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

2010

* For identification only

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Characteristics of the Growth Enterprise Market

GEM ("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, makes 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 enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Corporate Information

Executive Directors
Mr LI Zi Hao *(Chairman)*
Ms PAN Li Chan

Non-executive Directors
Mr PAN Jin Rong (appointed on 29 April 2010)
Mr CHAN Man (resigned on 29 April 2010)

Independent Non-executive Directors
Mr HUANG Chengye
Mr LIANG Bo Qi (appointed on 29 April 2010)
Mr WU Bing Jian (appointed on 29 April 2010)
Mr GUO Hong (resigned on 3 March 2010)
Mr WANG Ruihua (resigned on 29 April 2010)

Supervisors
Mr WANG Bo *(Chairman)*
Mr ZHOU Zhi Cheng
Mr LI Yu Lin (appointed on 13 November 2010)
Mr WANG Wei Qi (resigned on 13 November 2010)

Audit Committee
Mr WU Bing Jian
(Chairman and appointed on 29 April 2010)
Mr HUANG Chengye
Mr LIANG Bo Qi (appointed on 29 April 2010)
Mr GUO Hong(resigned on 3 March 2010)
Mr WANG Ruihua (resigned on 29 April 2010)

Remuneration Committee
Mr WU Bing Jian
(Chairman and appointed on 29 April 2010)
Mr HUANG Chengye
Mr LIANG Bo Qi (appointed on 29 April 2010)
Mr GUO Hong (resigned on 3 March 2010)
Mr WANG Ruihua (resigned on 29 April 2010)

Compliance Officer
Mr LI Zi Hao

Company Sercetary
Mr CHAN Wai Sum

Authorized representatives
Mr LI Zi Hao
Mr CHAN Wai Sum

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

Legal adviser as to Hong Kong laws
LEUNG & LAU

Principal Bankers
Bank of China, Zhangjiagang Branch
Zhangjiagang Rural Commercial Bank
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 "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.

BUSINESS RESULTS

For the year ended 31 December 2010, turnover of the Group amounted to RMB203,133,716, representing an increase of approximately 84.2% (2009: RMB110,295,640). Loss before taxation was RMB1,665,383 (2009: profit before taxation of RMB780,758). Basic loss per share for the year was RMB0.58 cents. The Board do not recommend to distribute final dividend in respect of the year ended 31 December 2010 (2009: Nil).

BUSINESS REVIEW

The development of urban public transportation has always been supported by government policies of China. In the past 5 years, China formulated the development strategy of "priority for public transportation", all local governments follow the method of "Centralized planning, centralized management, government orientation, market mechanism" and actively explore channels for construction funds, attracting domestic and overseas fundings, further increase of the construction of infrastructural facilities such as the integrated hubs of urban passenger transportation, public transportations station etc, and a series of integrated hubs of urban passenger transportation have been set up successively.

The continuous progress of urbanization requires the acceleration in the scope and intensification of the urban public transportation. China is currently at the rapid development stage of urbanization, the urbanization progress has been growing at approximately one percent each year, every year about 13 million people are relocating into urban area. Under this perspective, the demand for urban public transportation is increasing.

During 2010, the Group benefitted from the steady growth of the total volume of road transport in China, the continuous improvement of the public transportation vehicles, and the continuous expansion of the service network of operating routes of public buses have led to a robust demand for public buses. The Group benefitted from these and recorded an increase of approximately 84.2% in turnover.

Replacement of traditional buses by new energy buses is one of the directions and industrial policies of the automobile industry in China. The Group started to develop Mudan new energy buses since 2008, during this period, we closely cooperate with famous domestic companies on pure electric bus projects. In 2010 H1 we succeeded in the trial production of the first Mudan MD6100 pure electric bus, and obtained breakthrough in the manufacturing of Mudan's new energy bus, this brought competitive edges for Mudan vehicles to enter into the new energy vehicle arena.

Chairman's Report

OUTLOOK

2011 is the commencement year of the "Twelfth Five-year Plan" of the government of China, with its emphasis of domestic demand expansion, fostering urbanization, improvement of public service systems, building of an environmentally friendly society, the "Twelfth Five-year Plan" will bring new development opportunities for the bus industry. The general expansion of domestic demand will bring about a rise in salary level which will subsequently lead to an increase of domestic consumption ability, directly foster tourist coach consumption, speed up the renewal of less comfortable old vehicles, promote the urbanization construction, narrow the gap between the rural and urban areas, improve the public transportation service system and will fuel the demand for public transportation buses in a significant way.

Due to its attribute of being in the social domain of public interest, public transportation is always regarded as an "image project". With more congestion in the urban transportation and more severe air pollution, the urban transportation has become a topic drawing more and more public concern, new energy saving environmentally friendly public bus will see a new round of development opportunities. In order to meet the demand in the market, pure electric bus will be the development focus of our Group in the future. We will expand from the existing 10.5-metre MD6100 electric bus to 12 metre and 7 metre respectively. Among them, the 12-metre pure electric bus will still be urban public bus with a remarkable increase in passenger capacity, the largest capacity is 90 people, this is more suitable for the development trend of electrified public transportation in medium and large sized cities. 7-metre pure electric medium-sized bus will satisfy the requirements of the electrified public transportation in medium and large sized cities and the market demand for medium and long haul passenger carriage and environmental protection concern, thus there are more choices for customers.

During the past year the management and all employees worked very hard. Here, on behalf of the Board, I would express our gratitude to the management and all employees of the Group for their loyalty and hard work

LI Zi Hao
Chairman

Shunde, Foshan City, Guangdong Province, the PRC

28 March 2011

BUSINESS REVIEW

The Group has possessed Mudan automobile brand for over 30 years and enjoys good reputation both in mainland China and aboard. Mudan automobiles have remarkable competitive edges in production facilities, manufacturing skills and quality of products. The major products of the Group are 36 series of light, medium-sized and large-sized buses including MD6601, MD6701, MD6703, MD6728, MD6100 and MD6110 etc.

Business environment

In 2010, the demand in the bus market of China was robust. This was principally attributable to the following factors: i) in 2008, China launched the RMB4,000 billion economic stimulus scheme the majority of which were infrastructure projects. During the period, the further acceleration of development of highway and construction for urbanization drove the remarkable growth of production output and sales of the bus market; ii) the policies of “Auto Go Rural” and “government allowance for auto trade-in” further fostered consumption; and iii) the rebound and recover of the global economy led to recovery of growth in the export market. Looking ahead, given the policy of continuous expansion of domestic demand, the bus market is expected to maintain steady growth trend in 2011, in particular new energy bus will be a focus in the bus market thanks to positive state policies of energy saving and emission reduction and technological upgrade assistance.

Due to the monetary easing environment and increasing complex inflation, the prices of raw materials of the automobile industry had a rising trend in 2010. Most market operators could not switch the high costs to consumers, it was expected that the profit margin of the traditional automobile industry would decline. In 2010 the Group already felt the pressure of rising raw material prices, we would enhance profitability by strengthening cost management, upgrading and transforming production lines and traditional bus inspection lines, increasing investment in the research and development of Mudan pure electric bus.

Success in trial production of electric bus

In order to respond to the State’s appeal for reducing emission and to address the need for product mix adjustment of the Group, the Group initiated projects of pure electric automobiles with a number of well-known domestic companies. By March 2010, the Company completed the trial production of a sample pure electric automobile named MD6100EV and the project was at the stage of monitoring operation data. The model is an economic pure electric bus mainly used in the public transportation sector of medium and big cities, and is featured with safety, quick recharging time, high recyclability, hassle free maintenance requirement, low energy consumption and affordable price. After professional verifications, key technological indicators of the product were proved to be comparable to the local advanced standard. However, the price is only half of similar products in the market, thus bringing about promising prospects for commercial operation of our products in the future. The Group will take MD6100EV as a lead in the research and development of a complete product line of electric automobiles.

Trial run of pure electric bus approved

According to the requirements of “Management Rules on Access Permission of New Energy Vehicle Manufacturers and Related Products” of the PRC in May 2010, the Group applied to the relevant government departments for the trial run of pure electric bus. Approval has been obtained from Jiangsu Economic and Information Technology Commission of PRC, which will have a positive impact on the market access application and mass production as well as marketing of the Mudan pure electric bus.

Management Discussion and Analysis

Participation in Jiangsu New Energy Vehicles and Auto Parts Fair

The MD6100EV pure electric bus successfully developed by the Group participated in the Jiangsu New Energy Vehicles and Auto Parts Fair in June 2010. Through participating in the Fair, the leading advantage of the comprehensive performance and cost-saving features of the Mudan pure electric bus has been fully demonstrated, which will benefit the smooth implementation of the Mudan pure electric bus project. Meanwhile, the Group has been developing 12-meter MD6120EV and 7-meter MD6703EV, the two new series of pure electric buses.

Participation in the China (Suzhou) Energy Saving and Environmental Products & Technology Expo

The Group participated in the "2010 China (Suzhou) Energy Saving and Environmental Products & Technology Expo" held at the Suzhou International Expo Center in the PRC in September 2010. The theme of the exhibition was "To develop a low carbon economy and promote green growth"「發展低碳經濟、推動綠色增長」and promoted the focus areas, technologies, products and projects of energy saving and environmental protection. Mudan's pure electric buses participated in the exhibition as a new energy, energy saving and environmental protection product and fully demonstrated the advantages of Mudan's electric buses in the field of new energy application, which was one of the highlights of the exhibition.

FINANCIAL REVIEW

Turnover

Total turnover for the fiscal year 2010 amounted to RMB203,133,716, representing an increase of approximately 84.2% compared to that of RMB110,295,640 generated in 2009. Turnover from light, medium and large-sized buses amounted to RMB6,793,663, RMB17,144,963 and RMB179,195,090 respectively (2009: RMB13,240,068, RMB19,642,751 and RMB 77,412,821).

Cost of sales and gross profit

Cost of sales increased from RMB133,530,190 in 2009 to RMB189,956,466 in 2010. Marginal loss of the products of the Group decreased from approximately 21.1% in 2009 to approximately 6.5% of marginal profit of the products in 2010.

Other operating income

Other operating income for the fiscal year 2010 amounted to RMB14,854,018 which included the waive of litigation sum and reversal of the allowance for bad and doubtful debts of RMB8,228,168 and RMB4,298,665 respectively (2009: RMB82,549,707 including the waive of other borrowing and the reversal of the allowance for bad and doubtful debts of RMB63,281,111 and RMB18,509,369 respectively).

Distribution expenses and general and administrative expenses

Total distribution expenses for the fiscal year 2010 amounted to RMB1,201,170 (2009: RMB3,141,898), representing a significant decrease of approximately 61.8% compared to that for 2009.

Total general and administrative expenses for the fiscal year 2010 was RMB23,740,754, representing a significant decrease of approximately 23.1% as compared to the amount of RMB30,774,932 for 2009.

The Company's expenses on salaries, wages and bonus (excluding retirement benefit scheme contribution), for the fiscal year 2010 amounted to RMB4,590,144 as compared to RMB5,668,892 in 2009, representing a decrease of RMB1,078,748.

In the fiscal year of 2010, net finance expense amounted to RMB4,182,028 comprising interests on other borrowings and short-term bank borrowings. Net finance expense amounted to RMB347,240 in year of 2009.

Net (loss)/profit

The Group recorded a loss before taxation of RMB1,665,383 for the fiscal year 2010 (2009: profit before taxation of RMB780,758).

Material investments and capital assets

As at the date of this report, the Group did not have any plan for material investments or acquisition of any material capital asset and in the foreseeable future.

