



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)



Interim Report

2010

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2010

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

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This report, for which the directors (“Directors”) of Mudan Automobile Shares Company Limited (the “Company” or “Mudan”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 2010, the Group recorded a turnover of RMB120,767,712 (2009: RMB54,997,092), representing an increase of 120% as compared with the turnover of the Group for the corresponding period in 2009.
- For the six months ended 30 June 2010, the Group recorded a profit attributable to owners of the Company of RMB3,320,890 (2009: RMB36,952,003).
- For the six months ended 30 June 2010, the earnings per share is approximately RMB1.16 cents (2009: the earnings per share of approximately RMB12.97 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 2010 together with the comparative unaudited figures for the corresponding periods in 2009 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

| | Notes | Three months ended 30 June | | Six months ended 30 June | |
|--|-------|-------------------------------|--------------|-----------------------------|--------------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | RMB | RMB | RMB | RMB |
| Turnover | 2 | 50,164,140 | 18,045,348 | 120,767,712 | 54,997,092 |
| Cost of sales | | (45,478,426) | (17,903,725) | (106,581,711) | (53,675,005) |
| Gross profit | | 4,685,714 | 141,623 | 14,186,001 | 1,322,087 |
| Other income | 3 | 145,791 | 75,210,724 | 148,770 | 75,507,060 |
| Distribution expenses | | (203,648) | (603,200) | (447,075) | (1,022,963) |
| General and administrative expenses | | (4,055,663) | (6,434,275) | (9,803,515) | (13,601,764) |
| Other operating expenses | | (516,412) | (25,246,191) | (516,412) | (25,246,191) |
| Net finance expenses | | (114,379) | (5,053) | (246,879) | (6,226) |
| (Loss) profit before taxation | 6 | (58,597) | 43,063,628 | 3,320,890 | 36,952,003 |
| Income tax expense | 4 | - | - | - | - |
| (Loss) profit for the period attributable to owners of the Company | | (58,597) | 43,063,628 | 3,320,890 | 36,952,003 |
| (Loss) earnings per share – basic (cents) | 5 | (0.02) | 15.12 | 1.16 | 12.97 |

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Three months ended 30 June | | Six months ended 30 June | |
|---|-------------------------------|------------|-----------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| (Loss) profit for the period | (58,597) | 43,063,628 | 3,320,890 | 36,952,003 |
| Other comprehensive income: | | | | |
| Exchange differences arising from translation of foreign operations | - | - | - | - |
| Total comprehensive (loss) income for the period | (58,597) | 43,063,628 | 3,320,890 | 36,952,003 |
| Attributable to: | | | | |
| Owners of the Company | (58,597) | 43,063,628 | 3,320,890 | 36,952,003 |

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | At 30 June 2010 RMB (Unaudited) | At 31 December 2009 RMB (Audited) |
|------------------------------------|----|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 7 | 144,682,556 | 153,661,737 |
| Current assets | | | |
| Inventories | | 21,352,845 | 15,526,468 |
| Trade and other receivables | 8 | 69,842,727 | 16,529,297 |
| Amount due from a related company | 11 | 6,413,000 | – |
| Pledged deposits | | 3,133,436 | 15,247,325 |
| Cash and cash equivalents | | 437,371 | 6,660,902 |
| Total current assets | | 101,179,379 | 53,963,992 |
| Current liabilities | | | |
| Trade and other payables | 9 | 154,138,422 | 125,116,837 |
| Amount due to a former shareholder | | – | 1,045,306 |
| Amounts due to related companies | 11 | 12,867,634 | 9,509,793 |
| Amounts due to shareholders | 11 | 13,833,100 | 251,904 |
| Bank borrowings | | – | 10,000,000 |
| Other borrowings | | 67,956,113 | – |
| Income tax payable | | 1,232,552 | 1,232,552 |
| Total current liabilities | | 250,027,821 | 147,156,392 |
| Net current liabilities | | (148,848,442) | (93,192,400) |
| Non-current liabilities | | | |
| Other borrowings | | – | 67,956,113 |
| Net liabilities | | (4,165,886) | (7,486,776) |
| Capital and reserves | | | |
| Share capital | 10 | 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 | | (319,809,168) | (323,130,058) |
| Total capital and reserves | | (4,165,886) | (7,486,776) |

