



**MUDAN AUTOMOBILE SHARES COMPANY LIMITED\***

**牡丹汽車股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 8188)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange takes no responsibility for the contents of this 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: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* *for identification purpose only*

## FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Company's total turnover for the year ended 31 December 2008 amounted to RMB10,698,243, representing a decrease of 96.74% compared to that of RMB327,743,441 generated in 2007.

The Company recorded a loss before tax in the amount of RMB78,519,809 in 2008 (2007: RMB129,874,279).

Loss per share of the Company were approximately RMB0.27 representing a decrease of approximately 41.30% as compared to RMB0.46 in 2007.

The Directors do not recommend the payment of final dividend in respect of the year ended 31 December 2008 (2007: Nil).

### RESULTS

The Board of Directors (“**Board**”) of Mudan Automobile Shares Company Limited (the “**Company**”) is pleased to announced the audited results of the Company for the year ended 31 Decemeber 2008, together with the comparative figures for the corresponding periods in 2007 as follows:

### INCOME STATEMENT

*For the year ended 31 December 2008  
(Expressed in Renminbi)*

	<i>Notes</i>	<b>2008</b>	2007
Turnover	4	<b>10,698,243</b>	327,743,441
Cost of sales		<b>(17,901,505)</b>	(315,727,543)
<b>Gross (loss) profit</b>		<b>(7,203,262)</b>	12,015,898
Other operating income	5	<b>8,125,997</b>	3,421,533
Distribution expenses		<b>(4,748,250)</b>	(27,920,631)
General and administrative expenses		<b>(65,323,353)</b>	(105,398,998)
Other operating expenses	6	<b>(12,914,195)</b>	(3,247,945)
Net finance income (expenses)		<b>3,543,254</b>	(8,744,136)
<b>Loss before taxation</b>	7	<b>(78,519,809)</b>	(129,874,279)
Income tax expenses	8	—	—
<b>Loss for the year attributable to the equity holders of the Company</b>		<b>(78,519,809)</b>	(129,874,279)
Dividend	9	—	—
Loss per share – basic	10	<b>(0.27)</b>	(0.46)

**BALANCE SHEET***At 31 December 2008**(Expressed in Renminbi)*

	<i>Notes</i>	<b>2008</b>	2007
<b>Assets and liabilities</b>			
<b>Non current assets</b>			
Property, plant and equipment		<b>171,643,007</b>	189,792,794
Construction in progress		—	—
		<u>171,643,007</u>	<u>189,792,794</u>
<b>Current assets</b>			
Inventories		<b>30,538,016</b>	36,310,034
Trade and other receivables	<i>11</i>	<b>5,005,494</b>	56,267,216
Amount due from a shareholder		—	1,494,900
Pledged deposits		<b>9,089,340</b>	28,321,490
Bank balances and cash		<b>3,669,714</b>	11,780,245
		<u>48,302,564</u>	<u>134,173,885</u>
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>109,775,687</b>	127,130,899
Bills payables	<i>12</i>	—	16,232,150
Amount due to a shareholder		<b>5,147,671</b>	6,080,075
Amounts due to related companies		<b>112,057,195</b>	103,038,728
Income tax payable		<b>1,232,552</b>	1,232,552
		<u>228,213,105</u>	<u>253,714,404</u>
<b>Net current liabilities</b>		<b>(179,910,541)</b>	(119,540,519)
<b>Net (liabilities) assets</b>		<u><b>(8,267,534)</b></u>	<u>70,252,275</u>
<b>Capital and reserves</b>			
Share capital		<b>284,800,000</b>	284,800,000
Statutory surplus reserve		<b>15,421,641</b>	15,421,641
Statutory public welfare fund		<b>15,421,641</b>	15,421,641
Accumulated losses		<b>(323,910,816)</b>	(245,391,007)
		<u><b>(8,267,534)</b></u>	<u>70,252,275</u>

## STATEMENT OF CHANGES OF IN EQUITY

For the year ended 31 December 2008

(Expressed In Renminbi)

	Equity attributable to equity holders of the Company				
	Share capital	Statutory surplus reserve	Statutory public welfare fund	Accumulated losses	Total capital and reserves
At 1 January 2007	284,800,000	15,421,641	15,421,641	(115,516,728)	200,126,554
Loss for the year	—	—	—	(129,874,279)	(129,874,279)
At 31 December 2007 and 1 January 2008	284,800,000	15,421,641	15,421,641	(245,391,007)	70,252,275
Loss for the year	—	—	—	(78,519,809)	(78,519,809)
<b>At 31 December 2008</b>	<b>284,800,000</b>	<b>15,421,641</b>	<b>15,421,641</b>	<b>(323,910,816)</b>	<b>(8,267,534)</b>

## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The auditors of the Company, Lo and Kwong C.P.A. Company Limited (the “Auditors”), made the disclaimer for the following qualified opinions in the independent auditors’ report for the year ended 31 December 2008.