Exposure in exchange rate fluctuations

The Group have foreign currency transactions, which expose the Group to foreign currency risk. Certain bank balances and trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure and will regularly consider hedging significant foreign currency exposure should such a need arises.

Financial resources and liquidity

As at 31 December 2010, the current assets of the Group were RMB57,825,525 (2009: RMB53,963,992) while the current liabilities of the Group amounted to RMB202,885,822 (2009: RMB147,156,392).

As at 31 December 2010, cash and bank balances of the Group were RMB4,869,236 (2009: RMB6,660,902), the bank deposit pledged for bills payable of the Group amounted to RMB16,112,235 (2009: RMB15,247,325).

As at 31 December 2010, short term bank borrowings of the Group were RMB10,000,000 (2009: RMB10,000,000), there was no long term bank borrowings (2009: nil).

As at 31 December 2010 the Group had other borrowings of RMB74,509,319 (2009: RMB67,956,113) due to Zhangjiashi City Jinmao Investment Ltd ("Jinmao") and Jiangsu Mudan Automobile Group Ltd ("Jiangsu Mudan"). The buildings of the Group were pledged as security for the other borrowings which expired on 5 December 2010, as of the date of this report, the original real estate certificate was still kept by Jinmao, the Group has been negotiating with Jinmao for the extension of the pledge arrangement.

Litigations and contingent liabilities

Up to the date of this report, the Company had recognised the payables in respect of involvements in eighteen litigations in the PRC, among those litigations, the payables of eleven of them have been fully settled during the year ended 31 December 2010. According to the relevant agreements, the payables of the remaining seven litigations with approximately RMB43,713,604 were recognized in the consolidated financial statement for the year ended 31 December 2010, please refer to note 29 of the Independent Auditor's Report for more details.

Charges on assets

As at 31 December 2010, the Company had short-term bank borrowings of RMB10,000,000 and other borrowings of RMB74,509,319 which were secured by the buildings, certain plants and equipments of the Group of RMB9,407,660 (2009: RMB149,448,671).

Capital structure

During the year, there was no change in the share capital of the Group. As at 31 December 2010, the operation of the Group was financed mainly by shareholders' equity, internal resources, bank borrowings and other borrowings. The Group will continue to adopt its treasury policy of placing the cash and cash equivalents of the Group in interest bearing deposits.

Employee information

During the year, the average number of employees of the Group was 137 (2009:190). Employees' remuneration included Directors' emoluments and the relevant costs of all staffs were approximately RMB5,173,792 (2009: RMB6,220,825). They were remunerated in accordance with their performance and market conditions. Staff employed in the PRC are entitled to social insurance. As at the date of this report, the Group has not adopted any share option scheme.

Major customers and suppliers

The information in respect of the sales of the Group attributable to the major customers during the year is as follows:

	Percentage of total sales of the Group	
	2010	2009
The largest customer	**57.7%**	25.8%
Five largest customers in aggregate	**92.8%**	70.4%

The information in respect of the purchases of the Group attributable to the major suppliers during the year is as follows:

	Percentage of total purchases of the Group	
	2010	2009
The largest supplier	**50.4%**	60.79%
Five largest suppliers in aggregate	**94.9%**	80.48%

For the year ended 31 December 2010, the second largest supplier was Chengdu New Dadi Motor Company Limited ("Chengdu New Dadi") which was a Shareholder, and the Directors, Mr Li Zi Hao and Ms Pan Li Chan, indirectly held beneficial interest in Chengdu New Dadi. 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 during the year.

Report of the Board of Directors

The Board present their annual report for 2010 together with the audited financial statements of the Group for the year ended 31 December 2010.

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 no 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 2010 mainly comprises the sale of automobiles in the PRC.

Financial statements

The results of the Group for the year ended 31 December 2010 and the financial position of the Company and the Group as at 31 December 2010 are contained on pages 34 to 79 in the consolidated financial statements.

Final dividend

No dividend was paid or proposed during the year ended 31 December 2010 nor has any dividend been proposed since the end of the reporting period (2009: Nil).

Charitable donations

There was charitable donation amounting to RMB65,000 made by the Group during the year (2009: RMB156,194).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 18 to the consolidated financial statements.

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.

Reserve 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 2010, 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

As at 31 December 2010, the interests and short positions of the Directors, the supervisors (as if the requirements applicable to the Directors under the SFO had applied to the supervisors) and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

Name	Number of shares held	Nature of interests	Approximate percentage of shareholding in the same class of securities	Approximate percentage of shareholding in the registered capital
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%
Pan Jin Rong ("Mr Pan")	300,000(L) Domestic Shares *(Note 4)*	Interest of controlled corporation	0.15%	0.11%
	300,000(L) Domestic Shares *(Note 5)*	Interest of spouse	0.15%	0.11%

Notes:

The following notes describe the circumstances subsisted as at 31 December 2010:

1. Chengdu New Dadi, a limited company incorporated in the PRC, was 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 (China Auto Union (Chengdu) Company Limited) ("CAU"). Each of Mr. Li and Ms. Pan was a director of Chengdu New Dadi. Shunde Rixin was a limited company incorporated in the PRC and was owned as to 80% by Mr. Li and 20% by Ms. Pan, who were both executive Directors. Each of Shunde Rixin and Shunde Ganghua was 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, was wholly and beneficially owned by Ms. Pan, who was also the sole director of Shunde Ganghua. By virtue of the provisions of part XV of the SFO, Ms Pan was deemed to be interested in the 95,310,000 Domestic Shares held by Shunde Ganghua and Mr. Li, as the spouse of Ms. Pan, was deemed to be interested in 95,310,000 Domestic Shares in which Mr. Li was interested.

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

4. 佛山市合力汽車貿易有限公司 (Foshan City Heli Car Trading Company Limited) ("Foshan Heli"), a limited company incorporated in the PRC, was interested in 300,000 Domestic shares. Foshan Heli was beneficially owned as to 90% by Mr. Pan, a non-executive Director and the brother of Ms. Pan, who was also the sole director of Foshan Heli, and 10% by Ms. LIANG You Fu, the mother of Mr. Pan.

5. 佛山市順德眾裕汽車貿易有限公司 (Foshan Shunde Zhongyu Car Trading Company Limited) ("Shunde Zhongyu"), a company incorporated in the PRC, was interested in 300,000 Domestic shares of the Company. Shunde Zhongyu was wholly and beneficially owned by Ms. WU Shuyun, who was the wife of Mr. Pan. Ms. WU Shuyun was also the sole director of Shunde Zhongyu. Mr. Pan as the spouse of Ms. WU Shuyun was deemed to be interested in the 300,000 Domestic shares in which Ms. WU Shuyun was interested.

Save as disclosed above, as at 31 December 2010, none of the Directors, supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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

After making reasonable enquiry, as at 31 December 2010, the interests or short positions of person, other than a Director or chief executive of the Company, in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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 the 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%
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")	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%
Cheerbond Investment International Limited ("Cheerbond")	10,080,824(L) H shares *(Note 3)*	Beneficial owner	11.38%	3.54%
Innovation Assets Limited ("Innovation Assets")	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%

Name	Number of shares held	Nature of interests	Approximate percentage of shareholding in the same class of securities	Approximate percentage of shareholding in the registered capital
World Developments Limited ("World Developments")	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) = Long position

Notes:

The following notes describe the circumstances subsisted as at 31 December 2010:

1. Chengdu New Dadi, a limited company incorporated in the PRC, was owned as to 50% by Shunde Rixin and 50% by CAU. Each of Mr. Li and Ms. Pan was a director of Chengdu New Dadi. Shunde Rixin was a limited company incorporated in the PRC and was owned as to 80% by Mr. Li and 20% by Ms. Pan, who were both executive Directors. Each of Shunde Rixin and Shunde Ganghua was 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, was wholly and beneficially owned by Ms. Pan, who was also the sole director of Shunde Ganghua. By virtue of the provisions of part XV of the SFO, Ms Pan was deemed to be interested in the 95,310,000 Domestic Shares held by Shunde Ganghua and Mr. Li, as the spouse of Ms. Pan, was deemed to be interested in 95,310,000 Domestic Shares in which Mr. Li was interested.

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

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

Save as disclosed above, as at 31 December 2010, the Directors were not aware of any other person (other than the Directors, supervisors and chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' and Supervisors' rights in acquiring shares or bonds

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

Report of the Board of Directors

Directors and Supervisor

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)*
Ms PAN Li Chan

Non-executive Directors

Mr PAN Jin Rong	(appointed on 29 April 2010)
Mr CHAN Man	(resigned on 29 April 2010)

Independent Non-executive Directors

Mr HUANG Chengye	
Mr LIANG Bo Qi	(appointed on 29 April 2010)
Mr WU Bing Jian	(appointed on 29 April 2010)
Mr GUO Hong	(resigned on 3 March 2010)
Mr WANG Ruihua	(resigned on 29 April 2010)

Supervisors

Mr WANG Bo *(Chairman)*	
Mr ZHOU Zhi Cheng	
Mr LI Yu Lin	(appointed on 13 November 2010)
Mr WANG Wei Qi	(resigned on 13 November 2010)

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.

On 3 March 2010, Mr GUO Hong retired as an independent non-executive Director. On 29 April 2010, Mr CHAN Man retired from the non-executive Director position, Mr PAN Jin Rong was appointed as a non-executive Director, Mr WANG Ruihua retired as an Independent non-executive Director, each of Mr LIANG Bo Qi and Mr WU Bing Jian was appointed as an independent non-executive Director. On behalf of the Board, I would like to express thanks to Mr CHAN Man in the capacity as non-executive Director, Mr GUO Hong and Mr WANG Ruihua in the capacity as independent non-executive Director for their contributions made for the Group during the period, as well as welcome Mr PAN Jin Rong to serve as a non-executive Director, Mr LIANG Bo Qi and Mr WU Bing Jian to serve as independent non-executive Director.

The Company has received annual confirmations of independence from Mr. HUANG Cheng Ye, Mr LIANG Bo Qi and WU Bing Jian pursuant to Rule 5.09 of the GEM Listing Rules, and as at the date of the report, still consider them to be independent.

Directors' service contracts

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' emolument

For details of the Directors' and Supervisors' and top paid persons' emoluments, please refer to the consolidated financial statement, note 17.

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	**2010 RMB**	2009 RMB
Purchases from shareholders	(i)	**79,853,000**	68,751,515
Rent paid for prepaid lease payments	(ii)	**–**	–
Rent paid for a property	(iii)	**–**	–
Rent paid for a production line	(iv)	**–**	–
Sales of buses and buses parts	(v)	**–**	37,730,085
Trademark	(vi)	**–**	–

(i) This represents purchases of materials and finished goods during 2010 from a shareholder (Chengdu New Dadi).

(ii) The Company has entered into lease agreements with Jiangsu Mudan whereby the Company is granted rights to use three pieces of land in the PRC on which its buildings are erected for a term of 20 years since 2001. Jiangsu Mudan agreed to waive the lease payment for the year ended 31 December 2010 (2009: 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 2001. Jiangsu Mudan agreed to waive the lease payment for the year ended 31 December 2010 (2009: Nil).

(iv) The Company has entered into a lease agreement with Jiangsu Mudan whereby the Company are granted rights to use a production line in the PRC for a term of 20 years since 2003. Jiangsu Mudan agreed to waive the lease payment for the year ended 31 December 2010 (2009: Nil).