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2010

| | Share capital | Statutory surplus reserve | Statutory public welfare fund | Accumulated losses | Total capital and reserves |
|---|--------------------|---------------------------------|--|-------------------------------|-------------------------------|
| | <i>RMB</i> | <i>RMB</i> <i>(Note a)</i> | <i>RMB</i> <i>(Note b)</i> | <i>RMB</i> <i>(Note c)</i> | <i>RMB</i> |
| At 1 January 2010 (Audited) | 284,800,000 | 15,421,641 | 15,421,641 | (323,130,058) | (7,486,776) |
| Profit for the period and total comprehensive income 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>(319,809,168)</u> | <u>(4,165,886)</u> |
| 1 January 2009 (Audited) | 284,800,000 | 15,421,641 | 15,421,641 | (323,910,816) | (8,267,534) |
| Profit for the period and total comprehensive income for the period (Unaudited) | - | - | - | 36,952,003 | 36,952,003 |
| At 30 June 2009 (Unaudited) | <u>284,800,000</u> | <u>15,421,641</u> | <u>15,421,641</u> | <u>(286,958,813)</u> | <u>28,684,469</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 2010 (2009: 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 2010 (2009: 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 2010 (2009: Nil).

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

| | Six months ended 30 June | |
|---|---------------------------------|--------------|
| | 2010 | 2009 |
| | RMB | RMB |
| | (Unaudited) | (Unaudited) |
| Net cash inflow (outflow) from operating activities | 4,148,801 | (15,519,627) |
| Net cash outflow from investing activities | (102,131) | (639,429) |
| Net cash (outflow) inflow from financing activities | (10,270,201) | 22,744,064 |
| (Decrease) increase in cash and cash equivalents | (6,223,531) | 6,585,008 |
| Cash and cash equivalents at beginning of period | 6,660,902 | 3,669,714 |
| Cash and cash equivalents at end of period | 437,371 | 10,254,722 |

Notes:

1. Basis of preparation and accounting policies

The condensed interim financial information have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board. IFRSs includes International Accounting Standards and interpretations. These financial statements also comply with the applicable disclosure provisions of the GEM Listing Rules.

The measurement basis used in the preparation of the interim results is historical cost. The accounting policies have been consistently applied by the Group and are consistent with those used in the 2009 annual financial statements.

The Group's unaudited condensed interim financial statements for the six months ended 30 June 2010 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

2. Turnover and segmental information

The principal activities of the Group are the manufacture and sales of automobiles in the PRC. Turnover represents income arising from the sales of automobiles net of value added tax.

The Board considers the Group operates within a single business. Accordingly, no detailed analysis of the Group's business segment is disclosed.

An analysis of the Group's turnover by geographical regions is as follows:

| | Three months ended 30 June | | Six months ended 30 June | |
|-----------------------|-------------------------------|--------------------|-----------------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Sales of automobiles: | | | | |
| The PRC | 48,900,427 | 17,326,025 | 118,303,307 | 53,046,623 |
| Overseas market | 1,263,713 | 719,323 | 2,464,405 | 1,950,469 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | 50,164,140 | 18,045,348 | 120,767,712 | 54,997,092 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

3. Other income

| | Three months ended 30 June | | Six months ended 30 June | |
|---|-------------------------------|--------------------|-----------------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Reversal of bad debts provision | - | 11,493,113 | - | 11,493,113 |
| Waiver of amount due to a former shareholder | - | 63,281,111 | - | 63,281,111 |
| Sundry income | 145,791 | 436,500 | 148,770 | 732,836 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 145,791 | 75,210,724 | 148,770 | 75,507,060 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

4. Income tax expense

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's income neither arises in nor is derived from Hong Kong.

No PRC Enterprise Income Tax has been provided in both periods for the subsidiaries operating in the PRC as the assessable profit is wholly absorbed by tax losses brought forward from previous years.

