



**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)**



**2011**  
*Interim Report*

## **INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011**

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

**Growth Enterprise Market (“GEM”) has been positioned as a market designed to accommodate companies to which a higher 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.**

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*This report, for which the directors (“Directors”) of Mudan Automobile Shares Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief 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.*

## **SUMMARY**

- For the six months ended 30 June 2011, the Group recorded a negative turnover of RMB5,374,786 (2010: RMB120,767,712), which was because the sales for the period was less than the amount of returned products sold previously.
- For the six months ended 30 June 2011, the Group recorded a loss attributable to owners of the Company of RMB12,859,756 (2010: a profit of RMB3,320,890).
- For the six months ended 30 June 2011, the loss per share is RMB4.52 cents (2010: earnings per share of RMB1.16 cents).

## INTERIM RESULTS (UNAUDITED)

The board of directors (“Board”) of Mudan Automobile Shares Company Limited (“Company”) hereby announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 June 2011 together with the comparative unaudited figures for the corresponding periods in 2010 as follows:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

	Notes	Three months ended 30 June		Six months ended 30 June	
		2011	2010	2011	2010
		RMB	RMB	RMB	RMB
Turnover	3	<b>2,043,590</b>	50,164,140	<b>(5,374,786)</b>	120,767,712
Cost of sales		<b>(1,777,923)</b>	(45,478,426)	<b>3,562,360</b>	(106,581,711)
Gross profit/(loss)		<b>265,667</b>	4,685,714	<b>(1,812,426)</b>	14,186,001
Other income		<b>203,454</b>	145,791	<b>1,374,645</b>	148,770
Distribution expenses		<b>(37,459)</b>	(203,648)	<b>(376,313)</b>	(447,075)
General and administrative expenses		<b>(5,491,540)</b>	(4,055,663)	<b>(9,987,330)</b>	(9,803,515)
Other operating expenses		–	(516,412)	–	(516,412)
Net finance expenses		<b>(137,794)</b>	(114,379)	<b>(2,058,332)</b>	(246,879)
(Loss) profit before taxation	6	<b>(5,197,672)</b>	(58,597)	<b>(12,859,756)</b>	3,320,890
Income tax expense	4	–	–	–	–
(Loss) profit for the period attributable to owners of the Company		<b>(5,197,672)</b>	(58,597)	<b>(12,859,756)</b>	3,320,890
(Loss) earnings per share					
– basic (cents)	5	<b>(1.83)</b>	(0.02)	<b>(4.52)</b>	1.16
– diluted		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
(Loss) profit for the period	<b>(5,197,672)</b>	(58,597)	<b>(12,859,756)</b>	3,320,890
Other comprehensive income:				
Exchange differences arising from translation of foreign operations	-	-	-	-
Total comprehensive (loss) income for the period attributable to owners of the Company	<b>(5,197,672)</b>	(58,597)	<b>(12,859,756)</b>	3,320,890

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 30 June 2011 RMB (Unaudited)	At 31 December 2010 RMB (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>126,981,755</b>	135,954,160
<b>Current assets</b>			
Inventories		<b>18,260,142</b>	15,187,138
Trade and other receivables	8	<b>11,101,912</b>	14,357,721
Advance deposits to suppliers		–	7,299,195
Pledged deposits		<b>3,116,350</b>	16,112,235
Cash and cash equivalents		<b>393,479</b>	4,869,236
		<b>32,871,883</b>	57,825,525
<b>Current liabilities</b>			
Trade and other payables and bills payables	9	<b>86,757,870</b>	101,452,950
Receipt in advance		<b>4,783,569</b>	4,783,569
Amounts due to shareholders	11	<b>1,418,317</b>	5,586,132
Amounts due to related companies	11	–	5,321,300
Bank borrowings		<b>10,000,000</b>	10,000,000
Other borrowings		<b>77,624,240</b>	74,509,319
Income tax payable		<b>1,232,552</b>	1,232,552
		<b>181,816,548</b>	202,885,822
<b>Net current liabilities</b>		<b>(148,944,665)</b>	(145,060,297)
<b>Net liabilities</b>		<b>(21,962,910)</b>	(9,106,137)
<b>Capital and reserves</b>			
Share capital	10	<b>284,800,000</b>	284,800,000
Statutory surplus reserve		<b>15,421,641</b>	15,421,641
Statutory public welfare fund		<b>15,421,641</b>	15,421,641
Translation reserve		<b>49,005</b>	46,022
Accumulated losses		<b>(337,655,197)</b>	(324,795,441)
		<b>(21,962,910)</b>	(9,106,137)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Share capital	Statutory		Translation reserve	Accumulated losses	Total capital and reserves
		Statutory surplus reserve	public welfare fund			
	RMB	RMB	RMB	RMB	RMB	RMB
		(Note a)	(Note b)		(Note c)	
At 1 January 2011 (Audited)	284,800,000	15,421,641	15,421,641	46,022	(324,795,441)	(9,106,137)
Profit (loss) for the period and total comprehensive income (loss) for the period (Unaudited)	-	-	-	2,983	(12,859,756)	(12,856,773)
At 30 June 2011 (Unaudited)	<u>284,800,000</u>	<u>15,421,641</u>	<u>15,421,641</u>	<u>49,005</u>	<u>(337,655,197)</u>	<u>(21,962,910)</u>
1 January 2010 (Audited)	284,800,000	15,421,641	15,421,641	-	(323,130,058)	(7,486,776)
Profit (loss) for the period and total comprehensive income (loss) for the period (Unaudited)	-	-	-	-	3,320,890	3,320,890
At 30 June 2010 (Unaudited)	<u>284,800,000</u>	<u>15,421,641</u>	<u>15,421,641</u>	<u>-</u>	<u>(319,809,168)</u>	<u>(4,165,886)</u>