(v) For the year ended 31 December 2010, the Company did not sell any bus and bus parts to Foshan City Shunde Zhongyu Car Trading Company Limited and Chengdu New Dadi nor a related party-Beijing Huaxia Dan Ni Vehicles Investment Limited (2009: RMB37,730,085).

(vi) During the years ended 31 December 2010 and 2009, 張家港市日新投資管理有限公司 and Jiangsu Mudan allowed the Company to use the trademark of "Mudan", certain of its sales offices, office equipments and public facilities at nil consideration.

(vii) 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:

	2010 RMB	2009 RMB
Members of the Directors and the key management		
Short-term benefits	**631,000**	655,200
Post-employment benefits	**–**	13,104
	631,000	668,304

The remuneration of Directors and key executives is determined by the Board 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 transactions 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 ("Shunde Zhongyu")

During the year, the Company did not sell bus and bus parts to Chengdu New Dadi and Shunde Zhongyu (2009: RMB30,310,000).

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 ("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.

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 Purchase Agreements constituted continuing connected transactions for the Company, which is subject to disclosure requirement under Rule 20.41 of the GEM Listing Rules.

Reference is made to the Company's announcement dated 12 February 2010 ("February Announcement") in which the Company announced that on 10 February 2010, the Company as purchaser and Chengdu New Dadi as vendor entered into:

(i) an agreement for the purchase of large-sized buses for an aggregate consideration of RMB183.6 million during the period from 1 March 2010 to 31 August 2011 ("Framework Purchase Agreement I");

(ii) an agreement for the purchase of certain models of trucks for an aggregate consideration of RMB601.47 million during the period from 1 March 2010 to 31 August 2011 ("Framework Purchase Agreement II"); and

(iii) an agreement for the purchase of certain vehicle parts for an aggregate consideration of RMB40.8 million during the period from 1 March 2010 to 28 February 2011 ("Vehicle Parts Framework Purchase Agreement").

As disclosed in the February Announcement, the annual caps for the transactions contemplated under the Framework Purchase Agreement I, the Framework Purchase Agreement II and the Vehicle Parts Framework Purchase Agreement for the year ended 31 December 2010 were RMB102 million, RMB334.15 million and RMB34 million respectively.

For the year ended 31 December 2010, (i) the Group purchased vehicle parts from Chengdu New Dadi for an aggregate amount of RMB275,000 under the Vehicle Parts Framework Purchase Agreement (2009: from Chengdu New Dadi for an aggregate amount of RMB353,846 and from Zhangjiagang Jishun for an aggregate amount of RMB1,872,028); (ii) the Group purchased large-sized buses from Chengdu New Dadi for an aggregate amount of RMB33,470,000(2009:RMB66,525,641); and (iii) the Group purchased trucks from Chengdu New Dadi for an aggregate amount of RMB46,108,000(2009: Nil).

On 31 December 2010, the Group and Chengdu New Dadi entered into a supplementary agreement ("Supplementary Agreement") in respect of the "Framework Purchase Agreement I", "Framework Purchase Agreement II" and "Vehicle Parts Framework Purchase Agreement" disclosed in the February Announcement. It is confirmed in the Supplementary Agreement that: (i) the changes of the terms regarding contract price and quantities in the actual transactions in 2010 are deemed to have been arrived at after sufficient negotiations among the parties on a fair, voluntary, reasonable and truthful basis. The specific details are set out in the purchase order; and (ii) in 2011, the Group may make purchase from Chengdu New Dadi according to market demand, but the total purchase amount shall not exceed the annual cap announced in the February Announcement. For purchases not completed on 31 August 2011, which is the expiry date for the three original purchase agreements, the Group is deemed to have given up purchasing from Chengdu New Dadi. Chengdu New Dadi has undertaken not to claim from the Group for legal liabilities such as liquidated damages or compensation.

Sales to Shunde Rixin

As also disclosed in the February Announcement, the Company entered into an agreement with Shunde Rixin whereby the Group has agreed to sell large-sized buses to Shunde Rixin for an aggregate amount of RMB208.98 million during the period from 1 March 2010 up to 31 August 2011. No sale has been made under such agreement during the year ended 31 December 2010 (2009: Nil).

On 31 December 2010, the Group and Shunde Rixin entered into an agreement for the termination of the sales of large-sized buses ("Sales Termination Agreement"). It is confirmed in the Sales Termination Agreement that Shunde Rixin has undertaken not to claim from the Group for legal liabilities such as liquidated damages or compensation.

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, has 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.

Report of the Board of Directors

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 with the business of the Group	Description of business of the entity which business is considered 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. PAN Jin Rong	Foshan Heli	trading and distribution of local manufactured motor cars and motor cycles and its accessories	Director and shareholder
	Shunde Zhongyu	trading and distribution of local manufactured motor cars	Spouse of director and shareholder

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

During the year, the Group has not purchased, sold or redeemed any shares of the Company (2009: Nil).

Management contracts

Upon review of the 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 on GEM have been suspended since 2:30 pm 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 Audit Committee were to review and monitor the financial reporting process and internal control of the Group. As at the date of this report, the Audit Committee of the Company comprised three independent non-executive Directors, namely Mr HUANG Chengye, Mr LIANG Bo Qi and Mr WU Bing Jian, of which Mr WU Bing Jian is also the Chairman of the Audit Committee. The Group's financial statements for the year ended 31 December 2010 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 16-17 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 80 of the annual report.

Share option scheme

The Company has not adopt any share option scheme.

Remuneration policy

During the year, the Remuneration Committee of the Board 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 Remuneration Committee of the Board was measured by comparing the salary paid by the Company, the time dedicated and responsibilities of the Directors, the employment status of the Company and the feasibility to give out salary on a performance basis.

Pre-emptive rights

It is not stipulated in the Articles of Association of the Company or the Law of the PRC that the Company are 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 2010 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 re-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

28 March 2011

Report of the Supervisory Board

Dear shareholders,

The Supervisory Board (the "Supervisory Board") of Mudan Automobile Shares Company Limited strictly abided by the stipulations of the "Company Law of the People's Republic of China" and the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, seriously performed the duties of supervisors in order to protect the interests of shareholders and the Company, we were dedicated to our functions, honest and kept our promises, carried out our work strictly and diligently.

The Supervisory Board made some reasonable recommendations and voiced some opinion to the Board of Directors regarding the business and development plan of the Company. We conducted stringent monitoring as to whether the significant decision-making and specific decisions of the management of the Company complied with the laws and regulations of the state and the Articles of Association, and also if it protects the interests of Shareholders.

Upon verification, the Supervisory Board was of the view that the audited financial statements of the Company for 2010 by Lo and Kwong C.P.A. Company Limited objectively and fairly reflected the operating results and conditions of the assets of the Company. The Supervisory Board also examined the Report of the Board of Directors and the profit allocation proposal submitted by the Board of Directors to the shareholders' meeting, the Supervisory Board was of the opinion that the above-mentioned reports and proposal complied with the stipulations of the relevant laws and regulations and the Articles of Association.

The Supervisory Board considered that the members of the Board, general manager and other senior management of the Company faithfully exercised their authority for the best interest of the Company. We had not discovered any act of abuse of authority, damage of the interest of the Company and infringement of the interests of the shareholders and employees of the Company, nor any act violating the regulations, rules and the Articles of Association.

By order of the Supervisory Board
Mudan Automobile Shares Company Limited
Wang Bo
Chairman

Zhangjiagang City, Jiangsu Province, the PRC

28 March 2011

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. LI Zi Hao (李子豪), aged 46, is the Chairman of the Board and the general manager 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 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. He joined the Company in 2008. Mr. LI is the husband of Ms. PAN Li Chan, an executive Director.

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 87.79% interest in Chengdu New Dadi as at the reporting date) 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 43, 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.

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 87.79% interest in Chengdu New Dadi as at the reporting date). 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 Directors

Mr. PAN Jin Rong (潘錦榮), aged 39, graduated from Shunde Normal School in 1990. Mr. PAN is the brother of Ms. PAN Li Chan, an executive Director, and the brother-in-law of Mr. LI Zi Hao, the chairman of the Board and an executive Director. He has over 20 years of working experience and is currently an executive director of Zhangjiagang City Rixin Tong Yun Logistics Equipment Limited (張家港日新通運物流裝備有限公司) and Chengdu Yu Zhong Composite Materials Technology Limited (成都裕眾複合材料科技有限公司). Mr. PAN is the sole executive director and holds 90% interests of Foshan Heli Car Trading Company Limited（佛山市合力汽車貿易公司）(“Heli Car”), which is a shareholder holding 300,000 domestic shares of the Company as at the date of this report. Mr PAN was appointed as the Non-executive Director with effect from 29 April 2010 for a term of 3 years.

As at the date of this report, Foshan Shunde Zhongyu Car Trading Company Limited (佛山市順德眾裕汽車貿易有限公司) (“Shunde Zhongyu”) is a Shareholder holding 300,000 Domestic Shares. Shunde Zhongyu is wholly and beneficially owned by Ms. WU Shuyun, who is the wife of Mr. PAN and sole director of Shunde Zhongyu. Mr. PAN as the spouse of Ms. WU Shuyun, is deemed to be interested in the 300,000 Domestic Shares in which Ms. WU Shuyun is interested (through Shunde Zhongyu).

Independent Non-executive Directors

Mr. HUANG Chengye (黃承業), aged 52, 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.

Mr. LIANG Bo Qi (梁伯奇), aged 45, certified public tax collector and non-practiced registered accountant in the People’s Republic of China (“PRC”), qualified as an industry accountant (intermediate level) (工業會計師（中級）). Mr. Liang holds a bachelor’s degree in modern economic management. Mr. LIANG has extensive working experience in economic and financial fields. Mr LIANG was appointed as the independent non-executive Director with effect from 29 April 2010 for a term of 3 years. At the same time Mr LIANG was appointed as member of the Audit Committee and Remuneration Committee of the Board.

Mr. WU Bing Jian (伍炳堅), aged 50, is qualified as an economist and completed his study in finance through internet learning from the Southwestern University of Finance and Economics in 2007. Mr. WU has over 30 years of working experience in the banking industry. Mr WU was appointed as the Independent non-executive Director with effect from 29 April 2010 for a term of 3 years. At the same time Mr WU was appointed as Chairman of the Audit Committee and Remuneration Committee of the Board.

Profiles of Directors, Supervisors and Senior Management

Supervisors

Mr. WANG Bo (汪波), aged 47, 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. ZHOU Zhi Cheng (周志成), aged 36, 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.

Mr LI Yu Lin (李玉林), aged 34, joined the Company in August 2008 and is now a vice captain of the security team of the Company. He graduated from the High School of 湖北省浠水縣浠水二中 (Xishui the Second Secondary School of Xishui County, Hubei Province) in 1993. He served in the People's Liberation Army of the People's Republic of China and was appraised as an outstanding soldier during his terms of service. During 1998 to 2008, he served in the security team of various companies, including Chengdu New Dadi Motor Company Limited (a controlling shareholder of the Company). Mr LI was appointed as the Supervisor with effect from 13 November 2010 for a term of 3 years.

Profiles of Directors, Supervisors and Senior Management

Senior management

Mr. LUO Bin (羅斌), aged 35, assistant to general manager of the Company, bachelor's degree holder. 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 38, deputy general manager of the Company, bachelor's degree holder, he oversees 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.