### BASIS FOR DISCLAIMER OF OPINION

Up to the date of the independent auditor’s report (“this report”), the Company had contingent liabilities amounting to approximately RMB75,023,136 in respect of involving in a number of litigation in the PRC. Since, the Auditors have been unable to carry out the necessary audit procedures to assure the completeness of the litigation claims, the Auditors are unable to satisfy themselves as to whether or not the amount of contingent liabilities of RMB75,023,136 up to the date of this report is fairly stated.

### MATERIAL FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming the Auditors’ opinion, the Auditors have considered the adequacy of the disclosures made in the financial statements concerning the adoption of the going concern basis in preparing such financial statements. As set out in the financial statements, the financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of certain financing and share capital restructuring plans and the debt restructuring result reached with the creditors and, among other things, the financial support from the potential new substantial shareholder. The Auditors consider that appropriate disclosures have been made in such financial statements concerning the relevant material uncertainty, but the inherent uncertainties surrounding the circumstances under which the Company might successfully continue to adopt the going concern basis are so extreme, the Auditors have disclaimed their opinion on material uncertainty relating to the going concern basis.

The financial statements of the Company do not include any adjustment that would be necessary if the Company 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 Company's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

## **DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph and material fundamental uncertainty relating to going concern basis paragraph, the Auditors do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company as at December 31, 2008 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards. In all other respects, in the Auditors opinion, the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

### **1. General**

The Company was established in The People's Republic of China (the "PRC") on 18 September 1998 as a joint stock company with limited liability, and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's principal activities are the manufacture and sales of automobiles.

The address of the registered office and place of business of the Company is No. 30 Lehong Road, LeYu Town, Zhangjiagang City, Jiangsu Province, PRC. Zhangjiagang Municipal Public Assets Management Co., Ltd, which is a state-owned enterprise established in the PRC, is the Company's ultimate holding company.

The financial statements are presented in Renminbi ("RMB"), which is same as the functional currency of the Company.

These financial statements have been approved for issued by the Board of Director on 31 March 2009.

## 2. Basis of preparation of financial statements

The Company suffered a loss of RMB78,519,809 for the year ended 31 December 2008 and as at 31 December 2008 the Company had net current liabilities and net liabilities of RMB179,910,541 and RMB8,267,534 respectively.

The Company had involved a number of litigations with its suppliers. Part of the bank accounts of the Company have already been frozen following filing of the lawsuits. Up to 16 Jan 2009, the amount frozen is about RMB 75,023,136. As at the date of this report, the Company does not have enough cash to satisfy in full the claims stated in the writs concerned.

The Board announces that on 25 February 2008, two substantial shareholders of the Company, namely, Jiangsu Mudan and 張家港市直屬公有資產經營有限公司 (Zhangjiagang Municipal Public Assets Management Co. Ltd., “ZMPAM”), which hold approximately 35.23% and 33.47% of the entire issued share capital of the Company respectively, and two minority shareholders, 張家港市牡丹客車配件有限公司 (Zhangjiagang Municipal Mudan Bus Accessories Co. Ltd., “ZMMBA”) and 張家港市牡丹汽車附件有限公司 (Zhangjiagang Municipal Mudan Car Accessories Co. Ltd., “ZMMCA”) have signed their respective memorandum and agreements for the intended disposal of their entire respective interests to the proposed acquirers upon fulfillment of certain conditions.

