水泥股份有限公司). He has been appointed as an independent non-executive Director for a term of three years commencing from 29 October 2009. He is also appointed as the chairman of the audit committee and remuneration committee of the Board.

Mr. HUANG Cheng Ye (黃承業), aged 51, has extensive experience in manufacturing of automobile parts and sales of cars. He had been the vice general manager of Federation of Automobile Sports of PRC (中國汽車聯合會). He has been appointed as an independent non-executive Director for a term of three years commencing from 29 October 2009. Mr. HUANG is also appointed as member of the audit committee and remuneration committee of the Board.

Profiles of Directors, Supervisors and Senior Management

Supervisors

Mr. WANG Bo (王波), aged 46, holds a master's degree and is a senior engineer. He graduated from the Department of Radio Engineering of Southeast University (東南大學無線電工程系) in 1985 and obtained his master's degree from the Fourteenth Graduate School of the Ministry of Electronic Industry in Nanjing (電子工業部南京第十四研究所) in 1988. He has more than 20 years of corporate management experience. He served as the chief dispatcher, production director and vice factory director in the color TV factory of China Shenzhen Color TV Corporation (中國深圳彩電總公司彩色電視機廠), the manager in the Logistics Department of the Trade Division of China Agriculture Trust and Investment Co. Ltd (中國農業信託投資有限公司貿易公司綜合部), the manager and deputy general manager of the second foreign trade department, the assistant to the general manager of Shenzhen Zhongnan Industrial Co. Ltd (深圳中南實業股份有限公司) and general manager of Zhongnan Bus Co., Ltd (中南巴士有限公司), the executive vice general manager of Xizang Zangling Automobile Industry Co., Ltd (西藏藏羚汽車工業有限公司) and deputy general manager of Chengdu New Dadi. He joined the Company in July 2008.

Mr. WANG Wei Qi (王維琪), aged 36, holds a bachelor's degree, and is a registered accountant. He is the financial manager of the Company. He has been working in the financial field for various companies in different industries for over ten years. He has extensive experience in financial and tax planning. He has been working as a financial manager for years before joining the Company as a financial manager in 2008. He joined the Company in August 2008.

Mr. ZHOU Chi Cheng (周志成), aged 35, holds a bachelor's degree, and is an engineer. He is officer of the general manager's office. He graduated from the Department of Mechanical and Electronic Engineering of Nanchang University (南昌大學機械電子工程系) of Jiangxi in 1997. He has more than 12 years of experiences in auto industry technology, sales, international trade and securities management. He served as a technician and an auto body designer of the Auto Research Institute (汽車研究所) of the Company, a teacher and practice mentor of auto profession in Shanghai Aviation Industry Institute (上海航空工業學校), and Head of Capital Operation Office (資本經營辦公室), Office of General Manager (總經辦), International Cooperation Division (對外合作部), Overseas Marketing Division (海外營銷部) and Enterprise Management Division (企業管理部) of the Company. He was awarded Product Innovation Prize and Outstanding Worker. He joined the Company in September 1998.

Profiles of Directors, Supervisors and Senior Management

Senior Management

Mr. LUO Bin (羅斌), aged 34, holds a bachelor's degree, and is the assistant to the general manager of the Company. He is responsible for corporate finance and legal compliance section. He held bachelor degree and graduated from the International Finance Department of Hainan University Economic Institute (海南大學經濟學院國際金融系) in 1997. He served as Capital Planning Division (資金計劃部) manager of Guangdong Wan Jia Happy Group Finance Company (廣東萬家樂集團財務公司), Capital Clearing Centre (資金結算中心) manager of Guangdong Macro Co., Ltd (廣東萬家樂股份有限公司) and assistant of managing director of Chengdu New Dadi Motor Company Limited (成都新大地汽車有限責任公司). He joined the Company in July 2008 with over 13 years experience in the field of corporate finance.

Mr. WANG Guo Dong (王國東), aged 37, holds a bachelor's degree, and is deputy general manager of the Company overseeing the production and technical departments. He held bachelor degree and graduated from the Automobiles Department of Xian Highway Communication University (西安公路交通大學汽車系) in 1997. He served as auto technical division manager of Zhongtong Bus (中通客車), deputy general manager of Suzhou Golden Dragon Bus (蘇州金龍客車) and Zhongda Automobiles (中大汽車). He joined the Company in February 2010 with over 12 years experience in the field of auto technology and production.

Company Secretary

Mr. LUI Tin Nang (呂天能), aged 52, is the company secretary of the Company. He is experienced in accounting, auditing, taxation and corporate finance. Mr. Lui graduated with a Bachelor of Science degree from the University of Leeds and a Master degree in business administration from the University of Bradford in United Kingdom. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in English and Wales and an associate member of the Chartered Institute of Management Accountants.

Compliance Officer

Mr. LI Zi Hao (李子豪). For details, please refer to the paragraph under "Executive Directors" above. Mr LI 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 practice

Save for those deviations disclosed in this report, 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 2009, 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 five Directors, two of them are Executive Directors, one is Non-executive Director and two are Independent Non-executive Directors. For details of the background and profile of Chairman of the Company and other Directors, please refer to page 24 to 27 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.

Except for the disclosures mentioned as above, 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. LI Zi Hao *(Chairman)*	(Appointed on 29 October 2009)
Ms. PAN Li Chan	(Appointed on 29 October 2009)
Mr. GUO Zhi Rong *(Chairman)*	(Resigned on 29 October 2009 as *Executive Director and Chairman*)
Mr. JIANG Bin	(Resigned on 29 October 2009)
Mr. HOU Cheng Bao	(Resigned on 29 October 2009)

NON-Executive Directors

Mr. CHAN Man	(Appointed on 29 October 2009)
Mr. ZHOU Pei Lin	(Resigned on 29 October 2009)
Mr. LI Jian Hua	(Resigned on 29 October 2009)
Mr. ZHU Hui Liang	(Resigned on 29 October 2009)

Independent Non-executive Directors

Mr. HUANG Cheng Ye	(Appointed on 29 October 2009)
Mr. GUO Hong	(Appointed on 29 October 2009 and resigned on 3 March 2010)
Mr. WANG Rui Hua	(Appointed on 29 October 2009)
Mr. WANG Cheng Cai	(Resigned on 29 October 2009)
Mr. GAO Xue Fei	(Resigned on 29 October 2009)
Mr. YAO Zhi Ming	(Resigned on 29 October 2009)

The Company has compiled with the code provisions of the Code on Corporate Governance Practice (the "CG Code") set out in the GEM Listing Rules throughout the year under review.