Notes:

**a. Statutory surplus reserve**

According to the Company's articles of association, the Group is required to transfer 10% of its net profit, as determined in accordance with the People's Republic of China (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 in the six months ended 30 June 2011 (2010 : Nil) as the profit for the period was wholly absorbed by the accumulated losses brought forward from previous years.

**b. Statutory public welfare fund**

According to the Company's articles of association, the Group is required to transfer 10% of its net profits, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of dividends to shareholders.

There was no transfer made to the statutory public welfare fund in the six months ended 30 June 2011 (2010: Nil) as the profit for the period was wholly absorbed by the accumulated losses brought forward from previous years.



**c. Accumulated losses**

Pursuant to the Company's articles of association, the net profit of the Group 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.

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 30 June 2011 (2010: Nil).

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB</b>	RMB
	<b>(Unaudited)</b>	(Unaudited)
Net cash inflow from operating activities	<b>1,895,454</b>	4,148,801
Net cash outflow from investing activities	–	(102,131)
Net cash outflow from financing activities	<b>(6,374,194)</b>	(10,270,201)
Decrease in cash and cash equivalents	<b>(4,478,740)</b>	(6,223,531)
Cash and cash equivalents at beginning of period	<b>4,869,236</b>	6,660,902
Impact of changes in foreign exchange rate	<b>2,983</b>	–
Cash and cash equivalents at end of period	<b>393,479</b>	437,371

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. General

Mudan Automobiles Shares Company Limited (the “Company”) was established in The People’s Republic of China (the “PRC”) on 18 September 1998 as a joint stock company with limited liability, and its H Shares are 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 8 July 2011, the Company was informed by the Stock Exchange that the GEM Listing Committee has considered that it is inappropriate to grant an extension of the deadline for submission of a resumption proposal and decided that the listing of the Company’s H shares on the Stock Exchange be cancelled in accordance with Rule 9.14 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (“GEM Listing Rules”). The Board has submitted an application to the Stock Exchange for a review from the GEM Listing (Review) Committee on the said decision.

The address of the registered office and place of business of the Company is No. 30 Lehong Road, LeYu Town, Zhangjiagang City, Jiangsu Province, PRC.

The principal activity of the Company and its subsidiaries (collectively known as the “Group”) is manufacturing and distribution of automobiles.

The consolidated financial statements are presented in Renminbi (“RMB”). Except for subsidiaries established in Hong Kong using Hong Kong dollars as functional currency, the functional currency of the Company and its subsidiaries is RMB.

## 2. Basis of preparation and principal accounting policies

The unaudited condensed quarterly financial information has been prepared in accordance with the applicable disclosure provisions of the GEM Listing Rules and with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board.

The basis of preparation and accounting policies used in the preparation of the unaudited condensed consolidated financial results for the six months ended 30 June 2011 are consistent with those adopted in preparing the audited consolidated financial statement of the Group for the year ended 31 December 2010 except for the following amendments and interpretation (“New IFRSs”) which are or have become effective.