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

5. (Loss) earnings per share

The calculation of (loss) earnings per share for the three months and the six months ended 30 June 2010 respectively are based on the respective unaudited (loss) profit for the period attributable to owners of the Company of RMB(58,597) and RMB3,320,890 (three months and six months ended 30 June 2009: profit of RMB43,063,628 and RMB36,952,003 respectively) divided by the number of shares in issue of the Company during the respective period. For the three months and the six months ended 30 June 2010, the number of shares in issue are 284,800,000 and 284,800,000 respectively (three months and six months ended 30 June 2009: 284,800,000 and 284,800,000 respectively). No diluted (loss) earnings per share is presented as there were no dilutive potential ordinary shares outstanding.

6. (Loss) profit before taxation

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

| | Three months ended 30 June | | Six months ended 30 June | |
|--|---------------------------------------|--------------------|-------------------------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | RMB | <i>RMB</i> | RMB | <i>RMB</i> |
| | (Unaudited) | <i>(Unaudited)</i> | (Unaudited) | <i>(Unaudited)</i> |
| (a) Net finance expenses (income) | | | | |
| Bank charges | 6,711 | 6,740 | 16,466 | 11,404 |
| Exchange loss | - | 4,472 | - | 4,472 |
| Interest income | (38,610) | (6,159) | (41,589) | (9,650) |
| Interest expense | 146,278 | - | 272,002 | - |
| | ===== | ===== | ===== | ===== |
| (b) Other item | | | | |
| Depreciation of property, plant and equipment | 4,538,733 | 4,329,348 | 9,081,312 | 8,657,667 |
| | ===== | ===== | ===== | ===== |

7. Property, plant and equipment

During the six months ended 30 June 2010, the Group spent RMB102,131 (2009: RMB639,429) on acquisition of property, plant and equipment.

8. Trade and other receivables

| | At 30 June 2010 <i>RMB</i> <i>(Unaudited)</i> | At 31 December 2009 <i>RMB</i> <i>(Audited)</i> |
|-------------------------------|---|--|
| Trade receivables | 68,194,542 | 15,671,153 |
| Advance deposits to suppliers | 221,185 | 391,078 |
| Other receivables | 1,427,000 | 467,066 |
| | <hr/> 69,842,727 <hr/> | <hr/> 16,529,297 <hr/> |

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

| | At 30 June 2010 <i>RMB</i> <i>(Unaudited)</i> | At 31 December 2009 <i>RMB</i> <i>(Audited)</i> |
|--------------------------------------|---|--|
| Within 3 months | 66,624,542 | 8,487,800 |
| Over 3 months but less than 6 months | 1,570,000 | 7,043,353 |
| Over 6 months but less than 1 year | - | - |
| Over 1 year but less than 2 years | - | - |
| Over 2 years | - | 140,000 |
| | <hr/> 68,194,542 <hr/> | <hr/> 15,671,153 <hr/> |

Customers are normally granted credit terms of 3 months to 12 months (31 December 2009: 3 months to 12 months), depending on the Group's assessment of the credit worthiness of individual customers. In addition, certain established customers with good repayment record are allowed to settle by instalments over a period of not more than 24 months (31 December 2009: 24 months).

9. Trade and other payables

| | At | At |
|--|--------------------------------|-------------------------|
| | 30 June 2010 | 31 December 2009 |
| | RMB | RMB |
| | (Unaudited) | <i>(Audited)</i> |
| Trade payables | 82,918,000 | 82,631,493 |
| Bills payables | 3,087,202 | 15,205,068 |
| Accrued salaries, bonus and welfare fund | 484,710 | 6,045,673 |
| Other payables | 67,648,510 | 21,234,603 |
| | <hr/> 154,138,422 <hr/> | <hr/> 125,116,837 <hr/> |

