



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)



First Quarterly Report **2010**



FIRST QUARTERLY RESULTS REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2010

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

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. 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 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 takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company”) 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

- For the three months ended 31 March 2010, the Group recorded a turnover of RMB70,603,572, representing an increase of 91.07% as compared with the corresponding period in 2009 (2009: RMB36,951,744).
- For the three months ended 31 March 2010, the Group recorded a profit for the period attributable to owners of the Company of RMB3,379,486 (2009: loss of RMB6,111,625).
- For the three months ended 31 March 2010, the earnings per share was RMB1.19 cents (2009: loss per share of RMB2.15 cents).

UNAUDITED CONDENSED CONSOLIDATED QUARTERLY RESULTS

The board of directors (the “Board”) would like to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively known as the “Group”) for the three months ended 31 March 2010, together with the comparative figures for the corresponding period in 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 31 March	
	<i>Notes</i>	2010	2009
		(Unaudited)	(Unaudited)
		RMB	<i>RMB</i>
Turnover	3	70,603,572	36,951,744
Cost of sales		(61,103,286)	(35,771,280)
Gross profit		9,500,286	1,180,464
Other operating income		2,979	299,826
Distribution expenses		(243,427)	(419,763)
General and administrative expenses		(5,747,852)	(7,172,152)
Finance costs		(132,500)	–
Profit (loss) before income tax		3,379,486	(6,111,625)
Income tax expenses	4	–	–
Profit (loss) for the period attributable to owners of the Company		3,379,486	(6,111,625)
Earnings (loss) per share			
– basic	5	1.19 cents	(2.15 cents)
– diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB	RMB
Profit (loss) for the period	3,379,486	(6,111,625)
Other comprehensive income:		
Exchange differences arising		
from translation of foreign operations	—	—
	_____	_____
Total comprehensive income (loss) for the period		
attributable to owners of the Company	<u>3,379,486</u>	<u>(6,111,625)</u>

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 shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

The unaudited condensed consolidated financial statements are presented in Renminbi (“RMB”), which is same as the functional currency of the Company and its subsidiaries (collectively known as the “Group”).

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

The Company’s H shares are listed on the Stock Exchange. As requested by the Company, trading in H shares of the Company in the Stock Exchange was suspended since 29 March 2005 until further notice.

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 Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with International Financial Reporting Standards issued by International Accounting Standards Board.

The basis of preparation and accounting policies used in the preparation of the unaudited condensed consolidated financial results for the three months ended 31 March 2010 are consistent with those adopted in preparing the audited consolidated financial statement of the Group for the year ended 31 December 2009 except for the following amendments and interpretation (“New IFRSs”) which are or have become effective.

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

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

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 July 2009.

⁵ Effective for annual periods beginning on or after 1 February 2010.

⁶ Effective for annual periods beginning on or after 1 January 2010.

⁷ Effective for annual periods beginning on or after 1 January 2013.

⁸ Effective for annual periods beginning on or after 1 July 2010.

3. Turnover and segmental information

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services 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 operation for the three months ended 31 March 2010 and 2009, which was production and sale of automobiles.

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the 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 three months ended 31 March 2010 and 2009, which was manufacturing and distribution of automobiles, no separate disclosure of segmental revenues and results would be made.

(b) Geographical information

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

	PRC		Other countries		Total	
	For the three months ended 31 March		For the three months ended 31 March		For the three months ended 31 March	
	2010	2009	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB	RMB	RMB	RMB	RMB	RMB
Revenue:						
Sales to external customers	69,402,880	35,720,598	1,200,692	1,231,146	70,603,572	36,951,744

Sales are based on the country in which the Group's customers are located.

4. Income tax expenses

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. For the period ended 31 March 2010, the EIT rate applicable to the Group's operations in the PRC was 15% (2009: 15%).

No Hong Kong profits tax has been provided in both periods as the Group did not generate any assessable profits arising in Hong Kong for the period ended 31 March 2010 and 2009.

No profits taxes have been provided for the subsidiaries operating outside Hong Kong as these subsidiaries did not generate any assessable profits in the respective jurisdictions or had available tax loss brought forward to offset the assessable profits generated for the period ended 31 March 2010 and 2009.