The management of the Company has taken the following measures:

- i) Carry out debt restructuring with its creditors. Up to the date of approval of these financial statements, the Company has reached agreements with its creditors in respect of debt restructuring. Also, the management is working hard for finalisation of all court litigations. Therefore, the financial statements have been prepared on the assumption that the Company will continue to operate as a going concern;
- ii) The management of the Company is considering to strengthen the capital base of the Company and provide immediate cash flow through various financing activities and capital restructuring;
- iii) The management of the Company continues to take action to strengthen cost control in respect of various administrative and other operating expenses, and is actively seeking new investment and business opportunities to pursue profitable businesses that would bring positive cash flow.
- iv) The management of the Company is in the opinion that the Company would obtain continuous financial support from the proposed acquirers for the production and operation.

The management of the Company believes that, in the light of the measures taken to date, together with the expected results of other measures in progress, the Company will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, notwithstanding that the Company had recorded a significant amount of loss for the year and had overdue debts as at 31 December 2008, the management of the Company is of the opinion that it is appropriate to prepare these financial statements on a going concern basis.

### 3. Significant accounting policies

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies as set out below:

#### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRSs”) issued by the International Accounting Standards Board (the “IASB”). IFRSs include International Financial Reporting Standards and interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

In the current year, the Company has adopted all of the new and revised IFRSs, and International Accounting Standards (the “IASs”) issued by the IASB and Interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) of the IASB that are relevant to its operation and effective for annual reporting periods beginning on or after 1 January 2008. The adoption of these new and revised IFRSs, IASs and Interpretation has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented. Accordingly, no prior year adjustment has been required.

Summary of the significant accounting policies adopted by the Company is set out below.

At the date of authorisation of these finance statements, the Company has not early applied the following new Standards, Amendments or IFRICS that have been issued but not yet effective or not relevant for the Group’s operations. The directors of the Company anticipate that the application of these new Standards, Amendment or IFRICS will have no material impact on results and the financial position of the Company.

IFRS (Amendment)	Improvements to IFRS <sup>1</sup>
IAS 1 (Revised)	Presentation of Financial Statements <sup>2</sup>
IAS 32 and IAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>
IAS 23 (Revised)	Borrowing Costs <sup>2</sup>
IAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedge Items <sup>3</sup>

IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
IFRS 2 (Amendment)	Share-based Payment –Vesting Conditions and Cancellations <sup>2</sup>
IFRS 3 (Revised)	Business Combinations <sup>3</sup>
IFRS 8	Operating Segments <sup>2</sup>
IFRIC-INT 13	Customer Loyalty Programmes <sup>4</sup>
IFRIC-INT 15	Agreements for the Construction of Real Estate <sup>2</sup>
IFRIC-INT 16	Hedges of a Net Investment in a Foreign Operation <sup>5</sup>
IFRIC-INT 17	Distributions of Non-cash Assets to Owners <sup>3</sup>

- 1 Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5 which are effective for annual periods beginning on or after 1 July 2009.
- 2 Effective for annual periods beginning on or after 1 January 2009.
- 3 Effective for annual periods beginning on or after 1 July 2009.
- 4 Effective for annual periods beginning on or after 1 July 2008.
- 5 Effective for annual periods beginning on or after 1 October 2008.



#### 4. Turnovers and segment information

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

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

##### Business segments

The Company had only one business segment for the two years ended December 31, 2007 and 2008, which was production and sale of automobiles, no separate disclosure of segmental income statement and balance sheet would be made.

##### Geographical segments

Segment revenue based on the geographical location of customers is as follows:

	2008	2007
Revenue		
PRC	10,698,243	278,387,317
Other countries	—	49,356,124
	<u>10,698,243</u>	<u>327,743,441</u>

#### 5. Other operating income

	2008	2007
Net income from sales of scrap materials and steels	311,802	3,261,839
Reversal of a trade payable	1,770,000	—
Reversal of welfare fund payable	6,044,195	—
Other income	—	159,694
	<u>8,125,997</u>	<u>3,421,533</u>

## 6. Other operating expenses

	2008	2007
Litigation claims	12,912,943	–
Donations	–	150,000
Litigation fee	–	131,029
Repairs and maintain fee for vehicles and parts	–	536,553
Others	1,252	2,430,363
	<u>12,914,195</u>	<u>3,247,945</u>