Upon the resignation of Mr. GUO Hong with effect from 3 March 2010, the Company has only two independent non-executive Directors and two members of audit committee commencing from 3 March 2010. The Company will in accordance with Rule 5.06 and Rule 5.33 of the GEM Listing Rules and subject to the approval of Shareholders in the extraordinary general meeting of the Company to be held on 29 April 2010, appoint one additional independent non-executive Director to meet the minimum number required under Rule 5.05(1) of the GEM Listing Rules and the minimum number of member of audit committee required under Rule 5.28 of the GEM Listing Rules within three months after failing to meet such requirement.

Save as disclosed in this 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 21 Board meetings had been held during the year ended 31 December 2009 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 2009 and the attendance of each Director:

Number of Board meetings held in 2009: 21

Details of individual attendance of each Director:

	Attendance in 2009 (%)
Executive Directors	
MR. LI Zi Hao	100%
MS. PAN Li Chan	100%
MR. GUO Zhi Rong	94.1%
MR. JIANG Bin	100%
MR. HOU Cheng Bao	100%

Non-Executive Directors	
MR. CHAN Man	25%
MR. ZHOU Pei Lin	100%
MR. LI Jian Hua	100%
MR. ZHU Hui Liang	88.2%
Independent Non-executive Directors	
MR. HUANG Cheng Ye	75%
MR. GUO Hong	50%
MR. WANG Rui Hua	100%
MR. WANG Cheng Cai	94.1%
MR. GAO Xue Fei	100%
MR. YAO Zhi Ming	100%

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.

Chairman and Chief Executive Officer

In addition, Mr LI Zi Hao was appointed as Chief Executive Officer (general manager of the Company) by the Company on 29 December 2008. 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

The Remuneration Committee comprised Mr WANG Rui Hua and Mr HUANG Cheng Ye and Mr GUO Hong (resigned on 3 March 2010). Mr WANG Rui Hua 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 one meeting. 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 fi rst 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.

Code of conduct for directors carrying out securities transactions

The current Board is not aware any non-compliance with the requirements of securities transactions set out in rules 5.48 to 5.67 of the GEM Listing Rules during the year ended 31 December 2009. A code of conduct has been adopted with respect to the securities transactions carried out by Directors.

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. As at the date of this report, the Audit Committee of the Company comprised two Independent Non-executive Directors, namely Mr HUANG Cheng Ye and Mr WANG Rui Hua, of which Mr WANG Rui Hua 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 HUANG Cheng Ye, Mr WANG Rui Hua and Mr. GUO Hong were appointed as members of the Audit Committee on 29 October 2009, of which Mr WANG Rui Hua is also the chairman. However, Mr. GUO Hong resigned with effect from 3 March 2010. The new Audit Committee has performed its duties, reviewed and discussed the Company's audited financial statements for the year ended 31 December 2009 with its external auditors.

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 2009, the Audit Committee convened four 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 Rui Hua	100%
Mr. HUANG Cheng Ye	0%
Mr. WANG Cheng Cai	100%
Mr. GAO Xue Fei	100%
Mr. YAO Zhi Ming	100%
Mr. GUO Hong	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 2009 RMB'000	For the year ended 31 December 2008 RMB'000
Type of service		
To carry out audit for the Company	**450**	457

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 Group'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 consolidated financial statements, the Group 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.

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.

On behalf of the Board
Mudan Automobile Shares Company Limited
LI Zi Hao
Chairman

Shunde, Foshan City, Guangdong Province, the PRC
30 March 2010

Independent Auditor's Report

盧鄺會計師事務所有限公司
LO AND KWONG C.P.A. COMPANY LIMITED
AUDIT • TAX • BUSINESS ADVISORY

TO THE MEMBERS OF MUDAN AUTOMOBILES SHARES COMPANY LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Mudan Automobiles Shares Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 75, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

However, because of the matter described in the material fundamental uncertainty relating to the going concern basis paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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 consolidated financial statements concerning the adoption of the going concern basis for preparation. As set out in Note 2 to the consolidated financial statements, the consolidated 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, the financial support from the substantial shareholders and, among other things, the Group would be able to meet in full its financial obligations as they fall due for the foreseeable future. We consider that appropriate disclosures have been made in such consolidated financial statements concerning the relevant material uncertainty, but the inherent uncertainties surrounding the circumstances under which the Group 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 consolidated financial statements of the Group do not include any adjustment that would be necessary if the Group 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 Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liability 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 material fundamental uncertainty relating to going concern basis paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards. In all other respects, in our opinion, the consolidated 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 (Practising)

Lo Wah Wai
Practising Certificate Number: P02693

Hong Kong
30 March 2010

Suites 216-218, 2/F.,
Shui On Centre,
6-8 Harbour Road,
Wanchai, Hong Kong

Consolidated Income Statement

For the year ended 31 December 2009
(Expressed In Renminbi)

	Notes	2009 RMB	2008 RMB
Turnover	8	**110,295,640**	10,698,243
Cost of sales		**(133,530,190)**	(17,901,505)
Gross loss		**(23,234,550)**	(7,203,262)
Other operating income	9	**82,467,720**	8,125,997
Distribution expenses		**(3,141,898)**	(4,748,250)
General and administrative expenses		**(30,738,290)**	(65,323,353)
Other operating expenses	10	**(24,270,329)**	(12,914,195)
Net finance (expenses)/income		**(301,895)**	3,543,254
Profit/(loss) before taxation	12	**780,758**	(78,519,809)
Income tax expenses	13	**–**	–
Profit/(loss) for the year attributable to the owners of the Company		**780,758**	(78,519,809)
Dividend	14	**–**	–
Earnings/(loss) per share	15		
– basic		**0.27 cents**	(27.57 cents)
– diluted		**N/A**	N/A

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(Expressed In Renminbi)

	2009 **RMB**	2008 RMB
Profit/(loss) for the year	**780,758**	(78,519,809)
Other comprehensive income:		
Exchange difference arising on translation of foreign operations	**–**	–
Total comprehensive income/(loss) for the year attributable to the owners of the Company	**780,758**	(78,519,809)

Consolidated Statement of Financial Position

At 31 December 2009
(Expressed in Renminbi)

	Notes	**2009 RMB**	2008 RMB
Assets and liabilities			
Non current asset			
Property, plant and equipment	17	**153,661,737**	171,643,007
Current assets			
Inventories	18	**15,526,468**	30,538,016
Trade and other receivables	19	**16,529,297**	5,005,494
Pledged bank deposits	20	**15,247,325**	9,089,340
Bank balances and cash	20	**6,660,902**	3,669,714
		53,963,992	48,302,564
Current liabilities			
Trade and other payables and bills payables	22	**125,116,837**	109,775,687
Amount due to a former shareholder	23	**1,045,306**	–
Amounts due to shareholders	23	**251,904**	5,147,671
Amount due to a related company	23	**9,509,793**	112,057,195
Bank borrowings	21	**10,000,000**	–
Income tax payable		**1,232,552**	1,232,552
		147,156,392	228,213,105
Net current liabilities		**(93,192,400)**	(179,910,541)
Non-current liability			
Other borrowings	25	**(67,956,113)**	–
Net liabilities		**(7,486,776)**	(8,267,534)
Capital and reserves			
Share capital	26	**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		**(323,130,058)**	(323,910,816)
		(7,486,776)	(8,267,534)