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

	For the three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB	RMB
Profit (loss) before income tax	<u>3,379,486</u>	<u>(6,111,625)</u>
Tax at applicable tax rate	844,872	(1,527,906)
Utilisation of tax losses previously not recognised	(844,872)	–
Tax effect of tax losses not recognised	<u>–</u>	<u>1,527,906</u>
Income tax expenses	<u>–</u>	<u>–</u>

5. Earnings (loss) per share

The calculation of the basic earnings per share for the three months ended 31 March 2010 is based on the unaudited profit for the period attributable to owners of the Company of RMB3,379,486 (2009: loss of RMB6,111,625) and based on the weighted average number of shares in issue during the period of 284,800,000 (2008: 284,800,000).

No diluted earnings (loss) per share have been presented for the three months ended 31 March 2010 and 2009 as there was no dilutive potential ordinary share outstanding for both periods.

RESERVES

Other than the transfer of profit for the period attributable to owners of the Company into reserve, there were no movements to or from reserves of the Group for the three months ended 31 March 2010.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: Nil).

BUSINESS REVIEW

Results performance

Turnover for the three months ended 31 March 2010 amounted to RMB70,603,572 (2009: RMB36,951,744) representing an increase of 91.07% as compared with the corresponding period in 2009. The profit for the period attributable to the owners of the Company reached RMB3,379,486 (2009: loss of RMB6,111,625).

Sales of light, medium and large-sized buses

For the three months ended 31 March 2010, the sales of light-sized, medium-sized and large-sized buses amounted to RMB1,953,320, RMB2,196,834 and RMB66,453,418 (2009: RMB1,324,872 RMB2,430,291 and RMB33,196,581) respectively.

OUTLOOK

1. 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 Company, the Company initiated projects of electric automobiles with a number of well-known domestic and international companies. During the three months ended 31 March 2010, the Company completed

the trial production of a sample electric automobile named MD6100EV. The project is now at the stage of monitoring operation data. The model is an economic 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. With professional verifications, key technological configurations of the product are proved to be comparable to the top standard of the international market. However, the price is only 50% of similar products in the international market, thus bringing about promising prospects for commercial operation of our products in the future. The Company will take MD6100EV as a lead in the research and development of a complete product line of electrical automobiles.

2. *Implementation of cost control measure*

Cost control will be the focus of internal management initiatives of the Company. The international automobile market has suffered from the heavy blow brought by the international financial crisis and no sign of improvement has been seen up till now. During the three months ended 31 March 2010, the Company's export value has marginally decreased compared with the corresponding period of last year, general conditions of the export market are far from satisfactory. The Company is experiencing intense competition in the domestic market because the profit margin of traditional products is low and the order for new products is not substantial in volume. As a result, the Company diverts its efforts to internal management for the sake of strengthening the cost control measures, aiming at upgrading the Company's operating efficiency by lowering costs and reducing expenses.

LITIGATIONS AND CONTINGENT LIABILITIES

Up to the date of this report, the Company had recognised the payables with approximately RMB62,099,562 in respect of involvements in a number of litigations in the PRC in the unaudited condensed consolidated financial statement for the three months ended 31 March 2010.

- (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 and interest of RMB46,460 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;

Pursuant to a commercial agreement between both parties on 3 June 2009, the said amount shall be paid in full before the end of 25 December 2009, of which RMB1,500,000 was applied as the Company's chassis working capital for 2009. Up to 31 March 2010, the Company had paid RMB200,000 to this plaintiff. On 31 March 2010, the amount outstanding was RMB1,386,362.

- (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 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 RMB556,340 to 南京康尼機電新技術有限公司 (Nanjing Hongne Mechanical New Technology Limited). On 31 March 2010, the amount outstanding was RMB556,340.