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

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 February 2010

## 2. **Basis of preparation and principal accounting policies (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 of the IFRS will have no material impact on the results and the financial position of the Group.

The interim financial statements of the Company for the six months ended 30 June 2011 have not been audited by the Company’s auditor, but have been reviewed by the Audit Committee of the Board.

### 3. Turnover and segmental information

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

For the six months ended 30 June 2011, the Company recorded a negative turnover mainly because the sales for the period was less than the amount of returned products sold previously.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The Group had only one line of operation for the six months ended 30 June 2011 and 2010, which was manufacturing and distribution of automobiles.

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

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

#### (a) Segment revenues

The Group had only one business segment for the six months ended 30 June 2011 and 2010, which was manufacturing and distribution of automobiles, no separate disclosure of segmental revenues and results would be made.

### 3. Turnover and segmental information (continued)

#### (b) Geographical information

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

	For the three months ended 30 June		For the six months ended 30 June	
	2011 <i>RMB</i> <i>(Unaudited)</i>	2010 <i>RMB</i> <i>(Unaudited)</i>	2011 <i>RMB</i> <i>(Unaudited)</i>	2010 <i>RMB</i> <i>(Unaudited)</i>
Sales of automobiles:				
In PRC	<b>2,043,590</b>	48,900,427	<b>(6,977,350)</b>	118,303,307
Overseas	–	1,263,713	<b>1,602,564</b>	2,464,405
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b><u>2,043,590</u></b>	<u>50,164,140</u>	<b><u>(5,374,786)</u></b>	<u>120,767,712</u>

#### 4. Income tax expenses

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for year 2010 and 2011 respectively. No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2011 and 2010 as the Group does not have any assessable profit subject to the 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 its 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 did not generate any assessable profits in their respective jurisdictions.

## 5. (Loss) earnings per share

The calculation of the basic loss per share for the three months and six months ended 30 June 2011 is based on the unaudited loss for the period attributable to owners of the Company of RMB5,197,672 and loss of RMB12,859,756 (three months and six months ended 30 June 2010: loss of RMB58,597 and profit of RMB3,320,890 respectively) and based on the weighted average number of shares in issue during the period of 284,800,000 (2010: 284,800,000).

No diluted (loss) earnings per share have been presented for the three months and six months ended 30 June 2011 and 2010 as there was no dilutive potential ordinary share outstanding for both periods.

## 6. (Loss) profit before taxation

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

	For the three months ended 30 June		For the six months ended 30 June	
	2011 RMB (Unaudited)	2010 RMB (Unaudited)	2011 RMB (Unaudited)	2010 RMB (Unaudited)
(a) Net finance expenses (income)				
Bank charges	883	6,711	10,554	16,466
Exchange loss	–	–	5,496	–
Interest income	–	(38,610)	–	(41,589)
Interest expense	136,119	146,278	2,041,489	272,002
	<b>136,119</b>	<b>146,278</b>	<b>2,041,489</b>	<b>272,002</b>
(b) Other item				
Depreciation of property, plant and equipment	4,479,494	4,538,733	8,972,405	9,081,312
	<b>4,479,494</b>	<b>4,538,733</b>	<b>8,972,405</b>	<b>9,081,312</b>

## 7. Property, plant and equipment

During the six months ended 30 June 2011, the Group has not acquired any property, plant and equipment (2010: RMB102,131).



## 8. Trade and other receivables

	<b>At</b>	At
	<b>30 June 2011</b>	31 December 2010
	<b>RMB</b>	RMB
	<b>(Unaudited)</b>	<i>(Audited)</i>
Trade receivables	<b>10,640,407</b>	14,220,421
Other receivables	<b>461,505</b>	137,300
	<hr/> <b>11,101,912</b> <hr/>	<hr/> 14,357,721 <hr/>

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

	<b>At</b>	At
	<b>30 June 2011</b>	31 December 2010
	<b>RMB</b>	RMB
	<b>(Unaudited)</b>	<i>(Audited)</i>
Within 3 months	<b>6,122,943</b>	11,742,021
Over 3 months but less than 6 months	<b>1,237,678</b>	–
Over 6 months but less than 1 year	<b>801,386</b>	2,478,400
Over 1 year but less than 2 years	<b>2,478,400</b>	–
	<hr/> <b>10,640,407</b> <hr/>	<hr/> 14,220,421 <hr/>

