



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)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange takes no responsibility for the contents of this announcement, 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 announcement.

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

* *for identification purpose only*

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2010

- Turnover increased by approximately 84.2% to RMB203,133,716.
- The Group recorded a loss before taxation in the amount of RMB1,665,383 (2009: profit before taxation in the amount of RMB780,758).
- The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2010 (2009: Nil).

RESULTS

The board of Directors (“**Board**”) of Mudan Automobile Shares Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively known as the “**Group**”) for the year ended 31 December 2010 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

(Expressed in Renminbi)

	<i>Notes</i>	2010 RMB	2009 RMB
Turnover	4	203,133,716	110,295,640
Cost of sales		(189,956,466)	(133,530,190)
Gross profit (loss)		13,177,250	(23,234,550)
Other operating income	5	14,854,018	82,549,707
Distribution expenses		(1,201,170)	(3,141,898)
General and administrative expenses		(23,740,754)	(30,774,932)
Other operating expenses	6	(572,699)	(24,270,329)
Finance costs	7	(4,182,028)	(347,240)
(Loss) profit before taxation	8	(1,665,383)	780,758
Income tax expenses	9	–	–
(Loss) profit for the year attributable to owners of the Company		(1,665,383)	780,758
Dividend	10	–	–
(Loss) earnings per share	11		
– basic		(0.58 cents)	0.27 cents
– diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

(Expressed in Renminbi)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

(Expressed in Renminbi)

	<i>Notes</i>	2010 RMB	2009 RMB
ASSETS AND LIABILITIES			
NON-CURRENT ASSET			
Property, plant and equipment		135,954,160	153,661,737
CURRENT ASSETS			
Inventories		15,187,138	15,526,468
Trade and other receivables	12	14,357,721	16,138,219
Advance deposits to suppliers		7,299,195	391,078
Pledged bank deposits		16,112,235	15,247,325
Bank balances and cash		4,869,236	6,660,902
		57,825,525	53,963,992
CURRENT LIABILITIES			
Trade and other payables and bills payables	13	101,452,950	119,071,164
Receipt in advance		4,783,569	6,045,673
Amount due to a former shareholder		–	1,045,306
Amounts due to shareholders		5,586,132	251,904
Amounts due to related companies		5,321,300	9,509,793
Bank borrowings		10,000,000	10,000,000
Other borrowings		74,509,319	–
Income tax payable		1,232,552	1,232,552
		202,885,822	147,156,392
NET CURRENT LIABILITIES		(145,060,297)	(93,192,400)
NON-CURRENT LIABILITY			
Other borrowings		–	(67,956,113)
NET LIABILITIES		(9,106,137)	(7,486,776)
CAPITAL AND RESERVES			
Share capital		284,800,000	284,800,000
Statutory surplus reserve		15,421,641	15,421,641
Statutory public welfare fund		15,421,641	15,421,641
Translation reserve		46,022	–
Accumulated losses		(324,795,441)	(323,130,058)
		(9,106,137)	(7,486,776)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

(Expressed in Renminbi)

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

Notes

a. Statutory surplus reserve

According to the Company's articles of association, the Company is required to transfer 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

Statutory surplus reserve can be used to offset previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

There was no transfer made to the statutory surplus reserve during the year ended 31 December 2010 (2009: Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

b. Statutory public welfare fund

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

There was no transfer made to the statutory public welfare fund during the year ended 31 December 2010 (2009: Nil) as there was no profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

c. Accumulated losses

Pursuant to the Company's articles of association, the net profit of the Company for the purpose of profit distribution to shareholders will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations; and (ii) the net profit determined in accordance with International Financial Reporting Standards ("IFRSs").

Under the PRC Company Law and the Company's articles of association, net profit after taxation can be distributed as dividends after allowance has been made for:

- (i) making up cumulative prior years' losses, if any;
- (ii) allocations of 10% after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory surplus reserve until the fund aggregates to 50% of the Company's registered capital;
- (iii) allocation of 10% of after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory public welfare fund; and
- (iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

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

Notes to the Condensed financial statements:

1. General

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

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

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

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

2. Basis of preparation of consolidated financial statements

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

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

- i) The Group will continue to carry out a debt restructuring with its creditors;
- ii) The Group will consider to strengthen its capital base and obtain immediate cash flow through various financing activities and capital restructuring;
- iii) The Group will continue to strengthen its cost in respect of administrative and other operating expenses;
- iv) The Group will actively seeking new investment and business opportunities to pursue profitable business that would bring positive cash flow; and
- v) The Group could obtain continuous financial support from its substantial shareholders for the production and operation.