Mr. DENG Yu (鄧愚), aged 43, deputy general manager of the Company, master degree qualification, graduate of dynamics (力學系) discipline from Peking University in 1989, MBA degree holder of MBA course from Business and Administration Faculty, Southern China Polytechnic in 2001. Mr DENG has over 20 years' experience in corporate strategy, marketing, corporate management. He was import and export manager, plant director, manager of corporate management department of 東省華僑實業發展總公司; general manager of 廣東英姿培訓中心; vice president of Guangdong AEC Automobile Exhibition Centre, AEC Group; chief trainer of China Automobile Training Website; CEO of 廣州伶通數碼科技有限公司 etc. He joined the Company in July 2010.

Mr. CHAN Wai Sum (陳偉森), aged 40, Financial Controller and Company Secretary of the Company. Mr CHAN has over 10 years' experience in finance and accounting. Mr. CHAN graduated with a Bachelor of Commerce (Accounting) degree from Curtin University of Technology and a Master of Management degree from Macquarie University in Australia. He is a member of Hong Kong Institute of Certified Public Accountants. He joined the Company in January 2011.

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 Report

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 Appendix 15 to the GEM Listing Rules throughout the year under review.

Code of conduct for directors carrying out securities transactions

Having made specific enquiry of all Directors, the Board is not aware of 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 2010. A code of conduct has been adopted with respect to the securities transactions carried out by Directors.

The Board of Directors

The Board is responsible for formulating 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 authorized the management for this purpose include compilation of annual, interim and quarterly accounts, submission for the Board 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 comprises six Directors, two of them are executive Directors, one is non-executive Director and three are independent non-executive Directors. For details of the background and profile of Chairman of the Company and other Directors, please refer to page 22 to 25 under the section "Profiles of Directors, Supervisors and senior management". Independent non-executive Directors participate in the meeting of the Board 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 has 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.

Non-executive Directors and independent non-executive Directors 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 maintains at high standard, and carrying out adequate inspection and balancing Shareholder protection and the overall interest of the Company.

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

Executive Directors

Mr LI Zi Hao *(Chairman)*
Ms PAN Li Chan

Non-executive Directors

Mr PAN Jin Rong	(appointed on 29 April 2010)
Mr CHAN Man	(resigned on 29 April 2010)

Corporate Governance Report

Independent Non-executive Directors

Mr HUANG Chengye	
Mr LIANG Bo Qi	(appointed on 29 April 2010)
Mr WU Bing Jian	(appointed on 29 April 2010)
Mr GUO Hong	(resigned on 3 March 2010)
Mr WANG Ruihua	(resigned on 29 April 2010)

Amongst members of the Board, Mr. LI Zi Hao and Ms PAN Li Chan are spouse and Mr. PAN Jin Rong is the brother of Ms PAN Li Chan and thus the brother-in-law of Mr. LI Zi Hao.

Upon the resignation of Mr. GUO Hong with effect from 3 March 2010 to 29 April 2010, the Company has only two independent non-executive Directors and two members of audit committee and remuneration 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 held on 29 April 2010, among other things, appointed two additional independent non-executive Directors 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 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 is of the view that all independent non-executive Directors are independent, and has received annual letters of confirmation of independence pursuant to the requirements of the GEM Listing Rules from each independent non-executive Director.

Each of the non-executive Directors and independent non-executive Directors was 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 that 14 Board meetings had been held during the year ended 31 December 2010 and notifications had been sent at least 14 days before those 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 2010 and the attendance of each Director:

Number of Board meetings held in 2010: 14

Details of individual attendance of each Director:

	Attendance in 2010
Executive Directors	
Mr LI Zi Hao	14/14
Ms PAN Li Chan	14/14

Non-executive Directors	
Mr PAN Jin Rong (appointed on 29 April 2010)	11/11
Mr CHAN Man (resigned on 29 April 2010)	1/3
Independent Non-executive Directors	
Mr HUANG Chengye	12/14
Mr LIANG Bo Qi (appointed on 29 April 2010)	11/11
Mr WU Bing Jian (appointed on 29 April 2010)	11/11
Mr GUO Hong (resigned on 3 March 2010)	0/3
Mr WANG Ruihua (resigned on 29 April 2010)	2/3

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

Chairman and General Manager

In addition, Mr LI Zi Hao was appointed as General Manager 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 General Manager appointed by the Board is responsible for the management of daily operations of the Company and the implementation of the strategies and plans determined by the Board. In view of the size of operation of the Group and taking into account the expertise of Mr. Li Zi Hao in the motor vehicle industry, the Board has confident that such management structure is beneficial to the Group notwithstanding it constitutes a deviation from Code Provision A.2.1 of the CG Code.

Remuneration Committee

The Remuneration Committee comprised Mr HUANG Chengye, Mr LIANG Bo Qi, Mr WU Bing Jian, and Mr GUO Hong (resigned on 3 March 2010) and Mr LIANG Bo Qi (resigned on 29 April 2010). Mr WU Bing Jian 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 includes 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 when deciding on the remuneration of the Directors.

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

Any casual vacancy of members of the Board shall be subject to election by Shareholders at general meeting in accordance with the articles of association of the Company.

The Chairman is mainly responsible for looking for suitable candidate(s) to join the Board when there are vacancies or when it is necessary to hire additional Director(s). The Chairman will propose the appointment of the candidates concerned to each member of the Board, each member of the Board 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. The Board is responsible for considering suitable candidate(s) to serve as Director(s) and approving and terminating the appointment of Director(s) and selects and nominates candidates based on whether they possess the skills and experience required by the Group's development.

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.

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 and the Directors have reviewed the practices, procedures, expenditure and internal control of the Company.

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

Audit Committee

The Company has set up an Audit Committee with written terms of reference. As at the date of this report, the Audit Committee of the Company comprises three independent non-executive Directors, namely Mr HUANG Chengye, Mr LIANG Bo Qi and Mr WU Bing Jian, and Mr WU Bing Jian is also the Chairman of the Audit Committee.

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 LIANG Bo Qi and Mr WU Bing Jian were appointed as members of the Audit Committee on 29 April 2010. However Mr GUO Hong resigned with effect from 3 March 2010 and Mr WANG Rui Hua resigned with effect from 29 April 2010. The new Audit Committee has performed its duties, reviewed and discussed the Company's audited financial statements for the year ended 31 December 2010 with the Company's external auditors.

According to code provision C.3.3(e)(i) of the CG Code, the Audit Committee shall liaison with the Board, senior management and appointed qualified accountant of the Company. During 2010, 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 HUANG Chengye	4/4
Mr LIANG Bo Qi (appointed on 29 April 2010)	3/3
Mr WU Bing Jian (appointed on 29 April 2010)	3/3
Mr GUO Hong (resigned on 3 March 2010)	0/1
Mr WANG Ruihua (resigned on 29 April 2010)	1/1

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 2010 RMB'000	For the year ended 31 December 2009 RMB'000
Type of service		
To carry out audit for the Company	**468**	450

The Directors' responsibilities in respect of the financial statements

The Directors 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 conditions 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 different aspects of the conditions and prospects of the Company.

Accounting period

The Directors consider that during the preparation of consolidated financial statements, the Group have 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, interim 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; and

(3) 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

28 March 2011

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 Automobile Shares Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 79, which comprise the consolidated statement of financial position as at 31 December 2010, and 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 of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 of the consolidated financial statements that give a true and fair view 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 i) the successful implementation of certain financing and share capital restructuring plans, ii) the debt restructuring result reached with the creditors, and iii) 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 the reclassify non-current assets and non-current liability as current assets and current liabilities respectively.

Disclaimer of opinion: disclaimer on view given by consolidated 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 2010 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards. In all other respects, in our opinion, the 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)

Chan Chi Kei, Ronald
Practising Certificate Number: P04255

Hong Kong
28 March 2011

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

Consolidated Income Statement

For the year ended 31 December 2010
(Expressed In Renminbi)

	Notes	2010 RMB	2009 RMB
Turnover	8	**203,133,716**	110,295,640
Cost of sales		**(189,956,466)**	(133,530,190)
Gross profit (loss)		**13,177,250**	(23,234,550)
Other operating income	9	**14,854,018**	82,549,707
Distribution expenses		**(1,201,170)**	(3,141,898)
General and administrative expenses		**(23,740,754)**	(30,774,932)
Other operating expenses	10	**(572,699)**	(24,270,329)
Finance costs	11	**(4,182,028)**	(347,240)
(Loss) profit before taxation	12	**(1,665,383)**	780,758
Income tax expenses	13	**–**	–
(Loss) profit for the year attributable to owners of the Company		**(1,665,383)**	780,758
Dividend	14	**–**	–
(Loss) earnings per share	15		
– basic		**(0.58 cents)**	0.27 cents
– diluted		**N/A**	N/A

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed In Renminbi)

	2010 RMB	2009 RMB
(Loss) profit for the year	**(1,665,383)**	780,758
Other comprehensive income:		
Exchange difference arising on translation of foreign operations	**46,022**	–
Total comprehensive (loss) income for the year attributable to owners of the Company	**(1,619,361)**	780,758

Consolidated Statement of Financial Position

At 31 December 2010
(Expressed in Renminbi)

	Notes	2010 RMB	2009 RMB
ASSETS AND LIABILITIES			
NON-CURRENT ASSET			
Property, plant and equipment	18	**135,954,160**	153,661,737
CURRENT ASSETS			
Inventories	19	**15,187,138**	15,526,468
Trade and other receivables	20	**14,357,721**	16,138,219
Advance deposits to suppliers		**7,299,195**	391,078
Pledged bank deposits	21	**16,112,235**	15,247,325
Bank balances and cash	21	**4,869,236**	6,660,902
		57,825,525	53,963,992
CURRENT LIABILITIES			
Trade and other payables and bills payables	22	**101,452,950**	119,071,164
Receipt in advance		**4,783,569**	6,045,673
Amount due to a former shareholder	23	**–**	1,045,306
Amounts due to shareholders	23	**5,586,132**	251,904
Amounts due to related companies	23	**5,321,300**	9,509,793
Bank borrowings	24	**10,000,000**	10,000,000
Other borrowings	25	**74,509,319**	–
Income tax payable		**1,232,552**	1,232,552
		202,885,822	147,156,392
NET CURRENT LIABILITIES		**(145,060,297)**	(93,192,400)
NON-CURRENT LIABILITY			
Other borrowings	25	**–**	(67,956,113)
NET LIABILITIES		**(9,106,137)**	(7,486,776)
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
Translation reserve		**46,022**	–
Accumulated losses		**(324,795,441)**	(323,130,058)
		(9,106,137)	(7,486,776)

The consolidated financial statements on pages 34 to 79 were approved and authorised for issue by the Board on 28 March 2011 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 2010

(Expressed In Renminbi)

	Share capital RMB (Note 26)	Statutory surplus reserve RMB (Note a)	Statutory public welfare fund RMB (Note b)	Translation reserve RMB	Accumulated losses RMB (Note c)	Total RMB
At 1 January 2009	284,800,000	15,421,641	15,421,641	–	(323,910,816)	(8,267,534)
Profit for the year, representing total comprehensive income for the year	–	–	–	–	780,758	780,758
At 31 December 2009 and 1 January 2010	284,800,000	15,421,641	15,421,641	–	(323,130,058)	(7,486,776)
Loss for the year	–	–	–	–	(1,665,383)	(1,665,383)
Other comprehensive income for the year	–	–	–	46,022	–	46,022
Total comprehensive loss for the year	–	–	–	46,022	(1,665,383)	(1,619,361)
At 31 December 2010	**284,800,000**	**15,421,641**	**15,421,641**	**46,022**	**(324,795,441)**	**(9,106,137)**

Notes

a. 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 2010 (2009: Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

b. 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 2010 (2009: Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

c. 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 International Financial Reporting Standards ("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 2010 (2009: Nil).