An ageing analysis of trade payables is as follows:

| | At | At |
|--|-------------------------------|------------------------|
| | 30 June 2010 | 31 December 2009 |
| | RMB | RMB |
| | (Unaudited) | <i>(Audited)</i> |
| Due within 3 months | 7,090,263 | 40,234,321 |
| Due after 3 months but within 6 months | 29,962,275 | 1,180,651 |
| Due after 6 months but within 1 year | 4,665,661 | 16,720 |
| Due over 1 year | 41,199,801 | 41,199,801 |
| | <hr/> 82,918,000 <hr/> | <hr/> 82,631,493 <hr/> |

10. Share capital

| | At 30 June 2010 | | At 31 December 2009 | |
|------------------------------------|--------------------|--------------------|---------------------|--------------------|
| | 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 |
| | <u>284,800,000</u> | <u>284,800,000</u> | <u>284,800,000</u> | <u>284,800,000</u> |
| Total | 284,800,000 | 284,800,000 | 284,800,000 | 284,800,000 |

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

11. Amounts due from (to) shareholders/related companies

The amounts due 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 2010 and 30 June 2009.

13. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

14. Related party transactions

During the six months ended 30 June 2010, the Group entered into the following transactions with existing shareholders and other related parties as follows:

| | | Purchases from related parties | |
|---|---------------|--|--|
| | | Three months ended 30 June 2010 | Six months ended 30 June 2010 |
| Relationship | | <i>RMB</i> <i>(unaudited)</i> | <i>RMB</i> <i>(unaudited)</i> |
| Chengdu New Dadi Motor Company Limited ("Chengdu New Dadi") | Shareholder | 11,100,000 | 11,100,000 |
| | | <u><u>11,100,000</u></u> | <u><u>11,100,000</u></u> |
| | | Amounts due from At 30 June 2010 | Amounts due to At 30 June 2010 |
| Relationship | | <i>RMB</i> <i>(unaudited)</i> | <i>RMB</i> <i>(unaudited)</i> |
| Chengdu New Dadi | Shareholder | – | 12,987,000 |
| Rixin Investment Management Co., Ltd. | <i>Note 1</i> | – | 846,100 |
| Beijing Huaxia Danni Motor Investment Co., Ltd. | <i>Note 2</i> | – | 5,321,300 |
| Zhangjia Rixin Investment Management Co., Ltd. | <i>Note 2</i> | 6,413,000 | 7,546,334 |

Notes:

- Ms. PAN Li Chan who is a Director, is a director of Rixin Investment Management Co., Ltd..
- Mr. LI Zi Hao and Ms. PAN Li Chan who is each a Director, has beneficial interests in Beijing Huaxia Danni Motor Investment Co., Ltd. and Zhangjia Rixin Investment Management Co., Ltd..

BUSINESS REVIEW AND PROSPECT

The Board is pleased to announce that the Group has conducted the following items during the six months ended 30 June 2010:

1. Participation in Jiangsu New Energy Vehicles and Auto Parts Fair

MD6100EV pure electric bus successfully developed by the Company has participated in the Jiangsu New Energy Vehicles and Auto Parts Fair in late June. 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 Company is developing 12-meter MD6120EV and 7-meter MD6703EV, the two new series of pure electric buses.

2. 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, the Company has applied to relevant government departments for the trial run of pure electric bus. Approval has been obtained from Jiangsu Economic and Information Technology Commission of PRC during the period, which will have a positive impact on the market access application and mass production as well as marketing of the Mudan pure electric bus.

3. Gradual expansion of the dealership network of Mudan automobiles

Taking advantage of the recovering domestic and overseas commercial vehicle market, the Company has strived to expand the domestic direct sales channel, while at the same time, it has gradually developed and established the agent dealer network of Mudan automobiles, which has grown from a few to quite a number of dealers, and from domestic to overseas markets. The Company has entered into various agency and distribution agreements with 29 domestic and overseas sales agents during the period, which has laid a solid foundation for the expansion of the market share of Mudan automobiles.

4. Mudan Automobile recognised as a company with AAA-credit rating

Mudan Automobile Shares Company Limited was assigned AAA-credit rating by Jianguo Far East International Assessment Consulting Co., Ltd. — an independent credit rating agency recognised by the Nanjing Branch of the People's Bank of China, and was granted the credit rating certificate during the period.