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

Pursuant to the final judgment (2009) Wan Min Er Zhong Zi No. 0004 by 安徽省高級人民法院 (the Anhui Provincial High People’s Court) and settlement agreement signed between both parties on 6 June 2009, it was agreed that the Company shall pay RMB33,662,434 to Jianghuai Vehicles and the relevant enforcement cost amounting to RMB2,675,476 of 合肥市中級人民法院 (the Hefei City Middle People’s Court) by 20 December 2011. Up to 31 March 2010, the Company had paid RMB9,195,286 to this plaintiff. On 31 March 2010, the amount outstanding was RMB27,142,625. During the period, a writ is issued by the Anhui Provincial High People’s Court to freeze and sequester some bank balances of the Company. As at 31 March 2010, the frozen and sequester bank balance was RMB348,925.

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

Pursuant to the settlement agreement signed between both parties on 14 May 2009 (the “Agreement”), the Company shall pay principal and legal expenses amounting to RMB4,823,439 (of which RMB4,778,409 is the principal (included in the payables), and the legal cost is RMB45,030 (excluded in the payables and subject to the debit amount by the court) to 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) by 30 October 2010. If the Company were to pay the said amount on time and in full as stipulated in the Agreement, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) would waive of the payment of interest by the Company. Up to 31 March 2010, the Company had paid RMB1,350,000 for this plaintiff. On 31 March 2010, the amount outstanding was RMB3,473,439 and the Company is in the progress of performing the settlement agreement.

- (v) 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. As at 31 March 2010, the Company had not repaid the said amount.
- (vi) On or about 16 March 2009, 張家港市城市五金交電貿易有限公司 (Zhangjiagang City City Hardware, Transportation and Electrical Appliances Trading Co., Ltd) filed a writ with 張家港人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay RMB308,133 in relation to hardware accessories. Pursuant to the settlement agreement between both parties on 9 September 2009, the Company shall repay RMB261,912 to 張家港市城市五金交電貿易有限公司 (Zhangjiagang City City Hardware, Transportation and Electrical Appliances Trading Co., Ltd) on or before 30 October 2009. Up to 31 March 2010, the Company had paid RMB258,295 for the agreement. On 31 March 2010, the amount outstanding was RMB3,617.
- (vii) On or about 28 September 2009, 廣東海派律師事務所 (Guangdong Haipai Law Office) filed a writ with 深圳市福田區人民法院 (the Shenzhen Futian District People's Court) against the Company. It was stated in the writ that the Company had failed to pay RMB17,600 in relation to service. On 31 March 2010, the amount outstanding is RMB17,600.
- (viii) On or about 9 October 2009, 江蘇足跡塗料有限公司 (Jiangsu Zuji Painting Limited) ("Jiangsu Zuji") filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB250,281. Pursuant to the settlement agreement by the Zhangjiagang City People's Court, the Company shall repay RMB225,253 and legal expenses of RMB1,940 to Jiangsu Zuji. The Company had paid 225,253 for the agreement. Up to 31 March 2010, the amount outstanding was RMB1,940.

- (ix) On 5 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. On 31 March 2010, the amount outstanding was RMB97,868. The final judgement of the case was made by Wuxi City Middle People's Court.
- (x) On or about 9 November 2009, 杭州華通機械電器制造有限公司 (Hangzhou Huatong Electrical Appliance Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB768,670. On 31 March 2010, the amount outstanding was RMB683,333.
- (xi) On or about 9 February 2010, 張家港市七彩制漆有限公司 (Zhangjiagang Qicai Zhiqi 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 RMB577,686. Settlement agreement signed between both parties on 23 March 2010, it was agreed that the Company shall pay RMB414,575 to Zhangjiagang Qicai Zhiqi Limited. Up to 31 March 2010, the Company had paid RMB164,575 for the agreement. On 31 March 2010, the amount outstanding was RMB250,000.

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

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

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

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

- (ii) On or about 30 November 2009, 蘇亞東 (Su Yadong) filed 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 a total of RMB600,000.