## 7. Loss before taxation

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

### (a) Net finance income (expenses):

	2008	2007
Interest on bank loans and other borrowings repayable within five years	–	(9,452,115)
Interest on discounting of bills receivable	–	(953,176)
Bank charges	(48,383)	(200,900)
Interest income from installment sales	3,204,019	–
Interest from bank deposits	387,618	2,727,863
Interest expense from installment sales	–	(865,808)
	<u>3,543,254</u>	<u>(8,744,136)</u>

### (b) Other items:

	2008	2007
Auditors' remuneration	456,995	850,000
Impairment losses on trade and other receivable	41,119,806	–
Depreciation on property, plant and equipment	18,211,376	18,624,665
Operating lease rentals in respect of prepaid lease payments, properties and equipment	–	1,105,500
	<u>49,788,177</u>	<u>19,580,165</u>

## 8. Income tax expenses

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

No provision for PRC income tax had been made as the Company did not derive any assessable profits for both years.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "NEW LAW") by Order No. 63 issued by the Tenth National Peoples Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008.

The tax charge for the year can be reconciled to the profit per the income statements as follows:

	2008	2007
(Loss) profit before tax	<b>(78,519,809)</b>	(129,874,279)
Tax at applicable tax rate of 25% (2007: 33%)	<b>(19,629,952)</b>	(42,858,512)
Tax effect of tax losses not recognised	<b>19,629,952</b>	42,858,512
	<hr/>	<hr/>
Tax charge for the year	—	—
	<hr/> <hr/>	<hr/> <hr/>

## 9. Dividend

No dividend was paid or proposed for the year ended December 31, 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

## 10. Basic loss per share

The calculation of the basic loss per share is based on the loss attributable to the equity holders of the Company of RMB78,519,809 (2007: RMB 129,874,279) and based on the weighted average number of shares in issue during the year of 284,800,000 (2007: 284,800,000).

No diluted loss per share have been presented for the two years ended 31 December 2008 and 2007 as there was no dilutive potential ordinary share outstanding for both years.

## 11. Trade and other receivables

	2008	2007
Trade and other receivables	79,547,269	87,171,493
Less: Allowance for doubtful trade and other receivables	(75,448,604)	(44,974,499)
	<u>4,098,665</u>	<u>42,196,994</u>
Advance deposits to suppliers	165,992	10,091,977
Other debtors	740,837	3,978,245
	<u>5,005,494</u>	<u>56,267,216</u>

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

	2008	2007
Within 3 months	1,227,636	2,187,300
Over 3 months but less than 6 months	70,000	15,286,190
Over 6 months but less than 1 year	–	19,495,458
Over 1 year but less than 2 years	2,801,029	4,907,879
Over 2 years	–	320,167
	<u>4,098,665</u>	<u>42,196,994</u>

## 12. Trade and other payables and bills payables

	2008	2007
Trade payables	70,649,182	75,678,707
Bills payable	–	16,232,150
Accrued salaries, bonus and welfare fund	743,423	6,080,082
Other payables	38,383,082	45,372,110
	<u>109,775,687</u>	<u>143,363,049</u>

An ageing analysis of trade payables and bills payables is as follows:

	2008	2007
Due within 3 months	18,486,460	324,305
Due after 3 months within 6 months	–	39,050,972
Due after 6 months within 1 year	–	37,649,460
Due over 1 year	52,162,722	14,886,120
	<u>70,649,182</u>	<u>91,910,857</u>

### 13. Post balance sheet event

#### A. Possible cancellation of listing status of the Company

The board of directors of the Company (the “Board”) has received a notice (the “Notice”) from the Stock Exchange on 12 October 2007 that the Stock Exchange proposed to proceed to the cancellation of the listing of the shares of the Company pursuant to Rule 9.14 of the GEM Listing Rules.

The Company has yet to address the Exchange’s concern on the Company’s failure to meet its continuing obligations under the GEM Listing Rules. Trading in the H shares of the Company had remained suspended as the Company has failed to keep the market informed of its developments and financial results pursuant to the GEM Listing Rules and the Company’s shareholders do not have the necessary information to appraise the position of the Company. Given the continued suspension for a prolonged period without the Company taking adequate action to obtain a restoration of listing, the Stock Exchange proposes to exercise its right to cancel the listing of the H shares of the Company pursuant to Rule 9.14 of the GEM Listing Rules.