Results performance

In the first half year of 2010, the Group recorded turnover of RMB120,767,712 (2009: RMB54,997,092) and a profit of RMB3,320,890 (2009: profit of RMB36,952,003) for the six months ended 30 June 2010, among which the turnover represented an increase of approximately 120% as compared with the turnover of the Group for the corresponding period in 2009.

During the six months period ended 30 June 2010, earnings per share is approximately RMB1.16 cents (2009: earnings per share of RMB12.97 cents).

The unaudited turnover of the Group for the three months ended 30 June 2010 (the “quarterly period”) was RMB50,164,140, (2009: RMB18,045,348) representing an increase of 178% as compared with the corresponding period in 2009. The unaudited loss for the three months ended 30 June 2010 was RMB58,597 (2009: profit of RMB43,063,628).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Cost of sales and gross profit

The cost of sales of the Group for the six months ended 30 June 2010 was RMB106,581,711 (2009: RMB53,675,005). The unaudited gross profit margin of the Group was approximately 11.75%, while the gross profit margin for the corresponding six months in 2009 is 2.40%.

The increase of gross profit margin was mainly resulted from the decrease in sales of obsolete automobiles by the Group during the six months ended 30 June 2010.

OTHER INCOME

Other income of the Group during the three months ended 30 June 2010 and the six months ended 30 June 2010 were RMB145,791 and RMB148,770 respectively (2009: RMB75,210,724 and RMB75,507,060 respectively).

Other income for the three months and six months ended 30 June 2009 mainly comprises recoverability of allowance of bad and doubtful debts and waiver of loan due to a former shareholder of the Company.

DISTRIBUTION EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

The Group continues to expand its sales and marketing network. Distribution expenses for the six months ended 30 June 2010 was in the sum of RMB447,075, representing a decrease of approximately 56% as compared to the amount of RMB1,022,963 in the corresponding period in 2009.

The total general and administrative expenses for the six months ended 30 June 2010 was RMB9,803,515, representing a decrease of approximately 28% as compared to the amount of RMB13,601,764 in the corresponding period in 2009.

The decrease of distribution expenses and general and administrative expenses are mainly attributable to the tightened cost control by the Group for the period.

MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have any plan for material investments and acquisition of material capital assets for the six months ended 30 June 2010 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 arises.

SIGNIFICANT INVESTMENTS HELD

The Group has no significant investments held during the six months ended 30 June 2010.

FINANCIAL RESOURCES AND LIQUIDITY

The capital deficiency amounted to RMB4,165,886 as at 30 June 2010 (31 December 2009 capital deficiency was: RMB7,486,776). Current assets amounted to RMB101,179,379 (31 December 2009: RMB53,963,992), of which RMB437,371 (31 December 2009: RMB6,660,902) were cash and bank balances. As at 30 June 2010, approximately RMB3,133,436 (31 December 2009: RMB15,247,325) was pledged deposits.

LITIGATIONS AND CONTINGENT LIABILITIES

As at 30 June 2010, the Company had recognised liabilities in other payables amounting to approximately RMB62,321,516 in respect of involvement in a number of litigations in the PRC, details of which are set out as follows:

- (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 30 June 2010, the Company had paid RMB200,000 to this plaintiff. As at 30 June 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). As at 30 June 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 Intermediate People’s Court) by 20 December 2011. Up to 30 June 2010, the Company had paid RMB9,423,332 to this plaintiff. As at 30 June 2010, the amount outstanding was RMB26,914,579. 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 30 June 2010, the frozen and sequester bank balance was RMB126.

- (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 and the legal cost is RMB45,030 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 30 June 2010, the Company had paid RMB1,350,000 for this plaintiff. As at 30 June 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 30 June 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 30 June 2010, the Company had paid RMB258,295 for the agreement. As at 30 June 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. As at 30 June 2010, the amount outstanding was 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 RMB225,253 for the agreement. Up to 30 June 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. As at 30 June 2010, the amount outstanding was RMB97,868. The final judgement of the case was made by Wuxi City Intermediate 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. As at 30 June 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 Qikai 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 Qikai Zhiqi Limited. Up to 30 June 2010, the Company had paid RMB164,575 for the agreement. As at 30 June 2010, the amount outstanding was RMB250,000.
- (xii) 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. Settlement agreement signed between both parties on 4 May 2010, it was agreed that the Company shall pay RMB450,000 to 蘇亞東 (Su Yadong). As at 30 June 2010, the amount outstanding was RMB450,000.