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 31 March 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 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 shares of the Company:

Name	Number of Shares held	Nature of Interests	Approximate percentage of shareholding in same class of securities	Approximate percentage of shareholding in the registered capital
LI Zi Hao ("Mr. Li")	100,340,000	Interest of controlled corporation	51.13%	35.23%
	Domestic Shares (Note 1)			
	95,310,000			
	Domestic Shares (Note 2)	Interest of spouse	48.57%	33.47%
	10,080,824	Interest of controlled corporation	11.38%	3.54%
	H Shares (Note 3)			
PAN Li Chan ("Ms. Pan")	95,310,000	Interest of controlled corporation	48.57%	33.47%
	Domestic Shares (Note 2)			
	100,340,000			
	Domestic Shares (Note 1)	Interest of spouse	51.13%	35.23%
	10,080,824	Interest of spouse	11.38%	3.54%
	H Shares (Note 3)			

Notes:

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 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 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. Each of Shunde Rixin and CAU is deemed to be interested in the 100,340,000 domestic shares held by Chengdu New Dadi.
2. Foshan City Shunde Ganghua Shiye Company Limited (“Shunde Ganghua”), a limited company incorporated in the PRC, is wholly and beneficially owned by Ms. Pan, who is also the sole director of Shunde Ganghua. By virtue of the provisions of part XV of the SFO, Ms Pan is deemed to be interested in the 95,310,000 domestic shares held by Shunde Ganghua and Mr. Li, as the spouse of Ms. Pan, is deemed to be interested in 95,310,000 domestic shares in which Mr. Li is interested.
3. Cheerbond 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 held by Cheerbond and Ms. Pan, as the spouse of Mr. Li, is deemed to be interested in the 10,080,824 H shares in which Mr. Li is interested.

Save as disclosed above, as at 31 March 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*

As at 31 March 2010, the following shareholders (other than the Directors, the supervisors (as if the requirements applicable to the Directors under the SFO had applied to the supervisors) or chief executives of the Company) 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:

Long positions in the shares of the Company:

Name	Number of Shares held	Nature of Interests	Approximate percentage of shareholding in same class of securities	Approximate percentage of shareholding in the registered capital
Chengdu New Dadi	100,340,000 Domestic Shares (Note 1)	Beneficial owner	51.13%	35.23%
CAU	100,340,000 Domestic Shares (Note 1)	Interest of controlled corporation	51.13%	35.23%
Shunde Rixin	100,340,000 Domestic Shares (Note 1)	Interest of controlled corporation	51.13%	35.23%
Shunde Ganghua	95,310,000 Domestic Shares (Note 2)	Beneficial owner	48.57%	33.47%
Cheerbond	10,080,824 H Shares (Note 3)	Beneficial owner	11.38%	3.54%

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

Notes:

1. Chengdu New Dadi, a limited company incorporated in the PRC, is owned as to 50% by Shunde Rixin and 50% by CAU. 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 Each of Shunde Rixin and CAU is deemed to be interested in the 100,340,000 Domestic Shares held by Chengdu New Dadi.
2. Shunde Ganghua, a limited company incorporated in the PRC, is wholly and beneficially owned by Ms. Pan, who is also the sole director of Shunde Ganghua. By virtue of the provisions of part XV of the SFO, Ms Pan is deemed to be interested in the 95,310,000 Domestic Shares held by Shunde Ganghua and Mr. Li, as the spouse of Ms. Pan, is deemed to be interested in 95,310,000 Domestic Shares in which Mr. Li is interested.

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

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

Save as disclosed above, as at 31 March 2010, 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 31 March 2010, 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

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	佛山市合力汽車貿易有限公司 (Foshan Heli Car Trading Company Limited)	trading and distribution of local manufactured motor cars and motor cycles and its accessories	Director and shareholder

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
佛山市順德眾裕汽車貿易 有限公司 (Foshan Shunde Zhongyu Car Trading Company Limited)	trading and distribution of local manufactured motor cars	Spouse of director and shareholder	

AUDIT COMMITTEE

The Company has established the audit committee (the "Audit Committee") 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 Company. As at the date of this report, the Audit Committee comprised three independent non-executive directors, namely Mr. WU Bing Jian, Mr. LIANG Bo Qi and Mr. HUANG Chengye, of which Mr. WU Bing Jian is also the Chairman of the Audit Committee. The Company's unaudited condensed consolidated results for the three months ended 31 March 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.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

During the three months ended 31 March 2010, the Company has not purchased, sold or redeemed any of the listed shares of the Company.

On behalf of the Board

Mudan Automobile Shares Company Limited

LI Zi Hao

Chairman

Shunde, Foshan City, Guangdong Province, the PRC
14 May 2010