The consolidated financial statements on pages 36 to 75 were approved and authorised for issue by the Board of Directors on 30 March 2010 and are signed on its behalf by:

Li Zi Hao
Director

Pan Li Chan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(Expressed In Renminbi)

	Share capital RMB	Statutory surplus reserve RMB (Note 1)	Statutory public welfare fund RMB (Note 2)	Accumulated losses RMB (Note 3)	Total capital and reserves RMB
At 1 January 2008	284,800,000	15,421,641	15,421,641	(245,391,007)	70,252,275
Loss for the year and total comprehensive loss for the year	–	–	–	(78,519,809)	(78,519,809)
At 31 December 2008 and 1 January 2009	284,800,000	15,421,641	15,421,641	(323,910,816)	(8,267,534)
Profit for the year and total comprehensive income for the year	-	-	-	780,758	780,758
At 31 December 2009	**284,800,000**	**15,421,641**	**15,421,641**	**(323,130,058)**	**(7,486,776)**

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 offset 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 during the year ended 31 December 2009 (2008: 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 profit, as determined in accordance with the PRC accounting rules and regulations, to 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 during the year ended 31 December 2009 (2008: Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

3. **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 Group as at 31 December 2009 (2008: Nil)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009
(Expressed In Renminbi)

	2009 RMB	2008 RMB
Operating activities		
Profit/(loss) before taxation	**780,758**	(78,519,809)
Adjustments for:		
Allowance for doubtful trade and other receivables	**–**	41,119,806
Waive of other borrowings	**(63,281,111)**	–
Waive of a trade payable	**–**	(1,770,000)
Waive of welfare fund payable	**–**	(6,044,195)
Provision for litigation claims	**24,114,135**	12,912,943
Depreciation of property, plant and equipment	**18,513,705**	18,211,376
Interest on bank borrowings	**347,240**	–
Net finance income	**(81,987)**	(3,543,254)
Operating cashflow before movements in working capital	**(19,607,260)**	(17,633,133)
Decrease in inventories	**15,011,548**	5,772,018
(Increase)/decrease in trade and other receivables	**(11,523,803)**	10,995,127
Decrease in amount due to a former shareholder	**–**	(290,715)
Decrease in trade and other payables and bills payables	**(8,772,985)**	(38,686,110)
Decrease in amounts due to shareholders	**(60,561)**	–
Increase in amount due to a related company	**2,182,453**	9,018,467
Net cash used in operating activities	**(22,770,608)**	(30,824,346)
Investing activities		
Acquisition of property, plant and equipment	**(694,629)**	(61,589)
Proceeds from disposal of property, plant and equipment	**162,194**	–
Interest received	**81,987**	3,543,254
Net cash (used in)/from investing activities	**(450,448)**	3,481,665
Financing activities		
Advances from other borrowings	**22,717,469**	–
New bank loans raised	**10,000,000**	–
Interest paid	**(347,240)**	–
Net cash from financing activities	**32,370,229**	–
Net increase/(decrease) in cash and cash equivalents	**9,149,173**	(27,342,681)
Cash and cash equivalents at beginning of the year	**12,759,054**	40,101,735
Cash and cash equivalents at end of the year	**21,908,227**	12,759,054
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**6,660,902**	3,669,714
Pledged bank deposits	**15,247,325**	9,089,340
	21,908,227	12,759,054

Notes to the Consolidated Financial Statements

1. General

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

The address of the registered office and place of business of the Company is No. 30 Lehong Road, LeYu Town, Zhangjiagang City, Jiangsu Province, PRC. After transfer of Shareholding of the Company, Chengdu New Dadi Motor Company Limited, a private owned enterprise established in the PRC, is the Company's ultimate holding company.

The consolidated financial statements are presented in Renminbi ("RMB"), which is same as the functional currency of the Company and its subsidiaries (collectively knows as the "Group").

The principal activity of the Company is manufacturing and distribution of automobiles.

The Company's H shares are listed on the Stock Exchange. As requested by the Company, trading of the H shares of the Company has been suspended since 2:30 p.m. of 29 March 2005 and will remain to be suspended until further notice.

2. Basis of preparation of consolidated financial statements

As at 31 December 2009 the Group had net current liabilities and net liabilities of RMB93,192,400 and RMB7,486,776 respectively.

As detailed disclosure made in note 29 to the consolidated financial statements, the Group had involved a number of litigations with its creditors. Part of the bank accounts of the Group have already been frozen following filing of the lawsuits. Up to the date of this report, the Group does not have enough cash to satisfy in full the claims stated in the writs above.

The directors of the Company have taken the following measures to improve its financial position:

(i) Carry out debt restructuring with its creditors. Up to the date of this report, the Company has reached agreements with its creditors in respect of debt restructuring and the court litigations with these creditors have been discharged;

(ii) The directors of the Company are considering to strengthen the capital base of the Company and provide immediate cash flow through various financing activities and capital restructuring;

(iii) The directors of the Company will continue 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 directors of the Company are in the opinion that the Group would obtain continuous financial support from the substantial shareholders for the production and operation.

The directors of the Company believe that, in the light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, notwithstanding the Group had overdue debts and net current liabilities and net liabilities as at 31 December 2009, the directors of the Company are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

3. Adoption of new and revised international financial reporting standards ("IFRSs")

In the current year, the Group has applied, for the first time, all the revised IFRSs, International Accounting Standards ("IASs"), Amendments to Standards and Interpretations (""INT(s)")(hereinafter collectively referred to as "New IFRSs") issued by the International Accounting Standard Board ("IASB") which became effective for the Group's financial year beginning on 1 January 2009.

Except as described below, the adoption of the New IFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

i. IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

ii. IFRS 8 Operating Segments

IFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 8).

iii. Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in relation to fair value measurements and liquidity risk. The Group has not presented comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised standards, amendments or INTs that have been issued but are not yet effective.