As at 30 June 2010, 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 Intermediate 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 Intermediate People’s Court) by 20 December 2011. As at 30 June 2010, the amount outstanding was 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 Provincial High People’s Court) will re-examine the case and the enforcement by the Hefei City Intermediate People’s Court will be suspended during the examination. As at 30 June 2010, no court hearing has been commenced.

GEARING RATIO

The Group's gearing ratio (expressed as total liabilities to total assets) of approximately 1.02 as at 30 June 2010 as compared with approximately 1.04 as at 31 December 2009.

CAPITAL STRUCTURE

During the six months ended 30 June 2010, there is no change in the Group's share capital. As at 30 June 2010, 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 2010, the Group employed 132 employees (30 June 2009: 266). Staff cost was RMB2,369,999 for the six months ended 30 June 2010, representing a decrease of 31.7% as compared with that of RMB3,468,004 for the corresponding period in 2009.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: 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 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 |
|-----------------------------|--|------------------------------------|---|---|
| Mr. LI Zi Hao ("Mr. Li") | 100,340,000 Domestic Shares (Note 1) | Interest of controlled corporation | 51.13% | 35.23% |
| | 95,310,000 Domestic Shares (Note 2) | Interest of spouse | 48.57% | 33.47% |
| | 10,080,824 H Shares (Note 3) | Interest of controlled corporation | 11.38% | 3.54% |
| Ms. PAN Li Chan ("Ms. Pan") | 95,310,000 Domestic Shares (Note 2) | Interest of controlled corporation | 48.57% | 33.47% |
| | 100,340,000 Domestic Shares (Note 1) | Interest of spouse | 51.13% | 35.23% |
| | 10,080,824 H Shares (Note 3) | Interest of spouse | 11.38% | 3.54% |
| Mr. PAN Jin Rong ("Mr Pan") | 300,000 Domestic shares (Note 4) | Interest of controlled corporation | 0.15% | 0.11% |
| | 300,000 Domestic shares (Note 5) | Interest of spouse | 0.15% | 0.11% |

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.
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, is interested in 300,000 Domestic shares. Foshan Heli is beneficially owned as to 90% by Mr. Pan, a non-executive Director and the brother of Ms. Pan, who is 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, is interested in 300,000 Domestic shares of the Company. Shunde Zhongyu is wholly and beneficially owned by Ms. WU Shuyun, who is the wife of Mr. Pan. Ms. WU Shuyun is also the 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.

Save as disclosed above, as at 30 June 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 30 June 2010, the interests or short positions of person 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 is, 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 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% |
| 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 30 June 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 30 June 2010, none of the Directors, supervisors and chief executive of the Company was granted options to subscribe for 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 | 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 | 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 | 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 2010, the Company has not purchased, sold or redeemed any of its listed securities.

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 are 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 six months ended 30 June 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.

CODE OF CONDUCT FOR DIRECTORS CARRYING OUT SECURITIES TRANSACTIONS

During the six months ended 30 June 2010, the Company had complied with the standard conditions of requirements of transactions set out in rules 5.48 to 5.67 of the GEM Listing Rules. A code of conduct has been adopted with respect to the securities transactions carried out by 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 the six months ended 30 June 2010, 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.

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 Chengye 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.

During the year 2010 under review, the Company has appointed an independent auditor to conduct an overall review on the internal control system of the Company. Based on the recommendations made by the independent auditor, the Company has made improvements to its internal control system.

By Order of the Board
Mudan Automobile Shares Company Limited

LI Zi Hao
Chairman

Shunde, Foshan City, Guangdong Province, the PRC
27 July 2010

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 of the Board) 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.