Consolidated Statement of Cash Flows

For the year ended 31 December 2010
(Expressed In Renminbi)

	2010 RMB	2009 RMB
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(1,665,383)**	780,758
Adjustments for:		
Impairment losses reversed on trade receivables	**4,298,665**	18,509,369
Waiver of other borrowings	**–**	(63,281,111)
Gain on disposal of property, plant and equipment	**(349,160)**	–
Waiver of litigation claims	**(8,228,168)**	–
Provision for litigation claims	**–**	24,114,135
Depreciation of property, plant and equipment	**17,961,159**	18,513,705
Interest on bank borrowings and discounting of bills receivables	**536,788**	347,240
Interest on other borrowings	**3,645,240**	–
Interest income	**(72,777)**	(81,987)
Operating cash flows before movements in working capital	**16,126,364**	(1,097,891)
Decrease in inventories	**339,330**	15,011,548
(Increase) in trade and other receivables	**(2,518,167)**	(29,808,086)
(Increase) in advance deposits to suppliers	**(6,908,117)**	(225,086)
(Decrease) in amount due to a former shareholder	**(1,045,306)**	–
(Decrease) in trade and other payables and bills payables	**(9,370,461)**	(14,075,335)
(Decrease) increase in receipt in advance	**(1,262,104)**	5,302,350
Increase (decrease) in amounts due from (to) shareholders	**5,334,228**	(60,561)
(Decrease) increase in amounts due to related companies	**(1,254,090)**	2,182,453
NET CASH USED IN OPERATING ACTIVITIES	**(558,323)**	(22,770,608)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(442,130)**	(694,629)
Proceeds from disposal of property, plant and equipment	**537,708**	162,194
Interest received	**72,777**	81,987
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**168,355**	(450,448)
FINANCING ACTIVITIES		
Advances from other borrowings	**–**	22,717,469
Repayment of bank borrowings	**(10,000,000)**	–
Proceeds from bank borrowings	**10,000,000**	10,000,000
Increase in pledged bank deposits	**(864,910)**	(6,157,985)
Interest paid	**(536,788)**	(347,240)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(1,401,698)**	26,212,244
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,791,666)**	2,991,188
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**6,660,902**	3,669,714
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
Represented by		
Bank balances and cash	**4,869,236**	6,660,902

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Expressed in Renminbi)

1. General

Mudan Automobiles Shares Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") as a joint stock company with limited liability on 18 September 1998. The H-Shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 December 2001. As requested by the Company, the trading of H-shares of the Company has been suspended since 2:30pm on 29 March 2005 and will remain suspended until further notice. On 12 October 2007, the Company received a notice from the Stock Exchange that it proposes to exercise its right to cancel the listing of the H-shares of the Company on the Stock Exchange pursuant to Rule 9.14 of the GEM Listing Rules.

The addresses of the registered office and place of business of the Company are No. 30 Lehong Road, Le Yu Town, Zhangjiagang City, Jiangsu Province, the PRC.

The Company and its subsidiaries (collectively referred to as the "Group") were principally enageged in manufacturing and distribution of automobiles.

The consolidated financial statements are presented in Renminbi ("RMB"). Other than the subsidiary established in Hong Kong whose functional currency is Hong Kong Dollars ("HKD"), the functional currency of the Company and its subsidiaries are RMB.

2. Basis of preparation of consolidated financial statements

At 31 December 2010, the Group had net current liabilities and net liabilities of RMB145,060,297 and RMB9,106,137 respectively. The Group had recorded loss of RMB1,665,383 for the year ended 31 December 2010. In addition, the Group had involved a number of litigations as disclosed in Note 29 to the consolidated financial statements. These conditions indicate the existence of a material uncertainty which may significant doubt about the Group's ability to continue as a going concern. Nevertheless, these consolidated financial statements of the Group have been prepared on a going concern basis.

In the opinion of the directors of the Company, the Group is able to maintain itself as a going concern in the coming year by taking into consideration the following:

i) The Group will continue to carry out a debt restructuring with its creditors;

ii) The Group will consider to strengthen its capital base and obtain immediate cash flow through various financing activities and capital restructuring;

iii) The Group will continue to strengthen its cost in respect of administrative and other operating expenses;

iv) The Group will actively seeking new investment and business opportunities to pursue profitable business that would bring positive cash flow; and

v) The Group could obtain continuous financial support from its substantial shareholders for the production and operation.

(Expressed in Renminbi)

2. Basis of preparation of consolidated financial statements (continued)

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 2010, 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 the following new and revised standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standard Board ("IASB"):

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC-INT 17	Distributions of Non-cash Assets to Owners

The application of the above new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[2]
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 February 2010

3. Adoption of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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 Standard requires all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortized 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 amount outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specially, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liabilities that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

The directors of the Company anticipate that the application of other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

4. Significant accounting policies

The consolidated financial statements have been prepared on the historical cost basis 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 IASB. IFRSs include International Financial Reporting Standards and interpretations.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Hong Kong Companies Ordinance.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

4. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

(c) Property, plant and equipment

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

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

An item of property, plant and equipment is derecognized 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(d) Inventories

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

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.

(e) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity 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.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 instruments

Financial liabilities and equity instruments issued by a group entity 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 Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

Other financial liabilities including trade and other payables and bills payables, amount(s) due to a former shareholder / shareholders / related companies, bank borrowings and other borrowings are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Equity instruments

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

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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, 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 in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(f) 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

4. Significant accounting policies (continued)

(f) Impairment of tangible assets (continued)

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(g) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Expressed in Renminbi)

4. Significant accounting policies (continued)

(h) Revenue recognition

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

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.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

In respect of installments sales, under which the consideration is receivable in installments, 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 installments 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.

Interest income

Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measure reliably. 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 on initial recognition.

Rental income

Rental income under operating leases is recognised in the consolidated income statement in equal installments over the accounting periods covered by the lease terms. Lease incentives granted are recognised in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the consolidated income statement in the accounting period in which they are earned.

4. Significant accounting policies (continued)

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) 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. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

(k) Retirement benefits costs

Payments to state-managed retirement benefit scheme and defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to contributions.

4. Significant accounting policies (continued)

(l) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

(m) Related parties

For the purposes of the consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

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.

Critical judgment in applying the entity's accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the directors of the Company has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Going concern consideration

The assessments of the going concern assumptions involve making judgment by the directors of the Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors considers that the Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumptions are set out in Note 2.

Key sources of estimation uncertainty

Depreciation of property, plant and equipment

The Group's carrying values of property, plant and equipment as at 31 December 2010 was approximately RMB135,954,160 (2009: RMB153,661,737). The Group depreciates the property, plant and equipment on a straight line basis ranging from 2.85% to 12.5%, after taking into account of their estimated residual values, commencing from the date the asset is placed into productive use. The estimated useful life represents the number of years which the Group places the property, plant and equipment into production, reflecting the directors' estimate of the years that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The Group assesses annually the residual value and the useful life of the property, plant and equipment. If the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

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

Key sources of estimation uncertainty (continued)

Estimated impairment of property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amount 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 property, plant and equipment 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 issued by Malcolm & Associates Appraisal Limited. No impairment loss was provided for both years.

Estimated impairment 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. No impairment loss was provided for both years.

Estimated impairment for receivables

The directors of the Company regularly review the recoverability and the aging of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts is 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. No impairment loss was provided for both years.

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in production or supply of goods or services.

Some properties comprise of a portion that is held to earn rentals or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for these portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judegement.

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 owners of the Company, comprising issued share capital and reserves. The Directors review the capital structure on a regular basis. As a part of this review, the Directors 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 2010 and 2009. The Group's gearing ratio, which is calculated from long-term liabilities divided by total Shareholders' equity was Nil (2009: 9.08) as at 31 December 2010.

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 and bills payables, amount due to a former Shareholder, amounts due to Shareholders, amounts due to related companies, bank borrowings and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

Market risk

i) Currency risk

Currency risk refers to the risk associated with movements in foreign currency rates which will affect the Group's financial results and its cash flow. The directors of the Company consider the Group is not exposed to significant foreign currency risk as the majority of its operating and transactions are in the PRC with their functional currency of RMB.

ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its bank balances, bank borrowings and other borrowings as detailed in Notes 21, 24 and 25. It is the Group's policy to keep its loan at floating rate of interest so as to minimize the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of besting lending rate published by the People's Bank of China and the Hong Kong Interbank Offered Rate and bank deposit rate arising from the Group's RMB denominated in loan and bank balances respectively.

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(Expressed in Renminbi)

7. Financial instruments (continued)

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2009: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2010 would increase/decrease by approximately RMB422,547 (2009: profit for the year increase/decrease by RMB389,781). This is mainly attributable to the Group's exposure to interest rates on its variable-rate loan and bank balances.

Credit risk

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets, mainly trade and other receivables, pledged bank deposits, bank balances and cash as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the directors of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period 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.

At 31 December 2010, the Group has concentration of credit risk as RMB14,002,553 (2009: RMB15,530,653) of the total trade receivables were due from the Group's five largest customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The directors of the Company monitor the utilisation of bank borrowings. The Group is exposed to liquidity risk as the Group has net current liabilities and net liabilities of RMB145,060,297 and RMB9,106,137 respectively as at 31 December 2010. The liquidity of the Group primarily depends on the debt restructuring with its creditors, future funding being available and the ability of the Group to meet its financial obligations as they fall due. Details of which are set out in Note 2.

(Expressed in Renminbi)

7. Financial instruments (continued)

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

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average interest rate %	On demand or within one year RMB	More than one year but less than two years RMB	More than two years but less than five years RMB	Total undiscounted cash flows RMB	Carrying amount RMB
At 31 December 2010						
Financial liabilities						
Trade and other payables and bills payables	–	101,452,950	–	–	101,452,950	101,452,950
Amounts due to Shareholders	–	5,586,132	–	–	5,586,132	5,586,132
Amounts due to related companies	–	5,321,300	–	–	5,321,300	5,321,300
Bank borrowings	5.31	10,531,000	–	–	10,531,000	10,000,000
Other borrowings	5.31	78,465,764	–	–	78,465,764	74,509,319
		201,357,146	–	–	201,357,146	196,869,701

	Weighted average interest rate %	On demand or within one year RMB	More than one year but less than two years RMB	More than two years but less than five years RMB	Total undiscounted cash flows RMB	Carrying amount RMB
At 31 December 2009						
Financial liabilities						
Trade and other payables and bills payables	–	119,071,164	–	–	119,071,164	119,071,164
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
Amounts due to related companies	–	9,509,793	–	–	9,509,793	9,509,793
Bank borrowings	6.372	10,637,200	–	–	10,637,200	10,000,000
Other borrowings	6.372	–	76,892,358	–	76,892,358	67,956,113
		140,515,367	76,892,358	–	217,407,725	207,834,280

(Expressed in Renminbi)

7. Financial instruments (continued)

(b) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

(c) Categories of financial instruments

	2010 RMB	2009 RMB
Financial assets		
Loan and receivables (including cash and cash equivalents)		
Trade and other receivables	**14,357,721**	16,138,219
Pledged bank deposits	**16,112,235**	15,247,325
Bank balances and cash	**4,869,236**	6,660,902
	35,339,192	38,046,446

	2010 RMB	2009 RMB
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables and bills payables	**101,452,950**	119,071,164
Amount due to a former shareholder	**–**	1,045,306
Amounts due to shareholders	**5,586,132**	251,904
Amounts due to related companies	**5,321,300**	9,509,793
Bank borrowings	**10,000,000**	10,000,000
Other borrowings	**74,509,319**	67,956,113
	196,869,701	207,834,280

(Expressed in Renminbi)

8. Turnover and segment information

Turnover arising from the manufacturing and distribution of automobiles net of value added tax, discounts and returns.