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs 2009[2]
IAS 24 (Revised)	Related Party Disclosures[3]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
IAS 32 (Amendment)	Classification of Rights Issues[5]
IAS 39 (Amendment)	Eligible Hedged Items[4]
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards[4]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[6]
IFRS 2 (Amendment)	Group Cash-settled Share based Payment Transactions[6]
IFRS 3 (Revised)	Business Combinations[4]
IFRS 9	Financial Instruments[7]
IFRIC-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
IFRIC-Int 17	Distributions of Non-cash Assets to Owners[4]
IFRIC – Int 19	Extinguishing Financial Liabilities with Equity Instruments[8]

3. Adoption of new and revised international financial reporting standards ("IFRSs") (continued)

[1] Effective for annual periods beginning on or after 1 July 2009.
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1 January 2011.
[4] Effective for annual periods beginning on or after 1 July 2009.
[5] Effective for annual periods beginning on or after 1 February 2010.
[6] Effective for annual periods beginning on or after 1 January 2010.
[7] Effective for annual periods beginning on or after 1 January 2013.
[8] Effective for annual periods beginning on or after 1 July 2010.

The application of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The New IFRSs requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under the Standard, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognized in profit or loss. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of the Improvements to IFRSs (2009), IAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments became effective from 1 January 2010, with earlier application permitted. Before the amendments to IAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in IAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to IAS 17 might affect the classification and measurement of the Group's leasehold land at revalued amount.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or INTs will have no material impact on the consolidated financial statements.

4. Significant accounting policies

The consolidated 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 consolidated 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 consolidated 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.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The result of subsidiaries acquired or disposed of during the year are included in the consolidated income statement the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustment will be made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests'proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those. interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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.

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 consolidated income statement as an expense as incurred.

Depreciation is provided to write off the cost of items of 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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

4. Significant accounting policies (continued)

(d) 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.

(e) 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 method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(f) Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when the Group 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 Group'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.

4. Significant accounting policies (continued)

(f) Financial instruments (continued)

Loans and receivables

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

Financial liabilities and equity

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

Other financial liabilities

Other financial liabilities including bank borrowings, trade and other payables, amount due to a former shareholder, amounts due to shareholders, amount due to a related company and other borrowings 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 Group 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.

4. Significant accounting policies (continued)

(g) Impairment of tangible assets

At the end of each reporting period, the Group 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 Group 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.

(h) 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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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.

4. Significant accounting policies (continued)

(h) Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. Significant accounting policies (continued)

(i) 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.

Sales of goods

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

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group 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.

Service income/management fees

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

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.

(j) Borrowing costs

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

4. Significant accounting policies (continued)

(k) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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 retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

(l) Retirement benefits costs

The Group participates in the central pension scheme (the "CPS") operated by the PRC government for all of their staff. The Group is required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group 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.

(m) 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 consolidated income statement in the accounting period in which they are incurred.

4. Significant accounting policies (continued)

(n) Relation parties

A party is considered to be related to the Group if:

i. directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

ii. the party is an associate;

iii. the part is an jointly-controlled entity;

iv. the party is a member of the key management personnel of the Company

v. the party is a close member of the family of any individual referred to in (i) or (iv);

vi. the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

vii. the party is a post-employment benefit plan for the benefit of employees of the Company/ Group, or of any entity that is a related party of the Company/Group.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 4, 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 end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Going concern basis

Although the Group has net current liabilities and net liabilities of RMB93,192,400 and RMB7,486,776 respectively as at 31 December 2009, as detailed disclosure made in note 2 to the consolidated financial statement, the Group manages its liquidity risk by monitoring it current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Group's liquidity requirements in the short and long-term. The directors of the Company consider that the Group has no significant liquidity risk.

5. Critical accounting judgments and key sources of estimation uncertainty (continued)

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 Group 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 Group's accounting policy.

The Group 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 Group's property, plant and equipment for impairment using cash flow projections and valuation report prepared by Malcolm and Associates Appraisal Limited. No impairment loss was provided for both years.

Allowance for inventories

The directors of the Company carries out inventories review on a product-by-product basis and an aging analysis at the end of each reporting period, 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.

Allowance for bad and doubtful debts

The directors of the Company regularly review the recoverability and the aging of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Group 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 Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

6. Capital risk management

The Group manages its capital to ensure that the Group 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 Group consists of cash and cash equivalents and equity attributable to the owners 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 Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 31 December 2009 and 2008. The Group's gearing ratio, which is calculated from total liabilities divided by net liabilities, was 28.73 (2008: 27.60) as at 31 December 2009.

7. Financial instruments

(a) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a former shareholder, amount due to shareholders, amount due to a related company, bank borrowings and other borrowings. 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 Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

At 31 December 2009, the Group has certain concentration of credit risk as 15,530,653 (2008: RMB3,528,665) of the total trade receivables were due from the Group's top five largest customers. In order to minimise the credit risk, the management of the Group 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 Group 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 Group'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

The Group's exposures to cash flow interest rate risk in relation to fixed-rate bank borrowings (see note 21 to the consolidated financial statements). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are related in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate of the Government of PRC.

7. Financial instruments (continued)

(a) Financial risk management objectives and policies (continued)

Currency risk

The Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their own-function currencies.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to liquidity risk as the Group has net current liabilities and net liabilities of RMB93,192,400 and RMB7,486,776 respectively as at 31 December 2009, as detailed disclosure made in note 2 to the consolidated financial statements. The Group manages liquidity risks by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Group to meet its financial obligations, measured by the debt-to-equity capital ratio.

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

	On demand or within one year RMB	Total undiscounted cash flow RMB	Carrying amount RMB
At 31 December 2009			
Financial liabilities			
Trade and other payables	**125,116,837**	**125,116,837**	**125,116,837**
Amount due to a former shareholder	**1,045,306**	**1,045,306**	**1,045,306**
Amounts due to shareholders	**251,904**	**251,904**	**251,904**
Amount due to a related company	**9,509,793**	**9,509,793**	**9,509,793**
Bank borrowings	**10,000,000**	**10,637,200**	**10,000,000**
Other borrowings	**67,956,113**	**85,009,146**	**67,956,113**
	213,879,953	**231,570,186**	**213,879,953**
At 31 December 2008			
Financial liabilities			
Trade and other payables	109,775,687	109,775,687	109,775,687
Amounts due to shareholders	5,147,671	5,147,671	5,147,671
Amount due to a related company	112,057,195	112,057,195	112,057,195
	226,980,553	226,980,553	226,980,553

(b) Fair value

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

7. Financial instruments (continued)

(c) Categories of financial instruments

	2009 RMB	2008 RMB
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	**16,529,297**	5,005,494
Pledged bank deposits	**15,247,325**	9,089,340
Bank balances and cash	**6,660,902**	3,669,714
	38,437,524	17,764,548
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables	**125,116,837**	109,775,687
Amount due to a former shareholder	**1,045,306**	–
Amounts due to shareholders	**251,904**	5,147,671
Amount due to a related company	**9,509,793**	112,057,195
Bank borrowings	**10,000,000**	–
Other borrowings	**67,956,113**	–
	213,879,953	226,980,553

8. Turnover and segment information

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The Group had only one operation for the two years ended 31 December 2009 and 2008, which was production and sale of automobiles.