Pursuant to the Notice, the Company is given a period of six months to remedy those matters that give rise to the Stock Exchange’s proposal to cancel the listing. In this connection, the Company should demonstrate its compliance with the GEM Listing Rules and fulfill the following conditions for resumption to the satisfaction of the Stock Exchange:

- i Address the issues that have been raised by the Stock Exchange to the Company including the issues related to certain continuing connected transactions of the Company;
- ii Publish all outstanding financial results of the Company as required under the GEM Listing Rules;
- iii Address any concern raised by the auditors of the Company through the qualification of their annual report on the financial statements of the Company published after the suspension; and
- iv Demonstrate that the Company has in place adequate financial reporting system and internal control procedures to enable the Company to meet its obligations under the GEM Listing Rules.

If the Company fails to take adequate action to meet the conditions for resumption as required and obtained a restoration of listing, the listing division of the Stock Exchange will seek the approval of the GEM Listing Committee of the Stock Exchange to cancel the listing of the Company on the expiry of six months from the date of the Notice.

### 13. Post balance sheet event (continued)

#### **B. Proposed acquisition of shares in Mudan Automobile Shares Company Limited by the proposed acquirers, namely Chengdu New Dadi Motor Company Limited (“Chengdu New Dadi”), Foshan City Shunde Ganghua Shiye Company Limited (“Shunde Ganghua”), Foshan City Heli Car Trading Company Limited (“Foshan Heli”) and Foshan City Shunde Zhongyu Car Trading Company Limited (“Shunde Zhongyu”)**

Pursuant to the S&P Agreements on 25 February 2008, two substantial shareholders of the Company, namely, Jiangsu Mudan and 張家港市直屬公有資產經營有限公司 (Zhangjiagang Municipal Public Assets Management Co. Ltd., “ZMPAM”), which hold approximately 35.23% and 33.47% of the issued share capital of the Company respectively, and two minority shareholders, 張家港市牡丹客車配件有限公司 (Zhangjiagang Municipal Mudan Bus Accessories Co. Ltd., “ZMMBA”) and 張家港市牡丹汽車附件有限公司 (Zhangjiagang Municipal Mudan Car Accessories Co. Ltd., “ZMMCA”) have signed their respective memorandum and agreements for the intended disposal of their entire respective interests to the proposed acquirers on Date of Joint Announcement at a total consideration of RMB51,680,540. The S&P Agreements are subject to a number of conditions and will not become unconditional before, inter alia, the resumption of trading of the H Shares of the Company in the Stock Exchange.

#### **Agreement between Jiangsu Mudan and 成都新大地汽車有限責任公司 (Chengdu New Dadi Motor Company Limited, “Chengdu New Dadi”)**

Pursuant to the agreement signed between Jiangsu Mudan and Chengdu New Dadi dated 25 February 2008 (the “First Disposal Agreement”), Chengdu New Dadi agrees to buy and the Jiangsu Mudan agrees to sell 100,340,000 domestic shares of the Company, representing 35.23% of the issued share capital of the Company. The consideration paid by Chengdu New Dadi to Jiangsu Mudan is estimated to be RMB21,467,800. Chengdu New Dadi agreed to pay a deposit of RMB984,000 to Jiangsu Mudan 15 working days after the date of the First Disposal Agreement. The remaining balance of the consideration will be paid by Chengdu New Dadi to Jiangsu Mudan upon transfer of the said 100,340,000 domestic shares of the Company from Jiangsu Mudan to Chengdu New Dadi. The First Disposal Agreement shall only take effect upon fulfillment of the conditions, which include, all necessary approval of the relevant government and regulatory authorities have to be obtained, force majeure situation has not been occurred and the Second Disposal Agreement become effective.

#### **Agreement between ZMPAM and 佛山市順德港華實業有限公司 (Foshan City Shunde Ganghua Shiye Company Limited, “Shunde Ganghua”)**

Pursuant to the agreement signed between ZMPAM and Shunde Ganghua dated 25 February 2008 (the “Second Disposal Agreement”), Shunde Ganghua agrees to buy and ZMPAM agrees to sell 95,310,000 domestic shares of the Company, representing approximately 33.47% of the issued share capital of the Company.

The consideration paid by Shunde Ganghua to ZMPAM is estimated to be RMB30,052,200. Shunde Ganghua agreed to pay a deposit of RMB9,015,660 to ZMPAM 5 working days after the date of the Second Disposal Agreement. The remaining balance of the consideration will be paid by Shunde Ganghua to ZMPAM upon transfer of the said 95,310,000 domestic shares of the Company from ZMPAM to Shunde Ganghua.