The Group's operation segments, based on information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided. For management purposes, the Group is currently organised into a single segment as manufacturing and distribution of automobiles and all turnover, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single operating segment. Accordingly, no segment analysis by business and geographical information is presented.

Information about major customers

Turnover from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010	2009
	RMB	RMB
Customer A	**117,732,051**	21,669,231
Customer B	**N/A[1]**	28,461,538
Customer C	**N/A[1]**	13,675,214
Customer D	**60,300,342**	N/A[1]
	178,032,393	63,805,983

[1] The corresponding turnover did not contribute over 10% of the total sales of the Group in the respective year.

9. Other operating income

	2010	2009
	RMB	RMB
Waiver of other borrowings	**–**	63,281,111
Impairment losses reversed on trade receivables	**4,298,665**	18,509,369
Property tax refund	**855,500**	–
Other income	**40,659**	677,240
Waiver of litigation claims	**8,228,168**	–
Rental income	**1,009,089**	–
Bank interest income	**72,777**	81,987
Gain on disposal of property, plant and equipment	**349,160**	–
	14,854,018	82,549,707

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10. Other operating expenses

	2010 RMB	2009 RMB
Provision for litigation claims	–	24,114,135
Donations	65,000	156,194
Net loss from sales of scrap materials	373,081	–
Others	134,618	–
	572,699	24,270,329

11. Finance costs

	2010 RMB	2009 RMB
Interest on bank borrowings	530,314	293,849
Interest on discounting of bills receivables	6,474	53,391
Interest on other borrowings	3,645,240	–
	4,182,028	347,240

12. (Loss) profit before taxation

	2010 RMB	2009 RMB
(Loss) profit before taxation is arrived at after charging (crediting):		
Directors' emoluments (Note 17)	433,914	359,767
Other staff costs, excluding directors' emoluments		
– Salaries, wages and other benefits	4,156,230	5,309,125
– Retirement benefit scheme contributions	583,648	551,933
Total other staff costs	4,759,878	5,871,058
Auditor's remuneration	467,500	449,740
Cost of inventories recognised as an expenses	176,140,472	118,396,994
Rental income	(1,009,089)	–
Impairment losses reversed on trade receivables	(4,298,665)	(18,509,369)
Waiver of other borrowings	–	63,281,111
Gain on disposal of property, plant and equipment	(349,160)	–
Waiver of litigation claims	(8,228,168)	–
Provision for litigation claims	–	24,114,135
Depreciation of property, plant and equipment	17,961,159	18,513,705

(Expressed in Renminbi)

13. Income tax expenses

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for year 2009 and 2010 respectively. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2010 and 2009 as the Group does not have any assessable profit subject to Hong Kong Profits Tax 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 Company and PRC subsidiaries is 25% from 1 January 2008 onwards.

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.

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

	2010 **RMB**	2009 RMB
(Loss) profit before taxation	**(1,665,383)**	780,758
Tax at applicable tax rate	**(412,449)**	195,189
Tax effect of income not taxable for tax purpose	**(1,074,666)**	(15,820,277)
Tax effect of expenses not deductible for tax purpose	**7,562**	–
Tax effect of tax losses not recognised	**1,479,553**	15,625,088
Income tax expenses	**–**	–

14. Dividend

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

15. (Loss) earnings per share

The calculation of the basic (loss) earnings per share is based on the loss for the year attributable to owners of the Company of RMB1,665,383 (2009: profit for the year of RMB780,758) and based on the weighted average of 284,800,000 (2009: 284,800,000) shares of the Company in issue during the year.

No diluted (loss) earnings per share have been presented as there was no dilutive potential ordinary share for the years ended 31 December 2009 and 2010.

(Expressed in Renminbi)

16. Staff costs

	2010 RMB	2009 RMB
Salaries, wages and bonus	**4,584,230**	5,668,892
Retirement benefit scheme contributions	**589,562**	551,933
	5,173,792	6,220,825
Average number of employees during the year	**137**	190

As stipulated by rules and regulations in the PRC, the Group's subsidiaries in the PRC are required to contribute to a state-sponsored retirement plan for all its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments/post-retirement benefits beyond the annual contributions.

17. Directors' and employees' emoluments

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2009: fifteen) Directors were as follows:

	Salaries, allowances and other benefits RMB	Retirement benefit scheme contributions RMB	Total RMB
For the year ended 31 December 2010			
Executive Directors			
Li Zi Hao (Note v)	**132,000**	**2,957**	**134,957**
Pan Li Chan (Note v)	**96,000**	**2,957**	**98,957**
Sub-total	**228,000**	**5,914**	**233,914**
Non-Executive Director			
Pan Jin Rong (Note i)	**40,000**	**–**	**40,000**
Chan Man (Note ii and v)	**–**	**–**	**–**
Sub-total	**40,000**	**–**	**40,000**
Independent Non-Executive Directors			
Huang Chengye (Note v)	**60,000**	**–**	**60,000**
Guo Hong (Note iii)	**–**	**–**	**–**
Wang Ruihua (Note ii and v)	**20,000**	**–**	**20,000**
Liang Bo Qi (Note i)	**40,000**	**–**	**40,000**
Wu Bing Jian (Note i)	**40,000**	**–**	**40,000**
Sub-total	**160,000**	**–**	**160,000**
Total	**428,000**	**5,914**	**433,914**

(Expressed in Renminbi)

17. Directors' and employees' emoluments (continued)

(a) Directors' emoluments (continued)

	Salaries, allowances and other benefits RMB	Retirement benefit scheme contributions RMB	Total RMB
For the year ended 31 December 2009			
Executive Directors			
Kuo Zhi Yung (Note iv)	5,000	–	5,000
Jiang Bin (Note iv)	2,000	–	2,000
Hou Cheng Bao (Note iv)	2,000	–	2,000
Zhou Pei Lin (Note iv)	1,000	–	1,000
Li Jian Hua (Note iv)	1,000	–	1,000
Zhu Wei Liang (Note iv)	1,000	–	1,000
Li Zi Hao (Note v)	131,772	–	131,772
Pan Li Chan (Note v)	95,995	–	95,995
Sub-total	239,767	–	239,767
Non-Executive Directors			
Chan Man (Note ii and v)	–	–	–
Independent Non-Executive Directors			
Wang Cheng Cai (Note iv)	50,000	–	50,000
Gao Xue Fei (Note iv)	30,000	–	30,000
Yao Zhi Ming (Note iv)	30,000	–	30,000
Huang Chengye (Note v)	–	–	–
Guo Hong (Note v and vi)	10,000	–	10,000
Wang Ruihua (Note v and ii)	–	–	–
Sub-total	120,000	–	120,000
Total	359,767	–	359,767

Notes:

Note i: Appointed on 29 April 2010
Note ii: Resigned on 29 April 2010
Note iii: Resigned on 3 March 2010
Note iv: Resigned on 29 October 2009
Note v: Appointed on 29 October 2009
Note vi: Resigned on 3 March 2010

None of the directors of the Group waived or agreed to waive any emoluments paid by the Group and no incentive payment for joining the Group or compensation for loss of office was paid or payable to any director of the Group during the two years ended 31 December 2010 and 2009.

For the year ended 31 December 2010

(Expressed in Renminbi)

17. Directors' and employees' emoluments (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2009: two) were directors of the Company whose emoluments are included in the disclosures in Note 17(a) above. The emoluments of the remaining three (2009: three) individuals were as follows:

	2010	2009
	RMB	RMB
Salaries, allowance and other benefits	**456,905**	533,767
Retirement benefit scheme contributions	**8,871**	5,616
	465,776	539,383

Their emoluments were within the following bands:

	Number of individuals	
	2010	2009
Nil to RMB1,000,000	**3**	3

During the two years ended 31 December 2010 and 2009, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(Expressed in Renminbi)

18. Property, plant and equipment

	Buildings RMB	Plant and Machinery RMB	Motor vehicles RMB	Office equipment RMB	Total RMB
COST					
At 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 and 1 January 2010	148,452,927	184,716,502	4,736,097	4,933,954	342,839,480
Additions	–	–	442,130	–	442,130
Disposals	–	(700,000)	(274,252)	–	(974,252)
At 31 December 2010	148,452,927	184,016,502	4,903,975	4,933,954	342,307,358
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2009	41,711,668	124,309,943	2,531,266	2,271,920	170,824,797
Provided for the year	4,275,313	13,423,834	436,781	377,777	18,513,705
Eliminated on disposals	–	–	(160,759)	–	(160,759)
At 31 December 2009 and 1 January 2010	45,986,981	137,733,777	2,807,288	2,649,697	189,177,743
Provided for the year	4,275,313	12,755,031	553,038	377,777	17,961,159
Eliminated on disposals	–	(700,000)	(85,704)	–	(785,704)
At 31 December 2010	50,262,294	149,788,808	3,274,622	3,027,474	206,353,198
CARRYING VALUES					
At 31 December 2010	98,190,633	34,227,694	1,629,353	1,906,480	135,954,160
At 31 December 2009	102,465,946	46,982,725	1,928,809	2,284,257	153,661,737

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

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	2.85%
Plant and machinery	8.3%
Motor vehicles	12.5%
Office equipment	12.5%

The pledged of buildings were supposed to be released on 5 December 2010. However, since the Group has not yet settled the other borrowings with the lenders, Jinmao and Jiangsu Madan, the lenders have not yet returned the building reality certificates to the Group up to the date of this report. At 31 December 2010, certain property, plant and equipment were pledged for bank borrowings of the Group. Details please refer to Note 30 to consolidated financial statements.

(Expressed in Renminbi)

18. Property, plant and equipment (continued)

During the year ended 31 December 2010, the Directors carried out the impairment review on property, plant and equipment. In the opinion of the Directors, although the Group experienced continuing operating losses, no impairment loss is necessary to be provided by referencing the valuation report which issued by Malcolm and Associates Appraisal Company Limited, independent qualified professional valuers not connected with the Group.

The buildings comprise an insignificant portion that is held for rentals and another portion that is held for use in the production or supply of goods or services or for administrative purposes. Since these portions could not be sold separately, the Group could not account the portions separately. A rental income of RMB1,009,089 has been recognised during the year ended 31 December 2010 (2009: Nil).

19. Inventories

	2010 **RMB**	2009 RMB
Raw materials	**4,128,313**	7,323,939
Work in progress	**9,812,298**	5,147,668
Finished goods	**1,246,527**	3,054,861
	15,187,138	15,526,468

During the year ended 31 December 2010, the Directors carried out the impairment review on inventories by referencing the valuation report which issued by Malcolm and Associates Appraisal Company Limited ("Malcolm") on 23 March 2011, independent qualified professional valuers not connected with the Group.

During the year ended 31 December 2010, the directors of the Company carried out the impairment review on inventories. In the opinion of the directors of the Company, although the Group experienced continuing operating losses, no impairment loss is necessary to be provided by referencing the valuation report which issued by Malcolm and Associates Appraisal Company Limited ("Malcolm"), an independent qualified professional valuers not connected with the Group.