The directors of the Company believe that, in the light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, notwithstanding the Group had overdue debts and net current liabilities and net liabilities as at 31 December 2010, the directors of the Company are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

3. Adoption of new and revised International Financial Reporting Standards (“IFRSs”)

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (“new and revised IFRSs”) issued by the International Accounting Standard Board (“IASB”):

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

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

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

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

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

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 July 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2012

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 February 2010

IFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows; and (ii) have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value.

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

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

4. Turnover and segment information

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

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

Information about major customers

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

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

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

5. Other operating income

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

6. Other operating expenses

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

7. Finance costs

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

8. (Loss) profit before taxation

2010 2009
RMB *RMB*

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

Directors' emoluments	413,914	349,767
Other staff costs, excluding directors' emoluments		
– Salaries, wages and other benefits	4,176,230	5,319,125
– Retirement benefit scheme contributions	583,648	551,933
	<hr/>	<hr/>
Total staff costs	4,759,878	5,871,058
	<hr/> <hr/>	<hr/> <hr/>
Auditor's remuneration	467,500	449,740
Cost of inventories recognised as an expenses	176,140,472	118,396,994
Rental income	(1,009,089)	–
Impairment losses reversed on trade receivables	(4,298,665)	(18,509,369)
Waiver of other borrowings	–	63,281,111
Gain on disposal of property, plant and equipment	(349,160)	–
Waiver of litigation claims	(8,228,168)	–
Provision for litigation claims	–	24,114,135
Depreciation of property, plant and equipment	17,961,159	18,513,705
	<hr/> <hr/>	<hr/> <hr/>

9. Income tax expenses

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2010 and 2009 as the Group does not have any assessable profit subject to Hong Kong Profits Tax for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company and PRC subsidiaries is 25% for both years.

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

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

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

10. Dividend

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

11. (Loss) earnings per share

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

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

12. Trade and other receivables

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

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

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

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for bad and doubtful debts is as follows:

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

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

	2010	2009
	RMB	RMB
1 month past due	2,478,400	–
Over 1 year past due	–	140,000
	<u>2,478,400</u>	<u>140,000</u>
	2,478,400	140,000
	<u>2,478,400</u>	<u>140,000</u>

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

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

At the end of each reporting period, the Group's trade and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions.

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

	2010	2009
USD	6,785	–
	<u>6,785</u>	<u>–</u>

13. Trade and other payables and bills payables

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

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

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

INDEPENDENT AUDITOR'S REPORT

The following paragraphs have been extracted from the Independent Auditor's Report on the Group's consolidated financial statements for the year ended 31 December 2010:

“MATERIAL FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in the consolidated financial statements concerning the adoption of the going concern basis for preparation. As set out in Note 2 to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon i) the successful implementation of certain financing and share capital restructuring plans, ii) the debt restructuring result reached with the creditors, and iii) the financial support from the substantial shareholders and, among other things, the Group would be able to meet in full its financial obligations as they fall due for the foreseeable future. We consider that appropriate disclosures have been made in such consolidated financial statements concerning the relevant material uncertainty, but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme, we have disclaimed our opinion on material uncertainty relating to the going concern basis.

The consolidated financial statements of the Group do not include any adjustment that would be necessary if the Group failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and the reclassify non-current assets and non-current liability as current assets and current liabilities respectively.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the material fundamental uncertainty relating to going concern basis paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.”

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

Business environment

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

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

Success in trial production of electric bus

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

Trial run of pure electric bus approved

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

Participation in Jiangsu New Energy Vehicles and Auto Parts Fair

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

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

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

FINANCIAL REVIEW

Turnover

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

Cost of sales and gross profit

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

Other operating income

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

Distribution expenses and general and administrative expenses

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

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

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

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

Net (loss) profit

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

Material investments and capital assets

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

Exposure in exchange rate fluctuations

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

Financial resources and liquidity

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

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

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

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

Litigations and contingent liabilities

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

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

- (i) On or about 5 September 2007, 東風襄樊旅行車有限公司 (Dongfeng Xiangfan Traveling Vehicles Limited) filed its writ with 襄樊市襄城區人民法院 (the Xiangfan City Xiangcheng County People’s Court) against the Company. It was stated in the writ that the Company had failed to pay a principal of RMB1,539,902 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company.

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

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

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

- (ii) On or about 7 April 2008, 南京康尼機電新技術有限公司 (Nanjing Hongne Mechanical New Technology Limited) filed its writ with 南京市雨花台區人民法院 (the Nanjing City Yuhuatai District People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB556,340 in relation to the vehicle accessories and materials provided by the plaintiff.

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

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

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

- (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 settlement agreement signed between both parties in July 2010, the company shall repay RMB32,000,000 to Jianghuai Vehicles before 31 December 2011 as a final settlement.

Up to 31 December 2010, the Company had paid RMB15,510,000 for the agreement. As at 31 December 2010, the amount outstanding was RMB 16,490,000.