## 9. Trade and other payables

	At 30 June 2011 <i>RMB</i> <i>(Unaudited)</i>	At 31 December 2010 <i>RMB</i> <i>(Audited)</i>
Trade payables	61,341,445	60,587,538
Bills payables	3,116,350	16,112,235
Other payables	22,300,075	24,753,177
	<hr/> <b>86,757,870</b> <hr/> <hr/>	<hr/> 101,452,950 <hr/> <hr/>

An ageing analysis of trade payables is as follows:

	At 30 June 2011 <i>RMB</i> <i>(Unaudited)</i>	At 31 December 2010 <i>RMB</i> <i>(Audited)</i>
Due within 3 months	16,439,749	8,874,181
Due after 3 months but within 6 months	1,330,069	–
Due after 6 months but within 1 year	3,858,270	–
Due over 1 year	39,713,357	51,713,357
	<hr/> <b>61,341,445</b> <hr/> <hr/>	<hr/> 60,587,538 <hr/> <hr/>

## 10. Share capital

	At 30 June 2011		At 31 December 2010	
	Amount		Amount	
	RMB		RMB	
Number of shares	(Unaudited)	Number of shares	(Audited)	
Authorised, issued and fully paid:				
Domestic shares of RMB1.00 each	196,250,000	196,250,000	196,250,000	196,250,000
H shares of RMB1.00 each	88,550,000	88,550,000	88,550,000	88,550,000
Total	<b>284,800,000</b>	<b>284,800,000</b>	284,800,000	284,800,000

All the domestic shares and H shares of the Company 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 Chengdu 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, this period was extended to 31 July 2012 pursuant to a notice from the Court dated 28 July 2011. The details are set out in the announcement of the Company dated 25 August 2010.

## 11. Amounts due to shareholders/related companies

The amounts due to shareholders/related companies are unsecured, interest free and repayment on demand.

## 12. Reserves

Other than the (loss) profit for the period, there were no movement to or from reserves of the Company during the three months and six months ended 30 June 2011 and 30 June 2010.

### 13. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

### 14. Related party transactions

During the six months ended 30 June 2011, the Group entered into the following transactions with the existing shareholders and other related parties as follows:

		<b>Purchases from related parties</b>	
		<b>Three months ended 30 June 2011</b>	<b>Six months ended 30 June 2011</b>
<b>Relationship</b>		<b>RMB (unaudited)</b>	<b>RMB (unaudited)</b>
Chengdu New Dadi Motor Company Limited ("Chengdu New Dadi")	Shareholder	-	1,500,000
	Return of goods to related parties	-	(9,545,000)
		<u>-</u>	<u>(8,045,000)</u>
		<b><u>-</u></b>	<b><u>(8,045,000)</u></b>
		<b>Amounts payable as at 30 June 2011</b>	
<b>Relationship</b>		<b>RMB (unaudited)</b>	
Shunde Rixin Development Company Limited ("Shunde Rixin")	Shareholder		1,418,317

## **BUSINESS REVIEW AND PROSPECT**

### **Results performance**

In the first half year of 2011, the Group recorded a negative turnover of RMB5,374,786 (2010: RMB120,767,712) and a loss of RMB12,859,756 (2010: profit of RMB3,320,890).

During the six months period ended 30 June 2011, loss per share is approximately RMB4.52 cents (2010: earnings per share of RMB1.16 cents).

The unaudited turnover of the Group for the three months ended 30 June 2011 was RMB2,043,590, (2010: RMB50,164,140). The unaudited loss for the three months ended 30 June 2011 was RMB5,197,672 (2010: loss of RMB58,597).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### *Cost of sales and gross profit*

The negative cost of sales of the Group for the six months ended 30 June 2011 was RMB3,562,360 (2010: RMB106,581,711).

### **OTHER INCOME**

Other income of the Group during the six months ended 30 June 2011 was RMB1,374,645 (2010: RMB148,770).

### **DISTRIBUTION EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES**

Distribution expenses for the six months ended 30 June 2011 was in the sum of RMB376,313 (2010: RMB447,075).

The total general and administrative expenses for the six months ended 30 June 2011 was RMB9,987,330 (2010: RMB9,803,515).

## **ORDER BOOK**

The Group has not maintained any order book.

## **MATERIAL INVESTMENTS AND CAPITAL ASSETS**

The Group did not effect any material investments, disposal of subsidiaries or affiliated companies, nor acquisition of material capital assets for the six months ended 30 June 2011 and at present it does not have other plans for material investments or capital assets.