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the directors of the Company for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (IAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. The application of IFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with IAS 14. Nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss.

8. Turnover and segment information (continued)

The directors of the Company consider the business from both product and geographic perspective. From a product perspective, the chief operating decision maker assesses the performance of production and sale of automobiles. In addition, the chief operating decision maker further evaluated the result on a geographical basis (PRC and other countries).

(a) Segment revenues and results and segment assets and liabilities

The Group had only one business segment for the two years ended 31 December 2009 and 2008, which was production and sale of automobiles, no separate disclosure of segmental revenues and results and segment assets and liabilities would be made.

(b) Geographical information

The Group's revenue from external customers and assets by geographical location are detailed below:

	PRC		Other countries		Total	
	2009 RMB	2008 RMB	**2009 RMB**	2008 RMB	**2009 RMB**	2008 RMB
Revenue:						
Sales to external customers	**103,137,608**	10,698,243	**7,158,032**	–	**110,295,640**	10,698,243
Segment assets	**207,625,729**	219,945,571	**–**	–	**207,625,729**	219,945,571
Unallocated assets					**–**	–
Total assets					**207,625,729**	219,945,571
Capital expenditure	**694,629**	61,589	**–**	–	**694,629**	61,589
Unallocated capital expenditure					**–**	–
Total capital expenditure					**694,629**	61,589

Sales are based on the country in which the Group's customers are located and segment assets and capital expenditure are where the assets are located.

(c) Information about major customers

Included in revenues arising from the Company attained an achievement in respect of establishment of sales team, the choice of sales platforms and timely release of new products RMB77,637,350 (2008: RMB4,670,085) are revenues approximately RMB28,461,538 (2008: RMB4,670,085), which arose from sales to the Group's largest customer.

9. Other operating income

	2009 **RMB**	2008 RMB
Waive of other borrowings	**63,281,111**	–
Recovery the allowance for bad and doubtful for debts	**18,509,369**	–
Other income	**677,240**	–
Net income from sales of scrap materials and steels	**–**	311,802
Waive of a trade payable	**–**	1,770,000
Waive of welfare fund payable	**–**	6,044,195
	82,467,720	8,125,997

10. Other operating expenses

	2009 **RMB**	2008 RMB
Litigation claims	**24,114,135**	12,912,943
Donations	**156,194**	–
Others	**–**	1,252
	24,270,329	12,914,195

11. Staff costs

	2009 **RMB**	2008 RMB
Salaries, wages and bonus	**5,668,892**	2,995,944
Contributions to retirement benefit scheme	**551,933**	340,434
	6,220,825	3,336,378
Average number of employees during the year	**190**	208

Under the CPS Scheme, the Group participates in a defined contribution retirement plan organised by the municipal government for its employees. The Group is required to make contributions to the retirement plan at 18% (2008: 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 Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

Notes to the Consolidated Financial Statements

12. Profit/(loss) before taxation

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

(a) Net finance (expenses) income:

	2009 **RMB**	2008 RMB
Interest on bank borrowings	**(293,849)**	–
Interest on discounting of bills receivable	**(53,391)**	–
Bank charges	**(36,642)**	(48,383)
Interest from pledged bank deposits	**81,987**	387,618
Interest income from installment sales	**–**	3,204,019
	(301,895)	3,543,254

(b) Other items:

	2009 **RMB**	2008 RMB
Auditors' remuneration	**449,740**	456,995
Allowance for doubtful trade and other receivables	**–**	41,119,806
Depreciation on property, plant and equipment	**18,513,705**	18,211,376

13. Income tax expenses

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. For the year ended 31 December 2009, the EIT rate applicable to the Group's operations in the PRC was 25% (2008: 25%).

No Hong Kong Profits Tax has been provided in both years as the Group did not generate any assessable profits arising in Hong Kong for the years ended 31 December 2009 and 2008.

No profits taxes have been provided for the subsidiaries operating outside Hong Kong as these subsidiaries have not generated any assessable profits in their respective jurisdictions.

13. Income tax expenses (continued)

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

	2009 **RMB**	2008 RMB
Profit (loss) before taxation	**780,758**	(78,519,809)
Tax at applicable tax rate	**195,189**	(19,629,952)
Tax effect of income not taxable for tax purpose	**(15,820,277)**	–
Tax effect of tax losses not recognised	**15,625,088**	19,629,952
Income tax expenses	**–**	–

14. Dividend

No dividend was paid or proposed for the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

15. Earnings/(loss) per share

The calculation of the basic earnings per share is based on the profit attributable to the owners of the Company of RMB780,758 (2008: loss of RMB78,519,809) and based on the weighted average number of shares in issue during the year of 284,800,000 (2008: 284,800,000).

No diluted earnings/(loss) per share have been presented for the two years ended 31 December 2009 and 2008 as there was no dilutive potential ordinary share outstanding for both years.

16. Directors' and employees' emoluments

(a) Directors' emoluments

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

	Salaries, allowances and other benefits RMB	Retirement benefit scheme contribution RMB	Total remuneration RMB
For the year ended 31 December 2009			
Executive Directors			
Kuo Zhi Yung (Note i)	5,000	–	5,000
Jiang Bin (Note i)	2,000	–	2,000
Hou Cheng Bao (Note i)	2,000	–	2,000
Zhou Pei Lin (Note i)	1,000	–	1,000
Li Jian Hua (Note i)	1,000	–	1,000
Zhu Wei Liang (Note i)	1,000	–	1,000
Li Zi Hao (Note ii)	131,772	–	131,772
Pan Li Chan (Note ii)	95,995	–	95,995
Chan Man (Note ii)	–	–	–
Sub-total	239,767	–	239,767
Independent Non-Executive Directors			
Wang Cheng Cai (Note i)	50,000	–	50,000
Gao Xue Fei (Note i)	30,000	–	30,000
Yao Zhi Ming (Note i)	30,000	–	30,000
Huang Chengye (Note ii)	–	–	–
Guo Hong (Note ii and iii)	–	–	–
Wang Ruihua (Note ii)	–	–	–
Sub-total	110,000		110,000
Total	349,767	–	349,767

Note i: Resigned on 29 October 2009

Note ii: Appointed on 29 October 2009

Note iii: Resigned on 3 March 2010

16. Directors' and employees' emoluments (continued)

(a) Directors' emoluments (continued)

	Salaries, allowances and other benefits RMB	Retirement benefit scheme contribution RMB	Total remuneration RMB
For the year ended 31 December 2008			
Executive Directors			
Kuo Zhi Yung (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 Wei Liang (Note)	–	–	–
Sub-total	248,400	–	248,400
Independent Non-Executive Directors			
Wang Cheng Cai (Note)	–	–	–
Gao Xue Fei (Note)	–	–	–
Yao Zhi Ming (Note)	–	–	–
Sub-total	–	–	–
Total	248,400	–	248,400

Note: Appointed 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 the two years ended 31 December 2009 and 2008.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two directors (2008: one director), whose emoluments are included in the disclosures in note 16(a) above. The emoluments of the remaining individual for the two years ended 31 December 2009 and 2008 were as follows:

	2009 RMB	2008 RMB
Salaries, allowance and other benefits	**533,767**	400,800
Retirement benefit scheme contributions	**5,616**	11,250
	539,383	412,050

16. Directors' and employees' emoluments (continued)

(b) Employees' emoluments (continued)

Their emoluments were within the following bands:

	Number of individuals 2009	2008
Nil to RMB1,000,000	**3**	4

During the year, no emoluments were paid by the Group to the Company's directors or any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during each of the two years ended 31 December 2009 and 2008.