The Second Disposal Agreement shall only take effect upon fulfillment of the conditions, which include, all necessary approval of the relevant government and regulatory authorities have been obtained.

### 13. Post balance sheet event (continued)

#### **B. Proposed acquisition of shares in Mudan Automobile Shares Company Limited by the proposed acquirers, namely Chengdu New Dadi Motor Company Limited (“Chengdu New Dadi”), Foshan City Shunde Ganghua Shiye Company Limited (“Shunde Ganghua”), Foshan City Heli Car Trading Company Limited (“Foshan Heli”) and Foshan City Shunde Zhongyu Car Trading Company Limited (“Shunde Zhongyu”) (continued)**

##### **Agreement between ZMMBA and 佛山市合力汽車貿易有限公司 (“Foshan Heli Car Trading Company Limited, “Foshan Heli”)**

Pursuant to the agreement signed between ZMMBA and Foshan Heli dated 25 February 2008 (the “Third Disposal Agreement”), Foshan Heli agrees to buy and ZMMBA agrees to sell 300,000 domestic shares of the Company, representing approximately 0.11% of the issued share capital of the Company.

The consideration paid by Foshan Heli to ZMMBA is estimated to be RMB80,000 upon completion of the Third Disposal Agreement.

The Third Disposal Agreement shall only take effect upon fulfillment of the conditions, which include, all necessary approval of the relevant government and regulatory authorities have been obtained and the Second Disposal Agreement become effective.

##### **Agreement between ZMMCA and 佛山市順德眾裕汽車貿易有限公司 (“Foshan Shunde Zhongyu Car Trading Company Limited, “Shunde Zhongyu”)**

Pursuant to the agreement signed between ZMMCA and Shunde Zhongyu dated 25 February 2008 (the “Fourth Disposal Agreement”), Shunde Zhongyu agrees to buy and ZMMCA agrees to sell 300,000 domestic shares of the Company, representing approximately 0.11% of the entire issued share capital of the Company.

The consideration paid by Shunde Zhongyu to ZMMCA is estimated to be RMB80,000 upon completion of the Fourth Disposal Agreement.

The Fourth Disposal Agreement shall only take effect upon fulfillment of the conditions, which include, all necessary approval of the relevant government and regulatory authorities have been obtained and the Second Disposal Agreement become effective.

#### **Memorandum**

A memorandum was also signed among all the parties mentioned in the sections, namely Jiangsu Mudan, ZMPAM, ZMMBA, ZMMCA, Chengdu New Dadi, Shunde Ganghua, Foshan Heli, Shunde Zhongyu. The memorandum requires that, among other things, that the First Disposal Agreement, the Second Disposal Agreement, the Third Disposal Agreement and the Fourth Disposal Agreement will be terminated if the trading of the H shares of the Company cannot be resumed.

### 13. Post balance sheet event (continued)

#### B. Proposed acquisition of shares in Mudan Automobile Shares Company Limited by the proposed acquirers, namely Chengdu New Dadi Motor Company Limited (“Chengdu New Dadi”), Foshan City Shunde Ganghua Shiye Company Limited (“Shunde Ganghua”), Foshan City Heli Car Trading Company Limited (“Foshan Heli”) and Foshan City Shunde Zhongyu Car Trading Company Limited (“Shunde Zhongyu”) (continued)

##### Possible change in shareholdings

For the ease of reference, a table which shows the changes in the shareholdings of the Company immediately before and after the completion of the S&P Agreements is set out as follows:

##### Before the completion

	No. of shares	% owned
Jiangsu Mudan	100,340,000	35.23
ZMPAM	95,310,000	33.47
ZMMBA	300,000	0.11
ZMMCA	300,000	0.11
All Domestic Shares	196,250,000	68.92
Public (H shares)	88,550,000	31.08
	<hr/>	<hr/>
	284,800,000	100.00
	<hr/> <hr/>	<hr/> <hr/>

##### After the completion

	No. of shares	% owned
Chengdu New Dadi	100,340,000	35.23
Shunde Ganghua	95,310,000	33.47
Foshan Heli	300,000	0.11
Shunde Zhongyu	300,000	0.11
All Domestic Shares	196,250,000	68.92
Public (H shares)	88,550,000	31.08
	<hr/>	<hr/>
	284,800,000	100.00
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During the year, the Company purchased motor vehicles from Chengdu New Dadi totalling RMB5,060,000 and sold vehicles accessories to Chengdu New Dedi totalling RMB4,747,536.