## **EXPOSURE IN EXCHANGE RATE FLUCTUATIONS**

The Group has foreign currency sales, 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 monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should need arise.

## **SIGNIFICANT INVESTMENTS HELD**

The Group has no significant investments held during the six months ended 30 June 2011 (2010: Nil).

## **FINANCIAL RESOURCES AND LIQUIDITY**

The capital deficiency amounted to RMB21,962,910 as at 30 June 2011 (31 December 2010 capital deficiency was: RMB9,106,137). As at 30 June 2011, current assets amounted to RMB32,871,883 (31 December 2010: RMB57,825,525), of which RMB393,479 (31 December 2010: RMB4,869,236) were cash and bank balances. As at 30 June 2011, approximately RMB3,116,350 (31 December 2010: RMB16,112,235) was pledged deposits.

## CAPITAL STRUCTURE

During the six months ended 30 June 2011, there was no change in the capital structure of the Group.

## LITIGATIONS AND CONTINGENT LIABILITIES

Up to the date of this report, the Company had recognised the payables with approximately RMB31,966,748 in respect of involvements in a number of litigations in the PRC in the unaudited condensed consolidated financial statement for the six months ended 30 June 2011.

- (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.

Up to 30 June 2011, the Company had paid RMB580,000 to the plaintiff. As at 30 June 2011, 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. 23 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).

As at 30 June 2011, 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 30 June 2011, the Company had paid RMB18,510,000 for the agreement. As at 30 June 2011, the amount outstanding was RMB13,490,000.

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.



- (iv) On or about 16 July 2008, 南京依維柯汽車有限公司 (Nanjing Iveco Motor Company Ltd.) filed its writ with 南京市玄武區人民法院 (the Nanjing City Xuan Wu District People's Court) against the Company. It was stated in the writ that the Group had failed to pay a total 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 30 June 2011, the Company had paid RMB13,000,000 for this plaintiff. As at 30 June 2011, the amount outstanding was RMB15,486,438 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 30 June 2011, 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.

As at 30 June 2011, 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.

- (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 30 June 2011, the Company had paid RMB300,000 for the agreement. As at 30 June 2011, 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.

- (viii) On or around 15 February 2011, 淮安龍飛客車配件有限公司 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 RMB8,320.

As at 30 June 2011, the amount outstanding was RMB8,320.

- (ix) On or around 3 March 2011, 重慶陽彩實業有限公司 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 RMB34,934.

As at 30 June 2011, the amount outstanding was RMB34,934.

- (x) On or around 24 March 2011, 陝西凌電蓄電池有限公司 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 RMB209,890.

As at 30 June 2011, the amount outstanding was RMB209,890.

## **PLEDGE OF ASSET OF THE GROUP**

As at 30 June 2011, certain property, plant and equipment of the Group of RMB9,407,660 (2010:nil) were pledged to secure bank and other loans granted to the Group.

## **GEARING RATIO**

The Group's gearing ratio (expressed as total liabilities to total assets) of approximately 1.14 as at 30 June 2011 as compared with approximately 1.05 as at 31 December 2010.

## **CAPITAL STRUCTURE**

During the six months ended 30 June 2011, there was no change in the Group's share capital. As at 30 June 2011, the Group's operations were financed mainly by shareholder's equity and internal resources. The Group will continue to adopt its treasury policy of placing the Group cash and cash equivalents in interest bearing deposits.

## **EMPLOYEE INFORMATION**

As at 30 June 2011, the Group employed 113 employees (30 June 2010: 132). Staff cost was RMB2,013,094 for the six months ended 30 June 2011 (2010: RMB2,369,999).

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

## **SHARE OPTION SCHEME**

The Company did not have any share option scheme.