17. Property, plant and equipment

	Buildings RMB	Machinery and equipment RMB	Motor vehicles RMB	Other equipment RMB	Total RMB
COST					
At 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 and 1 January 2009	148,452,927	184,716,502	4,478,186	4,820,189	342,467,804
Additions	–	–	580,864	113,765	694,629
Disposals	–	–	(322,953)	–	(322,953)
At 31 December 2009	148,452,927	184,716,502	4,736,097	4,933,954	342,839,480
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
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 and 1 January 2009	41,711,668	124,309,943	2,531,266	2,271,920	170,824,797
Charge for the year	4,275,313	13,423,834	436,781	377,777	18,513,705
Disposals	–	–	(160,759)	–	(160,759)
At 31 December 2009	45,986,981	137,733,777	2,807,288	2,649,697	189,177,743
NET CARRYING AMOUNT					
At 31 December 2009	102,465,946	46,982,725	1,928,809	2,284,257	153,661,737
At 31 December 2008	106,741,259	60,406,559	1,946,920	2,548,269	171,643,007

17. Property, plant and equipment (continued)

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

As at year ended 31 December 2009, certain property, plant and equipment were pledged for securities of bank and other borrowings of the Group. Details please refer to note 30 to consolidated financial statements.

In light of the continuing operating loss experienced by the Group for the year ended 31 December 2009, the directors of the Company had carried out an impairment review of its property, plant and equipment and considered that the amount of property, plant and equipment of RMB153,661,737 were fairly stated as at 31 December 2009.

18. Inventories

	2009 **RMB**	2008 RMB
Raw materials	**7,323,939**	12,645,883
Work in progress	**5,147,668**	6,139,900
Finished goods	**3,054,861**	11,752,233
	15,526,468	30,538,016

In light of the continuing operating loss experienced by the Group for the year ended 31 December 2009, the directors of the Company had carried out an impairment review of its inventories. According to the revaluation report issued by Malcolm and Associates Appraisal Company Limited, the market value of the inventories as at 31 December 2009 was approximately RMB15,527,000.

19. Trade and other receivables

	2009 **RMB**	2008 RMB
Trade and other receivables	**72,610,388**	79,547,269
Less: Allowance for doubtful trade and other receivables	**(56,939,235)**	(75,448,604)
	15,671,153	4,098,665
Advance deposits to suppliers	**391,078**	165,992
Other debtors	**467,066**	740,837
	16,529,297	5,005,494

19. Trade and other receivables (continued)

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

	2009 RMB	2008 RMB
Within 3 months	**8,487,800**	1,227,636
Over 3 months but less than 6 months	**7,043,353**	70,000
Over 6 months but less than 1 year	**–**	–
Over 1 year but less than 2 years	**–**	2,801,029
Over 2 years	**140,000**	–
	15,671,153	4,098,665

Customers are normally granted credit terms of 3 months to 12 months (2008: 3 months to 12 months), depending on the Group'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 (2008: not more than 24 months).

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group 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:

	2009 RMB	2008 RMB
Balance at beginning of the year	**75,448,604**	44,974,499
Recovery the allowance for bad and doubtful for debts	**(18,509,369)**	–
Impairment loss recognised during the year	**–**	30,474,105
Balance at end of the year	**56,939,235**	75,448,604

At the end of each reporting period, the Group'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 Group does not hold any collateral over the balances.

20. Bank balances and cash/pledged bank deposits

Bank balances carry interest at market rates which range from 0.36% to 0.36% (2008: from 0.36% to 0.72%) per annum. The pledged bank deposits carry fixed interest rate of 1.71% (2008: 1.71%) per annum. The pledged bank deposits will be released upon the settlement of relevant bills payables.

Deposits amounting to RMB15,205,068 (2008: Nil) have been pledged to bills payables and are therefore classifies as current assets.

21. Bank borrowings

Particulars of bank borrowings due within one year were as follows:

	2009	2008
	RMB	RMB
Bank borrowings	**10,000,000**	–

The bank borrowings were secured by certain property, plant and equipment of the Group (please refer to note 17 to the consolidated financial statements). The interest rate on the bank borrowings is 6.372% per annum.

22. Trade and other payables and bills payables

	2009	2008
	RMB	RMB
Trade payables	**82,631,493**	70,649,182
Accrued salaries, bonus and welfare fund	**6,045,673**	743,423
Bills payables	**15,205,068**	–
Other payables	**21,234,603**	38,383,082
	125,116,837	109,775,687

An aging analysis of trade payables was as follows:

	2009	2008
	RMB	RMB
Due within 3 months	**40,234,321**	18,486,460
Due after 3 months within 6 months	**1,180,651**	–
Due after 6 months within 1 year	**16,720**	–
Due over 1 year	**41,199,801**	52,162,722
	82,631,493	70,649,182

23. Amount(s) due to a former shareholder/shareholders/ a related company

Amount(s) due to a former shareholder/shareholders/a related company are unsecured, interest free and repayment on demand.

24. Deferred taxation

At the end of the reporting period, the Group has estimated the unused tax losses of approximately RMB234,298,979 (2008: RMB323,910,816) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits steam. Such tax losses can be carried forward for 5 years which the respective loss arose.

25. Other borrowings

During the year, the Company has obtained an agreement with Jinmao and Jiangsu Mudan that the balance would be converted into long-term loan. And the Group's buildings are pledged to the borrowings as disclose note 17. Interest rate is same as the interest rate of bank borrowings. And the borrowings would not be demanded for repayment on or before 1 January 2011.

Interest for the year ended 31 December 2009 had been waived by the borrowers, no interest would be accrued for the current year.