20. Trade and other receivables

	2010 **RMB**	2009 RMB
Trade receivables	**66,860,991**	72,610,388
Less: allowance for doubtful debts	**(52,640,570)**	(56,939,235)
	14,220,421	15,671,153
Other receivables	**137,300**	467,066
	14,357,721	16,138,219

The Group allows a credit period of 3 months to 12 months (2009: 3 months to 12 months) to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

(Expressed in Renminbi)

20. Trade and other receivables (continued)

	2010 RMB	2009 RMB
Within 3 months	**11,742,021**	8,487,800
Over 3 months but less than 6 months	**–**	7,043,353
Over 6 months but less than 1 year	**2,478,400**	–
Over 2 years	**–**	140,000
	14,220,421	15,671,153

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:

	2010 RMB	2009 RMB
1 January	**56,939,235**	75,448,604
Impairment losses reversed	**(4,298,665)**	(18,509,369)
31 December	**52,640,570**	56,939,235

As at 31 December 2010, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB2,478,400 (2009: RMB140,000) which are past due as at the end of the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The ageing analysis of trade receivables past due but not impaired is as follows:

	2010 RMB	2009 RMB
1 month past due	**2,478,400**	–
Over 1 year past due	**–**	140,000
	2,478,400	140,000

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

(Expressed in Renminbi)

20. Trade and other receivables (continued)

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.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2010	2009
USD	**6,785**	–

21. Bank balances and cash/pledged bank deposits

Bank balances carry interest at market rates which range from 0.36% to 0.72% (2009: 0.36%) per annum. The pledged bank deposits carry fixed interest rate of 1.71% (2009: 1.71%) per annum. The pledged bank deposits will be released upon the settlement of relevant bills payables.

Pledged bank deposits amounting to RMB16,112,235 (2009: RMB15,205,068) have been pledged to bills payables and are therefore classified as current assets. And there was an additional amount of RMB42,257 in 2009 which is pledged to bank for issuance of bills payables in the future.

22. Trade and other payables and bills payables

	2010 **RMB**	2009 RMB
Trade payables	**60,587,538**	82,631,493
Other payables	**24,753,177**	21,234,603
	85,340,715	103,866,096
Bills payables	**16,112,235**	15,205,068
	101,452,950	119,071,164

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2010 **RMB**	2009 RMB
Within 3 months	**8,874,181**	40,234,321
Over 3 months but less than 6 months	**–**	1,180,651
Over 6 months but less than 1 year	**–**	16,720
Over 1 year	**51,713,357**	41,199,801
	60,587,538	82,631,493

23. Amount(s) due to a former Shareholder/Shareholders/related companies

Amount(s) due to a former Shareholder/Shareholders/related companies are unsecured, interest free and repayment on demand.

24. Bank borrowings

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

	2010	2009
	RMB	RMB
Secured bank borrowings	**10,000,000**	10,000,000

At 31 December 2010, the secured bank borrowings carries interest at fixed rates and is repayable within one year from the end of the reporting period. The effective interest rate is 5.31% (2009: 6.372%) per annum.

At 31 December 2010 and 2009, the bank borrowings are secured by the Group's certain plant and machinery as set out in Note 18.

Secured bank borrowings are denominated in RMB.

25. Other borrowings

	2010	2009
	RMB	RMB
Secured other borrowings		
– Current liabilities	**74,509,319**	–
– Non-current liability	**–**	67,956,113
	74,509,319	67,956,113

At 31 December 2010, the secured other borrowings carries interest at fixed rates and is repayable according to the scheduled repayment dates as set out in loan agreement starting from 1 January 2011. The effective interest rate is 5.31% (2009: 6.372%) per annum.

The pledged of buildings were supposed to be released on 5 December 2010. However, since the Group has not yet settled the other borrowings with the lender, Jinmao and Jiangsu Mudan, the lenders have not yet returned the building reality certificates to the Group up to the date of this report.

Interest on the other borrowings for the year ended 31 December 2010 is RMB3,645,240 and interest on the other borrowings for the year ended 31 December 2009 had been waived by the borrowers.

(Expressed in Renminbi)

26. Share capital

	Number of shares	Amount RMB
Authorised, issued and fully paid:		
At 31 December 2009 and 31 December 2010		
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.

On 16 August 2010, the Company received a copy of the civil ruling (the "Ruling") dated 5 August 2010 from the Intermediate People's Court of Chengdu City of Sichuan Province ("四川省成都市中級人民法院") (the "Court") in connection with a loan (the "Loan") granted to a substantial shareholder, Chengdu New Dadi Motor Company Limited ("成都新大地汽車有限責任公司") ("Chengdu New Dadi"), by The Bank of Communications – Sichuan Branch ("交通銀行股份有限公司－四川省分行"). According to the Ruling, in light of a dispute arising from the Loan, the Bank requested the Court to freeze the assets of Chengdu New Dadi. It is stated in the Ruling that the 100,340,000 domestic shares, representing approximately 35.23% of the voting rights of the Company, owned by Chendu New Dadi are frozen (subject to a maximum mandatory value of RMB14.98 million) and are not allowed to be disposed of and/or pledged for the period from 5 August 2010 to 4 August 2011. The details are set out in the announcement of the Company dated 25 August 2010.

27. Operating leases

The Group as lessee

	2010 RMB	2009 RMB
Minimum lease payments paid under operating leases in respect of office premises during the year	**1,001,857**	–

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 RMB	2009 RMB
Within one year	**1,940,381**	2,150,270
In the second to fifth years inclusive	**4,422,000**	5,292,642
Over five years	**7,248,520**	8,354,020
	13,610,901	15,796,932

(Expressed in Renminbi)

27. Operating leases (continued)

The Group as lessee (continued)

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.

The Group as lessor

Operating leases relate to the buildings owned by the Group with lease terms of between 5 to 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned by the Group from its buildings for the year is set out in Note 9.

	2010	2009
	RMB	RMB
Within one year	**1,680,849**	–
In the second to fifth years, inclusive	**6,474,382**	–
Over fifth years	**5,391,531**	–
	13,546,762	–

28. Material related party transactions

Trading Transactions

	Sales of goods		**Purchases of goods**	
	2010	2009	**2010**	2009
	RMB	RMB	**RMB**	RMB
Zhangjiagang Jishun Transportation Industrial Co., Ltd.[1]	**–**	–	**–**	1,872,028
Foshan Shunde Zhongyu Car Trading Company Limited [2]	**–**	28,461,538	**–**	–
Beijing Huaxia Dan Ni Vehicles Investment Limited [3]	**–**	7,417,692	**–**	–
Chengdu New Dadi [4]	**–**	1,850,855	**79,853,000**	66,879,487

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28. Material related party transactions (continued)

Non-trading Transactions

	Reimbursement of electricity charges		Rental for trademark (Note i)	
	2010	2009	**2010**	2009
	RMB	RMB	**RMB**	RMB
Zhangjiagang Jishun Transportation Industrial Co., Ltd.[1]	**–**	750,000	**–**	–
張家港市日新投資管理有限公司[5]	**–**	–	**–**	–

	Rental for lands (Note ii)		Rental for a property (Note iii)		Rental for a production line (Note iv)	
	2010	2009	**2010**	2009	**2010**	2009
	RMB	RMB	**RMB**	RMB	**RMB**	RMB
Jiangsu Mudan[6]	**–**	–	**–**	–	**–**	–

Notes:

(i) During the years ended 31 December 2010 and 2009, 張家港市日新投資管理有限公司 and Jiangsu Mudan allowed the Company to use the trademark of "Mudan", certain of its sales offices, office equipment and public facilities without paying a consideration.

(ii) The Company has entered into lease agreements with Jiangsu Mudan whereby the Company is granted rights to use three (2009: three) pieces of land in the PRC on which its buildings are erected for a term of 20 years. The annual rental payment is RMB905,500. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2010, the annual rental payment for the year ended 31 December 2010 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. The annual rental payment is RMB100,000. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2010, the annual rental payment for the year ended 31 December 2010 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. The annual rental payment is RMB100,000. Since Jiangsu Madan agreed to waive the lease payment for the year ended 31 December 2010, the annual rental payment for the year ended 31 December 2010 was Nil.

1 Zhangjiagang Jishun Transportation Industrial Co., Ltd. is an associate of one of the former Shareholder.

2 Foshan Shunde Zhongyu Car Trading Company Limited ("佛山市順德眾裕汽車貿易有限公司") is one of the shareholders of the Company.

3 Beijing Huaxia Dan Ni Vehicles Investment Limited ("北京華夏丹尼汽車投資股份有限公司") is a subsidiary of intermediate holding company of the Company.

4 Chengdu New Dadi is a substantial shareholder of the Company.

5 張家港市日新投資管理有限公司 is a subsidiary of two of the shareholders of the Company.

6 Jiangsu Mudan is the former shareholder of the Company, it ceased to be a shareholder of the Company since June 2009.

29. Litigations and contingent liabilities

Up to the date of this report, the Company had recognised the payables in respect of involvements in eighteen litigations in the PRC, among those litigations, eleven of them have been fully settled during the year, the payables of the remaining seven litigations with approximately RMB43,713,604 were recognized in the consolidated financial statements as at 31 December 2010, details are set out as follows:

Litigations have not yet settled at the end of the reporting period

(i) 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 principal of RMB1,539,902 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company.

Pursuant to a commercial agreement signed between both parties on 9 April 2010, the Company shall repay RMB1,386,362 before 30 November 2010 as a final payment.

During the year ended 31 December 2010, the Company had paid RMB580,000 to the plaintiff. At 31 December 2010, the amount outstanding was RMB806,362.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

(ii) 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 南京市雨花台區人民法院 (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 plus interest in relation to the vehicle accessories and materials provided by the plaintiff.

Pursuant to the initial judgment (2008) Yu Min Er Chu No. 231 by 南京市雨花台區人民法院 (the Nanjing City Yuhuatai District People's Court), the Company shall repay principal and legal cost amounting to RMB564,442 (of which RMB556,340 is the principal and RMB8,102 is the legal cost) to 南京康尼機電新技術有限公司 (Nanjing Hongne Mechanical New Technology Limited).

At 31 December 2010, the amount outstanding was RMB564,442.

The Company is in negotiation with 南京康尼機電新技術有限公司 for the settlement as at the date of this report.

(iii) On or about 28 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 RMB36,337,911 plus interest in relation to the chassis provided by the plaintiff.

Pursuant to the settlement agreement signed between both parties in July 2010, the company shall repay RMB32,000,000 without interest to Jianghuai Vehicles before 31 December 2011 as a final settlement.

Up to 31 December 2010, the Company had paid RMB15,510,000 for the agreement. As at 31 December 2010, the amount outstanding was RMB16,490,000.

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29. Litigations and contingent liabilities (continued)

Litigations have not yet settled at the end of the reporting period (continued)

(iii) (continued)

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

(iv) 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.

Pursuant to the new settlement agreement signed between both parties in December 2010, the Company shall pay in aggregate, RMB19,000,000 to 南京依維柯汽車有限公司 before 30 June 2012 as a final settlement. If the Company were to pay the said amount on time and in full as stipulated in the agreement, 南京依維柯汽車有限公司 would waive of the payment of interest and principal of RMB10,486,438 by the Company.

During the year ended 31 December 2010, the Company had paid RMB4,000,000 for this plaintiff. At 31 December 2010, the amount outstanding was RMB24,486,438 and the Company is in the progress of performing the new agreement.

(v) In April 2009, 江陰華士汽車座椅有限公司 filed its writ with 江陰市人民法院 (the Jiangyin City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB97,868.

Pursuant to the initial judgment (2010) by 江蘇省無錫市中級人民法院 (Wuxi City Middle People's Court), the Company shall repay RMB97,692 to 江陰華士汽車座椅有限公司 as a final settlement.