## **INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) (THE “SFO”)**

### **1. Directors, supervisors and chief executive of the Company**

As at 30 June 2011, 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 corporation (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 of RMB1.00 each of the Company:*

<b>Name</b>	<b>Number of Shares held</b>	<b>Nature of Interests</b>	<b>Approximate percentage of shareholding in same class of securities</b>	<b>Approximate percentage of shareholding in the registered capital</b>
Mr. 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%
Ms. 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%
Mr. 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 30 June 2011:

1. Chengdu New Dadi Motor Company Limited (“Chengdu New Dadi”), a limited company incorporated in the PRC, is owned as to 50% by Foshan City Shunde Rixin Development Company Limited (“Shunde Rixin”) and 50% by Zhejiang Haoqing Automobile Manufacturing Company Limited (浙江豪情汽車制造有限公司) (“Zhejiang Haoqing”), a private company incorporated in the PRC. Each of Mr. Li and Ms. Pan is a director of Chengdu New Dadi. Shunde Rixin is a limited company incorporated in the PRC and is owned as to 80% by Mr. Li and 20% by Ms. Pan, who are both executive Directors. By virtue of the provisions of Part XV of the SFO, Shunde Rixin is deemed to be interested in the 100,340,000 Domestic Shares of the Company held by Chengdu New Dadi.
2. Foshan City Shunde Guanghua Shiye Company Limited (“Shunde Guanghua”), a limited company incorporated in the PRC, is wholly and beneficially owned by Ms. Pan, who is also the sole director of Shunde Ganghua. By virtue of the provisions of Part XV of the SFO, Ms. Pan is deemed to be interested in the 95,310,000 Domestic Shares of the Company held by Shunde Ganghua and Mr. Li, as the spouse of Ms. Pan, is deemed to be interested in 95,310,000 Domestic Shares of the Company in which Mr. Li is interested.
3. Cheerbond Investment International Limited (“Cheerbond”), a limited company incorporated in Hong Kong, is wholly and beneficially owned by Mr. Li, who is the spouse of Ms. Pan and the sole director of Cheerbond. By virtue of the provisions of Part XV of the SFO, Mr. Li is deemed to be interested in the 10,080,824 H Shares of the Company held by Cheerbond and Ms. Pan, as the spouse of Mr. Li, is deemed to be interested in the 10,080,824 H Shares of the Company in which Mr. Li is 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 of the Company. 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. By virtue of the provisions of Part XV of the SFO, Mr. Pan as the spouse of Ms. WU Shuyun was deemed to be interested in the 300,000 Domestic Shares of the Company in which Ms. WU Shuyun was interested.

Save as disclosed above, as at 30 June 2011, 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, to the best information, knowledge and belief of the Directors, as at 30 June 2011, 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 the ordinary shares of RMB1.00 each of the Company:*

<b>Name</b>	<b>Number of Shares held</b>	<b>Nature of Interests</b>	<b>Approximate percentage of shareholding in same class of securities</b>	<b>Approximate percentage of shareholding in the registered capital</b>
Chengdu New Dadi	100,340,000 (L) Domestic Shares (Note 1)	Beneficial owner	51.13%	35.23%
Shunde Rixin	100,340,000 (L) Domestic Shares (Note 1)	Interest of controlled corporation	51.13%	35.23%
Zhejiang Haoqing	100,340,000 (L) Domestic Shares (Note 1)	Interest of controlled corporation	51.13%	35.23%
Shunde Ganghua	95,310,000 (L) Domestic Shares (Note 2)	Beneficial owner	48.57%	33.47%
Cheerbond	10,080,824 (L) H Shares (Note 3)	Beneficial owner	11.38%	3.54%
Innovation Assets Limited ("Innovation")	5,890,000 (L) H Shares (Note 4)	Interest of controlled corporation	6.65%	2.07%
SW Kingsway Capital Holdings Limited	5,890,000 (L) H Shares (Note 4)	Interest of controlled corporation	6.65%	2.07%
SW Kingsway Capital Group Limited ("Kingsway Group")	5,890,000 (L) H Shares (Note 4)	Interest of controlled corporation	6.65%	2.07%
World Developments Limited ("World 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 30 June 2011:

1. Chengdu New Dadi, a limited company incorporated in the PRC, is owned as to 50% by Shunde Rixin and 50% by Zhejiang Haoqing, a company incorporated in the PRC. Each of Mr. Li and Ms. Pan is a director of Chengdu New Dadi. Shunde Rixin is a limited company incorporated in the PRC and is owned as to 80% by Mr. Li and 20% by Ms. Pan, who are both executive Directors. By virtue of the provisions of Part XV of the SFO, each of Shunde Rixin and Zhejiang Haoqing is deemed to be interested in the 100,340,000 Domestic Shares of the Company held by Chengdu New Dadi.
2. Shunde Ganghua, a limited company incorporated in the PRC, is wholly and beneficially owned by Ms. Pan, who is also the sole director of Shunde Ganghua. By virtue of the provisions of Part XV of the SFO, Ms Pan is deemed to be interested in the 95,310,000 Domestic Shares of the Company held by Shunde Ganghua and Mr. Li, as the spouse of Ms. Pan, is deemed to be interested in 95,310,000 Domestic Shares of the Company in which Mr. Li is interested.
3. Cheerbond, a limited company incorporated in Hong Kong, is wholly and beneficially owned by Mr. Li, who is the spouse of Ms. Pan and the sole director of Cheerbond. By virtue of the provisions of Part XV of the SFO, Mr. Li is deemed to be interested in the 10,080,824 H Shares of the Company held by Cheerbond and Ms. Pan, as the spouse of Mr. Li, is deemed to be interested in the 10,080,824 H Shares of the Company in which Mr. Li is interested.
4. Kingsway Brokerage Limited, wholly owned by Kingsway Group, is beneficially interested in 990,000 H Shares of the Company. Lion Spur is wholly owned by Kingsway Group, which is wholly owned by SW Kingsway Capital Holdings Limited. SW Kingsway Capital Holdings Limited is owned as to 74% by World Development, which is wholly owned by Innovation Assets. By virtue of the provisions of Part XV of the SFO, Kingsway Group, World Developments and Innovation Assets are deemed to be interested in the 4,900,000 H Shares of the Company held by Lion Spur and the 990,000 H Shares of the Company held by Kingsway Brokerage Limited.

Save as disclosed above, as at 30 June 2011, to the best information, knowledge and belief of the Directors, the Directors are 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' RIGHTS TO ACQUIRE H SHARES**

As at 30 June 2011, none of the directors, supervisors and chief executive of the Company was granted options to subscribe for H Shares of the Company or had any rights to acquire H Shares of the Company.

## **COMPETING INTEREST**

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

Name of Director	Name of entity which business is considered to compete or likely to compete with the business of the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Mr. LI Zi Hao	Chengdu New Dadi	manufacturing and sale of vehicles and accessories of vehicles	Director
	Shunde Rixin	trading of vehicles and accessories of vehicles	Director and shareholder
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 SHARES OF THE COMPANY**

During the six months ended 30 June 2011, the Company has not purchased, sold or redeemed any of its listed securities.

## **CODE OF CONDUCT FOR DIRECTORS CARRYING OUT SECURITIES TRANSACTIONS**

Having made specific enquiry of all directors, during the six months ended 30 June 2011, the Directors had complied with the required standard of dealings in securities set out in rules 5.48 to 5.67 of the GEM Listing Rules. A code of conduct has been adopted with respect to the securities transactions carried out by the Directors.

## **CODE ON CORPORATE GOVERNANCE PRACTICE**

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 30 June 2011, in compliance with the Code on Corporate Governance Practice (“CG Code”) set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules.

## **AUDIT COMMITTEE**

The audit committee of the Board (“Audit Committee”) 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 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 unaudited consolidated financial statements for the six months ended 30 June 2011 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.

## **REMUNERATION COMMITTEE**

On 10 April 2008, the Company established the remuneration committee (“Remuneration Committee”) with written terms of reference pursuant to the CG Code and all committee members were Independent Non-executive Directors. The existing members of the Remuneration Committee comprised Mr. Wu Bing Jian, Mr. Huang Chenye and Mr. Liang Bo Qi, 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 include determining the emoluments of Executive Directors, including benefits in kind, right of retirement and compensation (including any compensation for dismissal or termination of appointment) and determining the remuneration of Non-executive Directors and Independent Non-executive Directors and the Company’s supervisors and senior management officers. The Remuneration Committee will consider factors such as the remuneration of comparable companies, time contributed by and duties of the Directors, the employment condition of the Company and the feasibility of remuneration based on performance etc.

## INTERNAL CONTROL

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

On behalf of the Board  
Mudan Automobile Shares Company Limited

**LI Zi Hao**  
*Chairman*

Zhang jia gang City, Jiang su Province, the PRC  
14 August 2011

*As at the date of this report, the Board comprises six (6) directors, of which two (2) are executive directors, namely Mr. LI Zi Hao (Chairman) and Ms. PAN Li Chan; one (1) is non-executive director, namely Mr. PAN Jin Rong; and three (3) are independent non-executive directors, namely Mr. HUANG Chengye, Mr. LIANG Bo Qi and Mr. WU Bing Jian.*