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 the debt of RMB28,486,438.

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

During the year ended 31 December 2010, the Company had paid RMB4,000,000 to this plaintiff, thus the remaining balance should be RMB15,000,000. At 31 December 2010, the amount outstanding was RMB24,486,438 and the Company is in the progress of performing the new agreement.

- (v) 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.

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 before 28 March 2010 as a final settlement.

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

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

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

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

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

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

- (vii) On 18 September 2010, 張家港市牡丹客車配件有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB1,045,306.

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

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

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

Litigations have been settled during the year ended 31 December 2010

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

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

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

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

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

Pursuant to the settlement agreement between both parties on 9 September 2010, the Company shall repay RMB261,912 to 張家港市城市五金交電貿易有限公司 (Zhangjiagang City City Hardware, Transportation and Electrical Appliances Trading Co., Ltd) before 30 October 2010 as a final settlement.

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

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

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

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

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

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

(iv) On or about 9 October 2009, 江蘇足跡塗料有限公司 (Jiangsu Zuji Painting Limited) (“Jiangsu Zuji”) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB250,281.

Pursuant to the settlement agreement by the Zhangjiagang City People's Court in December 2009, the Company shall repay principal and legal cost amounting to RMB227,193 (of which RMB225,253 is the principal and RMB1,940 is the legal costs to 江蘇足跡塗料有限公司 before 28 February 2010 as a final settlement.

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

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

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

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

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

(vi) On or about 11 January 2010, 張家港市航豐鋁業有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB27,461.

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

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

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

- (vii) On or about 13 January 2010, 張家港市七彩制漆有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB577,686.

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

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

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

- (viii) On 17 May 2010, 張家港市富達標準件經銷有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB112,543.

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

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

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.

- (ix) On 27 July 2010, 常州市杰瑞化工有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB170,608.

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

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

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

- (x) On 15 September 2010, 蘇州賽威機械設備有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB17,564.

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

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

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

- (xi) On or about 10 October 2010, 張家港中融資訊技術有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It was stated in the writ that the Company had failed to pay a total of RMB240,000 to the plaintiff for deposit payment of the services provided by the plaintiff to the Company.

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

Charges on assets

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

Capital structure

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

Employee information

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

Major customers and suppliers

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

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

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

	Percentage of total purchases of the Group	
	2010	2009
The largest supplier	50.4 %	60.79%
Five largest suppliers in aggregate	94.8%	80.48%

For the year ended 31 December 2010, the second largest supplier was Chengdu New Dadi Motor Company Limited ("Chengdu New Dadi") which was a shareholder of Mudan Automobile Shares Co Ltd, and the Directors, Mr Li Zi Hao and Ms Pan Li Chan, indirectly held beneficial interest in Chengdu New Dadi. Save as disclosed above, none of the Directors, their associates and any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the major customers and suppliers of the Company during the year.

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

During the year ended 31 December 2010, the Group and our subsidiaries have not purchased, sold or redeemed any of listed shares of the Group (2009: nil).

Corporate governance practice

Save as disclosed below, the Group have complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) set out in the GEM Listing Rules throughout the year under review.

Upon the resignation of Mr. Guo Hong with effect from 3 March 2010 and Mr Wang Rui Hua with effect from 29 April 2010, the Company had only two independent non-executive Directors and two members of audit committee commencing during 3 March 2010 to 29 April 2010. The Company, in accordance with Rule 5.06 and Rule 5.33 of the GEM Listing Rules, obtained the approval of shareholders in the extraordinary general meeting of the Company held on 29 April 2010, among other things, appointed two additional independent non-executive Director to meet the minimum number required under Rule 5.05(1) of the GEM Listing Rules and the minimum number of member of audit committee required under Rule 5.28 of the GEM Listing Rules within three months after failing to meet such requirement.

Code of conduct for directors carrying out securities transactions

Having made specific enquiry of all Directors, the Board is not aware any non-compliance with the requirements of securities transactions set out in rules 5.48 to 5.67 of the GEM Listing Rules during the year ended 31 December 2010. A code of conduct has been adopted by the Group with respect to the securities transactions carried out by Directors.

Audit Committee

The Audit Committee of the Group 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 announcement, the Audit Committee of the Company comprised three independent non-executive Directors, namely Mr Huang Chengye, Mr Liang Boqi and Mr Wu Bing Jian, of which Mr Wu Bing Jian is also the Chairman of the Audit Committee. The Company’s consolidated financial statements for the year ended 31 December 2010 had been reviewed by the Audit Committee which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

By order of the Board
Mudan Automobile Shares Company Limited
LI Zi Hao
Chairman

Shunde, Foshan City, Guangdong Province, the PRC
28 March 2011

As at the date of this announcement, 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.