Up to 31 December 2010, the amount outstanding was RMB97,692.

The Company is in negotiation with 江陰華士汽車座椅有限公司 for the settlement as at the date of this report.

(vi) On or about 9 November 2009, 杭州華通機械電器製造有限公司 (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.

Pursuant to the initial judgment (2010) by 江蘇省蘇州市中級人民法院 (Suzhou City Middle People's Court) in June 2010, the Company shall repay RMB768,670 to 杭州華通機械電器製造有限公司 before 20 June 2010 as a final settlement.

On 31 December 2010, the amount outstanding was RMB768,670.

The Company is in negotiation with 杭州華通機械電器製造有限公司 for the settlement as at the date of this report.

29. Litigations and contingent liabilities (continued)

Litigations have not yet settled at the end of the reporting period (continued)

(vii) On 11 October 2010, 張家港市牡丹客車配件有限公司 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 RMB1,045,306.

Pursuant to the settlement agreement signed between both parties in December 2010, the Company shall repay RMB800,000 to 張家港市牡丹客車配件有限公司 before 31 March 2011 as a final settlement.

Up to 31 December 2010, the Company had paid RMB300,000 for the agreement. As at 31 December 2010, the amount outstanding was RMB500,000.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

Litigations settled during the year ended 31 December 2010

(i) In May 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 new settlement agreement signed between both parties in August 2010, the Company shall pay in aggregate, RMB2,778,751 to 東風杭州汽車有限公司 before 30 September 2010 as a final settlement.

Up to 31 December 2010, the Company had paid RMB2,778,751, and there was no outstanding balance as at 31 December 2010.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

(ii) 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) before 30 October 2009 as a final settlement.

Up to 31 December 2010, the Company had paid RMB261,912 and there was no outstanding balance as at 31 December 2010.

29. Litigations and contingent liabilities (continued)

Litigations have been settled during the year ended 31 December 2010 (continued)

(ii) (continued)

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

‘(iii) 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.

Pursuant to the settlement agreement by 廣東省深圳市中級人民法院 in August 2010, the Company shall repay RMB15,840 to 廣東海派律師事務所 before 1 October 2010 as a final settlement.

Up to 31 December 2010, the Company had paid RMB15,840 and there was no outstanding balance as at 31 December 2010.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

(iv) 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 in December 2009, the Company shall repay principal and legal cost amounting to RMB227,193 (of which RMB225,253 is the principal and RMB1,940 is the legal costs to 江蘇足跡塗料有限公司 before 28 February 2010 as a final settlement.

Up to 31 December 2010, the Company had paid RMB227,193 and there was no outstanding balance as at 31 December 2010.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

(v) On or about 18 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.

Pursuant to the settlement agreement signed between both parties in July 2010, the Company shall repay RMB450,000 to 蘇亞東 before 10 August 2010 as a final settlement.

Up to 31 December 2010, the Company had paid RMB450,000 and there was no outstanding balance as at 31 December 2010.

29. Litigations and contingent liabilities (continued)

Litigations have been settled during the year ended 31 December 2010 (continued)

(vi) On or about 11 January 2010, 張家港市航豐鋁業有限公司 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 RMB27,451.

Pursuant to the settlement agreement by 張家港市人民法院 in January 2010, the Company shall repay RMB22,000 to 張家港市航豐鋁業有限公司 before 10 February 2010 as a final payment.

Up to 31 December 2010, the Company had paid RMB22,000 and there was no outstanding balance as at 31 December 2010.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

(vii) On or about 14 January 2010, 張家港市七彩制漆有限公司 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 RMB577,686.

Pursuant to the settlement agreement by 張家港市人民法院 in March 2010, the Company shall repay RMB414,575 to 張家港市七彩制漆有限公司 before 31 December 2010 as a final settlement.

Up to 31 December 2010, the Company had paid RMB414,575 and there was no outstanding balance as at 31 December 2010.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

(viii) On 17 May 2010, 張家港市富達標準件經銷有限公司 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 RMB112,543.

Pursuant to the settlement agreement by the 張家港市人民法院 in July 2010, the Company shall repay RMB70,000 to 張家港市富達標準件經銷有限公司 before 30 October 2010 as a final settlement.

Up to 31 December 2010, the Company had paid RMB70,000 and there was no outstanding balance as at 31 December 2010.

(ix) On 27 July 2010, 常州市杰瑞化工有限公司 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 RMB20,608.

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29. Litigations and contingent liabilities (continued)

Litigations have been settled during the year ended 31 December 2010 (continued)

(ix) (continued)

Pursuant to the settlement agreement by the 張家港市人民法院 in September 2010, the Company has failed to repay RMB20,608 and shall repay RMB12,000 to 常州市杰瑞化工有限公司 before 10 October 2010 as a final settlement.

Up to 31 December 2010, the Company had paid RMB12,000 and there was no outstanding balance as at 31 December 2010.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

(x) On 19 September 2010, 蘇州賽威機械設備有限公司 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 RMB17,564.

Pursuant to the settlement agreement by 張家港市人民法院 in October 2010, the Company shall repay principal and legal cost amounting to RMB12,681 (of which RMB12,000 is the principal and RMB681 is the legal cost) to 蘇州賽威機械設備有限公司 on or before 30 November 2010 as a final settlement.

Up to 31 December 2010, the Company had paid RMB12,681 and there was no outstanding balance as at 31 December 2010.

Though the settlement payments were not made in accordance to the timeframe specified in the settlement agreement, the Directors determined that the penalty/adjustment to the settlement amount arising from the delay in payment would be remote according to the advice of the legal adviser to the Company advising on this action.

Litigation closed during the year ended 31 December 2010

(i) On or about 10 October 2010, 張家港中融資訊技術有限公司 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 RMB240,000 to the plaintiff for deposit payment of the services provided by the plaintiff to the Company.

On 8 November 2010, 張家港中融資訊技術有限公司 requested to withdraw the suit and it was approved by 張家港市人民法院.

(Expressed in Renminbi)

30. Pledge of assets

At the end of the reporting period, certain assets of the Group were pledged to secure bank borrowings and other borrowings granted to the Group as follows:

	2010 RMB	2009 RMB
Property, plant and equipment	**9,407,660**	149,448,671

31. Statement of financial position information of the Company

	2010 RMB	2009 RMB
ASSETS AND LIABILITIES		
NON-CURRENT ASSETS		
Property, plant and equipment	**135,954,160**	153,661,737
Investments in subsidiaries	**2,052,000**	1,200,000
	138,006,160	154,861,737
CURRENT ASSETS		
Inventories	**15,187,138**	15,526,468
Trade and other receivables	**21,656,916**	16,529,297
Amounts due from subsidiaries	**–**	4,048,170
Pledged bank deposits	**16,112,235**	15,247,325
Bank balances and cash	**4,826,339**	6,628,139
	57,782,628	57,979,399
CURRENT LIABILITIES		
Trade and other payables and bills payables	**106,206,845**	125,116,837
Amount due to a former shareholder	**–**	1,045,306
Amounts due to subsidiaries	**3,468,480**	–
Amounts due to shareholders	**4,197,094**	251,904
Amounts due to related companies	**5,321,300**	14,766,793
Bank borrowings	**10,000,000**	10,000,000
Other borrowings	**74,509,319**	–
Income tax payable	**1,232,552**	1,232,552
	204,935,590	152,413,392

(Expressed in Renminbi)

31. Statement of financial position information of the Company (continued)

	2010 RMB	2009 RMB
NET CURRENT LIABILITIES	**(147,152,962)**	(94,433,993)
NON-CURRENT LIABILITY		
Other borrowings	**–**	(67,956,113)
NET LIABILITIES	**(9,146,802)**	(7,528,369)
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	**(324,790,084)**	(323,171,651)
	(9,146,802)	(7,528,369)

	Statutory surplus reserve RMB (Note a)	Statutory public welfare fund RMB (Note b)	Accumulated losses RMB (Note c)	Total RMB
At 1 January 2009	15,421,641	15,421,641	(323,910,816)	(293,067,534)
Profit for the year, representing total comprehensive income for the year	–	–	739,165	739,165
At 31 December 2009 and 1 January 2010	15,421,641	15,421,641	(323,171,651)	(292,328,369)
Loss for the year, representing total comprehensive loss for the year	–	–	(1,618,433)	(1,618,433)
At 31 December 2010	15,421,641	15,421,641	(324,790,084)	(293,946,802)

31. Statement of financial position information of the company (continued)

Notes:

a. 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 2010 (2009: Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

b. 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 2010 (2009: Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

c. 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;

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31. Statement of financial position information of the company (continued)

Notes: (continued)

c. Accumulated losses (continued)

(iii) allocation of 10% of after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory public welfare fund; and

(iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

There was no distributable reserve of the Company as at 31 December 2010 (2009: Nil).

32. Principal subsidiaries

Particulars of the subsidiaries at 31 December 2010 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation/ registration and operation/ establishment	Nominal value of paid up issued/registered/ ordinary capital	Proportion ownership interest held by the Company Directly 2010	Indirectly 2010	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%	–	Inactive
牡丹汽車(張家港)物資供應有限公司	Ordinary	PRC	RMB500,000	100%	–	Inactive
牡丹汽車(張家港)銷售有限公司	Ordinary	PRC	RMB100,000	100%	–	Inactive
牡丹股份(香港)有限公司	Ordinary	Hong Kong	HKD1,000,000	100%	–	Inactive

Note 1: 牡丹股份(香港)有限公司 is a wholly-owned subsidiary of the Company which established in the Hong Kong on 23 December 2009. The registered capital of 牡丹股份(香港)有限公司 amounted to HKD1,000,000, of which HKD Nil was paid up by the Company as at 31 December 2010.

Five Years Summary

Results	2010	2009	2008	2007	2006
		Year ended 31 December			
Turnover	**203,133,716**	110,295,640	10,698,243	327,743,441	551,676,336
(Loss) profit from operations	**2,537,397**	1,082,653	(82,063,063)	(121,130,143)	(57,632,572)
Net finance income (costs)	**(4,202,780)**	(301,895)	3,543,254	(8,744,136)	(2,081,358)
(Loss) profit before tax	**(1,665,383)**	780,758	(78,519,809)	(129,874,279)	(59,713,930)
Income tax expenses	**–**	–	–	–	–
(Loss) profit for the year attributable to owners of the company	**(1,665,383)**	780,758	(78,519,809)	(129,874,279)	(59,713,930)
Assets and liabilities					
Property, plant and equipment	**135,954,160**	153,661,737	171,643,007	189,792,794	200,467,300
Construction in progress	**–**	–	–	–	709,503
Net deferred tax assets	**–**	–	–	–	3,759,815
Total current assets	**57,825,525**	53,963,992	48,302,564	134,173,885	484,052,490
Total current liabilities	**(202,885,822)**	(147,156,392)	(228,213,105)	(253,714,414)	(485,102,827)
Total assets less current liabilities	**(145,060,297)**	(93,192,400)	(179,910,541)	(119,540,529)	(1,050,337)
Total non-current liabilities	**–**	(67,956,113)	–	–	(3,759,727)
	(9,106,137)	(7,486,776)	(8,267,534)	70,252,265	200,126,554
Share capital	**284,800,000**	284,800,000	284,800,000	284,800,000	284,800,000
Reserves	**(293,906,137)**	(292,286,776)	(293,067,534)	(214,547,725)	(84,673,446)
	(9,106,137)	(7,486,776)	(8,267,534)	70,252,275	200,126,554