26. Share capital

	Number of shares	Amount RMB
Authorised:		
At 31 December 2008 and 31 December 2009		
Domestic shares of RMB1 each	196,250,000	196,250,000
H shares of RMB1 each	88,550,000	88,550,000
	284,800,000	284,800,000
Issued and fully paid:		
At 31 December 2008 and 31 December 2009		
Domestic shares of RMB1 each	196,250,000	196,250,000
H shares of RMB1 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.

27. Operating lease commitments

	2009 RMB	2008 RMB
Minimum lease payments paid under operating leases during the year – Premises	**–**	–

At the end of the reporting period, the Group 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:

	2009 RMB	2008 RMB
Within one year	**2,150,270**	1,105,500
In the second to fifth years inclusive	**5,292,642**	4,422,000
Over five years	**8,354,020**	9,459,520
	15,796,932	14,987,020

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.

28. Materials related party transactions

Particulars of material transactions between the Group 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	2009 RMB	2008 RMB
Purchases from shareholders/a related company	(i)	**68,751,515**	538,659
Rent paid for prepaid lease payments	(ii)	**–**	–
Rent paid for a property	(iii)	**–**	–
Rent paid for a production line	(iv)	**–**	–
Sales of steels	(v)	**–**	1,683,947
Reimbursement of electricity charges	(vi)	**750,000**	1,728,271
Sales of buses and buses parts	(vii)	**37,730,085**	–
Trademark	(viii)	**–**	–

(i) This represents purchases of materials and finished goods from a shareholder (Chengdu New Dadi) during 2009; and Zhangjiagang Jishun Transportation Industrial Co., Ltd. an associate of the controlling shareholder of the Company prior to 16 June 2009 during 2010.

(ii) The Company has entered into lease agreements with Jiangsu Mudan whereby the Company is granted rights to use three (2008: three) pieces of land in the PRC on which its buildings are erected for a term of 20 years. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2009, the annual rental payment for the year ended 31 December 2009 was Nil.

28. Materials related party transactions (continued)

(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. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2009, the annual rental payment for the year ended 31 December 2009 was Nil.

(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. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2009, the annual rental payment for the year ended 31 December 2009 was Nil.

(v) For the year ended 31 December 2009, the Company sold steel to its a related party (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB Nil (2008:RMB 1,683,947).

(vi) For the year ended 31 December 2009, the Company provided the other services to its related company (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB750,000 (2008: RMB 1,728,271). The other services included reimbursement of electricity charges.

(vii) For the year ended 31 December 2009, the Company sales the buses and buses parts to shareholders 佛山市順德眾裕汽車貿易有限公司 and Chengdu New Dadi Motor Company Limited and a related party 北京華夏丹尼汽車投資股份有限公司 Beijing Huaxia Dan Ni Vehicles Investment Limited.

(viii) During the years ended 31 December 2008 and 2009, 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 key management personnel

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

	2009	2008
	RMB	RMB
Members of the directors and the key management		
Short-term benefits	**655,200**	320,400
Post-employment benefits	**13,104**	–
	668,304	320,400

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

29. Litigations and contingent liabilities

Up to the date of this report, the Company had recognised the payables with approximately RMB 63,127,994 in respect of involvements in a number of litigations in the PRC in the consolidated financial statement for year ended 31 December 2009.

(i) On or about 17 September 2007, 湖南汽車車橋廠 (Hunan Vehicle Chassis Factory) filed its writ with湖南省津市市民法院(the Jinshi City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB 331,193 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company. On 20 December 2008, Hunan Vehicle Chassis Factory withdrew the suit;

(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 County People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB1,539,902 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company.;

Pursuant to a commercial agreement between both parties on 3 June 2009, the said amount shall be paid in full before the end of 25 December 2009, of which RMB1,500,000 was applied as the Company's chassis working capital for 2009. During the year the Company had paid RMB200,000 for this plaintiff. On 31 December 2009, the amount outstanding was RMB1,539,902.

(iii) 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 Yuhuatai District People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB556,340 in relation to the vehicle accessories and materials provided by the plaintiff.

Pursuant to the initial judgment (2008) Yu Min Er Chu No. 23 by 南京市雨花區人民法院 (the Nanjing City Yuhuatai District People's Court), the Company shall repay RMB556,340 to 南京康尼機電新技術有限公司 (Nanjing Hongne Mechanical New Technology Limited). On 31 December 2009, the amount outstanding was RMB556,340.

(iv) On or about 21 April 2008, 安徽江淮汽車股份有限公司 (Anhui Jianghuai Vehicles Share Company Limited) ("Jianghuai Vehicles") filed its writ with 合肥市中級人民法院 (the Hefei City Middle People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB36,337,910 in relation to the chassis provided by the plaintiff.

Pursuant to the final judgment (2009) Wan Min Er Zhong Zi No. 0004 by 安徽省高級人民法院 (the Anhui Provincial High People's Court) and settlement agreement signed between both parties on 6 June 2009, it was agreed that the Company shall pay RMB33,662,434 to Jianghuai Vehicles and pay the relevant enforcement cost amounting to RMB2,675,476 to 合肥市中級人民法院 (the Hefei City Middle People's Court) by 20 December 2011. During the year the Company had paid RMB9,195,286 for this plaintiff. On 31 December 2009, the amount outstanding was RMB27,142,625.

29. Litigations and contingent liabilities (continued)

(v) On or about 25 June 2008, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) filed a writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay the debt of RMB4,778,409 in relation to the chassis.

Pursuant to the settlement agreement signed between both parties on 14 May 2009 (the "Agreement"), the Company shall pay principal and legal expenses amounting to RMB4,823,439 (of which RMB4,778,409 is the principal (included in the payables), and the legal cost is RMB45,030 (excluded in the payables and subject to the debit amount by the court)) to 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) by 30 October 2010. If the Company were to pay the said amount on time and in full as stipulated in the Agreement, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) would waive of the payment of interest by the Company. During the year the Company had paid RMB1,000,000 for this plaintiff. On 31 December 2009, the amount outstanding was RMB3,823,439 and the Company is in the progress of performing the settlement agreement.

(vi) On or about 16 July 2008, 南京依維柯汽車有限公司 (Nanjing Lveco 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 was stated in the writ that the Group had failed to pay the debt of RMB28,486,438. On 31 December 2009, the Company had not repaid the said amount.

(vii) On or about 16 March 2009, 張家港市城市五金交電貿易有限公司 (Zhangjiagang City City Hardware, Transportation and Electrical Appliances Trading Co., Ltd) filed a writ with 張家港人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay RMB308,133 in relation to hardware accessories.

Pursuant to the settlement agreement between both parties on 9 September 2009, the Company shall repay RMB261,912 to 張家港市城市五金交電貿易有限公司 (Zhangjiagang City City Hardware, Transportation and Electrical Appliances Trading Co., Ltd) on or before 30 October 2009. On 31 December 2009, the amount outstanding was RMB308,133..