### **C. Debt re-structuring for the amount due to a related company**

As at the balance sheet date, the Company due to a related company, Zhangjiagang Jin Mao Investment Development Company Limited (“Jin Mao”) was RMB 104,417,391. On 11 January 2009, an agreement signed between the Company and Jin Mao states that Jin Mao agrees to waive RMB 63,281,111 from the total amount due from the Company. The maturity date of the remaining balance of RMB 41,136,280 would be extended and the amount would be unsecured and non-interest bearing. First repayment would be required on or before year 2011 and the remaining balance has to be fully repaid on or before 31 December 2013.

On 12 January 2009, a PRC solicitor Jiangsu Guo Rui (江蘇國瑞律師事務所) issued a legal concerning the above debt restructuring. The solicitor stated in the letter that “after reviewing the articles of association of Jin Mao, the related resolution of the board, and the approval documents of Zhangjiagang Municipal Public Assets Management Committee, our firm is of the opinion that the above-mentioned undertaking is the bona fide undertaking made by Jin Mao. It’s disposal of assets and rights has fulfilled the company’s internal voting procedures as required by laws, administrative rules and the company’s articles of association and not violating the related requirements under existing PRC laws, administrative rules and regulatory documents in force. Therefore, such undertaking is legal and effective.”

## **BUSINESS REVIEW AND PROSPECT**

Business review and outlook for 2008 is as follows:

Since the third quarter of 2008, the Company had resumed its production and commended global staff recruitment and established a healthy company organizations. The production and operation of the Company has been gradually returned to normal orbit.

### **Staff recruitment**

For the purpose of the resumption of normal production, the directors and competent key staff jointly reorganized management teams for resumption of production and operation and management, and successfully resumed and established seven departments of the Company such as the production department, the administration department, the finance department, the sales department, the technical & quality department, the procurement department and the general manager office. The numbers of staff as at 31 December 2008 increased to 225 from approximately 40 as at the beginning of the year.

### **System certification**

Pursuant to the relevant regulations, resumption of production of automobile enterprise from suspension must regain certification for quality assurance system and relevant products and pass the tests before the launch of sale. Accordingly, the Company, based on the staff recruitment and the construction of organizations, started to carry out overall examination and maintenance of the production equipments, manufacturing of frock clamps for production purpose and simple molds and trial production. All these have passed ISO9001 quality system certification review and partial resumed 3C quality certification for productions.


## **Sales of products**

Mudan Auto brand has a history of over 30 years and enjoys rather high reputation in both mainland China and abroad. Mudan Auto has apparent competitive advantage in production facilities, manufacturing skills and product quality etc. Accordingly, the Company has sold over 200 vehicles with various kinds of Mudan Auto brand since its production resumption in 2008.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Principal activities**

The principal activities of the Company are the manufacturing and sale of light-sized, medium-sized and large-sized buses under the brand names of “牡丹” and trademark of “”. The Company’s principal activities are manufacturing and distribution of automobiles. During the year, there was not material change in the business nature of the Company. An analysis of the main business and geographical distribution of business during the financial year of the Company is contained in the announcement, note 4. Revenue of the Company in 2008 all comprises the sale of automobiles in the PRC.

#### **Turnover**

Total turnover for the fiscal year 2008 amounted to RMB10,698,243, representing a decrease of 96.74% compared to that of RMB327,743,441 generated in 2007. Turnover from light, medium and large-sized buses amounted to RMB5,495,080, RMB533,076 and RMB4,670,085 respectively (2007: RMB90,785,994, RMB193,476,895 and RMB43,480,552). Of which, sales for light-sized, medium-sized and large-sized buses decreased by 93.94%, 99.72% and 89.26% respectively.

The Company recorded a loss before tax in the amount of RMB78,519,809 in 2008 (2007: RMB129,874,279).

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

Cost of sales decreased from RMB315,727,543 in 2007 to RMB17,901,505 in 2008. Profit margin of the Company’s products decreased from 3.67% in 2007 to 67.33% of marginal loss of the Company’s products in 2008.