(viii) On or about 28 September 2009, 廣東海派律師事務所 (Guangdong Haipai Law Office) filed a writ with 深圳市福田區人民法院 (the Shenzhen Futian District People's Court) against the Company. It was stated in the writ that the Company had failed to pay RMB17,600 in relation to service. On 31 December 2009, the amount outstanding is RMB17,600.

(ix) On or about 9 October 2009, 江蘇足跡塗料有限公司 (Jiangsu Zuji Painting Limited) ("Jiangsu Zuji") filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB250,281. Pursuant to the settlement agreement by the Zhangjiagang City People's Court, the Company shall repay RMB225,253 to Jiangsu Zuji. On 31 December 2009, the amount outstanding was RMB155,253.

29. Litigations and contingent liabilities (continued)

(x) On 5 April 2009, 江阴華士汽車座椅有限公司 filed its writ with 江阴市人民法院(the Jiangyin City People's Court) against the Company. It It was stated in the writ that the Company had failed to pay a total of RMB97,868. On 31 December 2009, the amount outstanding was RMB97,868. The case had not been closed so the result has not been finalized by the court up to the date of this report.

(xi) On or about 9 November 2009, 杭州華通機械電器制造有限公司 (Hangzhou Huatong Electrical Appliance Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB768,670. On 31 December 2009, the amount outstanding was RMB 683,333.

As at the date of this report, the Company has contingent liabilities in respect of the involvement in a number of litigations in the PRC, the details of which are set out as follows:

(i) On or about 21 April 2008, 安徽江淮汽車股份有限公司 (Anhui Jianghuai Vehicles Share Company Limited) ("Jianghuai Vehicles") filed its writ with 合肥市中級人民法院 (the Hefei City Middle People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB36,337,910 in relation to the chassis provided by the plaintiff.

Pursuant to the final judgment (2009) Wan Min Er Zhong Zi No. 0004 by 安徽省高級人民法院 (the Anhui Provincial High People's Court) and settlement agreement signed between both parties on 6 June 2009, it was agreed that the Company shall pay RMB33,662,434 (included in the payables) to Jianghuai Vehicles and pay the relevant enforcement cost amounting to RMB2,675,476 to 合肥市中級人民法院 (the Hefei City Middle People's Court) by 20 December 2011. As at the date of this report, the amount outstanding is RMB27,142,625.

On 28 November 2009, 最高人民法院 (the PRC Supreme People's Court) ruled that 安徽省高級人民法院 (Anhui Senior Court) will examine the case and the enforcement by the Hefei City Middle People's Court will be suspended during the examination. As at the date of this report, no court hearing has been commenced.

(ii) On or about 30 November 2009, 蘇亞東 (Su Yadong) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB600,000.

30. Pledge of assets

At the end of the reporting period, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

	2009 **RMB**	2008 RMB
Property, plant and equipment	**149,448,671**	–

31. Event after the reporting period

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.

32. Statement of financial position information of the Company

Statement of financial position of the Company

	Notes	2009 RMB	2008 RMB
ASSETS AND LIABILITIES			
NON CURRENT ASSET			
Property, plant and equipment		**153,661,737**	171,643,007
Investments in subsidiaries		**1,200,000**	–
		154,861,737	171,643,007
CURRENT ASSETS			
Inventories		**15,526,468**	30,538,016
Trade and other receivables		**16,529,297**	5,005,494
Amounts due from subsidiaries		**4,048,170**	–
Pledged bank deposits		**15,247,325**	9,089,340
Bank balances and cash		**6,628,139**	3,669,714
		57,979,399	48,302,564
CURRENT LIABILITIES			
Trade and other payables		**125,116,837**	109,775,687
Amount due to a former shareholder		**1,045,306**	1,045,306
Amounts due to shareholders		**251,904**	312,465
Amount due to a related company		**14,766,793**	7,327,340
Bank borrowings		**10,000,000**	–
Income tax payable		**1,232,552**	1,232,552
		152,413,392	119,693,350
NET CURRENT LIABILITIES		**(94,433,993)**	(71,390,786)
NON-CURRENT LIABILITY			
Other borrowings		**(67,956,113)**	(108,519,755)
NET LIABILITIES		**(7,528,369)**	(8,267,534)
CAPITAL AND RESERVES			
Share capital		**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		**(323,171,651)**	(323,910,816)
		(7,528,369)	(8,267,534)

Notes to the Consolidated Financial Statements

33. Principal subsidiaries

Name of subsidiary	Class of shares held	Place of incorporation/ registration and operation/ establishment	Nominal value of paid up issued/ registered/ ordinary capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
張家港市牡丹機動車安全技術質量檢測中心有限公司	Ordinary	PRC	RMB100,000	100%	–	Automobile detect
牡丹汽車（張家港）物資供應有限公司	Ordinary	PRC	RMB500,000	100%	–	Purchase and sale of automobile material
牡丹汽車（張家港）銷售有限公司	Ordinary	PRC	RMB100,000	100%	–	Sale of automobile material

Five Years Summary

	Year ended 31 December				
	2009	2008	2007	2006	2005
Results					
Turnover	**110,295,640**	10,698,243	327,743,441	551,676,336	513,137,945
Profit/(loss) from operations	**1,082,653**	(82,063,063)	(121,130,143)	(57,632,572)	(92,549,661)
Net finance (expenses) income	**(301,895)**	3,543,254	(8,744,136)	(2,081,358)	2,106,514
Profit/(loss) before taxation	**780,758**	(78,519,809)	(129,874,279)	(59,713,930)	(90,443,147)
Income tax expenses	**–**	–	–	–	(3,759,815)
Profit/(loss) for the year attributable to the owners of the Company	**780,758**	(78,519,809)	(129,874,279)	(59,713,930)	(94,202,962)
Assets and liabilities					
Property, plant and equipment	**153,661,737**	171,643,007	189,792,794	200,467,300	212,432,426
Construction in progress	**–**	–	–	709,503	–
Net deferred tax assets	**–**	–	–	3,759,815	10,190,527
Total current assets	**53,963,992**	48,302,564	134,173,885	484,052,490	730,533,147
Total current liabilities	**(147,156,392)**	(228,213,105)	(253,714,404)	(485,102,827)	(683,125,089)
Total non-current liabilities	**(67,956,113)**	–	–	(3,759,727)	(10,190,527)
	(7,486,776)	(8,267,534)	70,252,275	200,126,544	259,840,484
Share capital	**284,800,000**	284,800,000	284,800,000	284,800,000	284,800,000
Reserves	**(292,286,776)**	(293,067,534)	(214,547,725)	(84,673,446)	(24,959,516)
	(7,486,776)	(8,267,534)	70,252,275	200,126,554	259,840,484