#### **Other operating income**

Other operating income for the fiscal year 2008 amounted to RMB8,125,997 (2007: RMB3,421,533), which included the income of reversal of a trade payable and welfare fund payable approximately RMB1,770,000 and 6,044,195, respectively (2007: the sale of scrap materials of approximately RMB3,261,839).

## **Distribution expenses and general and administrative expenses**

Distribution expenses in 2008 amounted to RMB4,748,250 (2007: RMB27,920,631), representing a significant decrease of approximately 82.99% compared to the same period of last year. The reason was that as competition in the market of buses is severe, the Company was in a state of suspension of operation and pending for restructuring. The Company did not have any market development cost incurred in 2008 (2007: RMB5,395,604).

The total general and administrative expenses for the fiscal year 2008 was RMB65,323,353 representing a decrease of 38.02% as compared to the amount of RMB105,398,998 in the corresponding period of 2007. Such a decrease was mainly attributable to significant decrease of the employee compensation due to business in a state of ceasing operation and pending for restructuring.

The Company's expenses on salaries, wages and bonus for the fiscal year 2008 amounted to RMB2,995,944 as compared to RMB35,515,002 in 2007, representing a decrease of RMB32,519,058.

In the fiscal year of 2008, the net finance income of RMB3,543,254 comprised bank interests and interest on other borrowings, bank charges and interest income, representing approximately 33.12% of sales. Net finance expenses amounted to RMB8,744,136 in year of 2007.

## **Material investments and capital assets**

The Company did not have any plan for material investments or acquisition of any material capital asset for 2008 and in the foreseeable future.

## **Exposure in exchange rate fluctuations**

The Company has foreign currency transactions, which expose the Company to foreign currency risk. Certain bank balances and trade receivables of the Company are denominated in foreign currencies. The Company 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 be need arises.

## **Significant investments held**

The Company has no significant investments held during the year of 2008.

## **Financial resources and liquidity**

The financial position of the Company comprised capital deficiency which amounted to RMB8,267,534 as at 31 December 2008 (2007: shareholders' equity of RMB70,252,275). Current assets amounted to RMB48,302,564 in total as at 31 December 2008 (2007: RMB134,173,885), of which RMB3,669,714 (2007: RMB11,780,245) were cash and bank balances. As at 31 December 2008, approximately RMB9,089,340 (2007: RMB28,321,490) was pledged deposits and the Company did not have any bill payable in 2008 (2007: RMB16,232,150). As at 31 December 2008, the Company did not have any short-term bank loans (2007: Nil) nor any long-term bank loans (2007: nil).

## Contingent liabilities

Up to the date of this announcement, the Company had contingent liabilities amounting to approximately RMB75,023,136 in respect of involving in a number of litigations in the PRC, the details of which are stated as follows:

- i. On or about 17 September 2007, 湖南汽車車橋廠 (Human Vehicle Chassis Factory) filed its writ with 天津市人民法院 (the Jinshi City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB331,193 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;
- ii. 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 Country People's Court) against the Company. It is stated in the writ that the Company has failed to pay to total of RMB1,539,902 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;
- iii. On or about 21 September 2007, 蘇州市工正金屬材料有限公司 (Suzhou City Gongzheng Metal Materials Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay to total of RMB618,723 to the plaintiff for payment of metal accessories supplied by the plaintiff to the Company;
- iv. On or about 21 September 2007, 蘇州市司偉金屬製品有限公司 (Suzhou City Siwei Metal Products Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB 734,718 to the plaintiff for payment of metal accessories supplied by the plaintiff to the Company;
- v. 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 南京市雨花區人民法院 (the Nanjing City Yufa District People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB556,340 in relation to the vehicle accessories and materials provided by the plaintiff.
- vi. On or about 21 April 2008, 安徽江淮汽車股份有限公司 (Anhui Jianghuai Vehicles Shares Company Limited) filed its writ with 合肥市中級人民法院 (the Hefei City Middle People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB36,337,910 in relation to the chassis provided by the plaintiff.
- vii. On or about 16 May 2008, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicles Company Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB5,239,755 in relation to the chassis provided by plaintiff.

- viii. 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 is stated in the writ that the Company has failed to pay the debt of RMB28,486,438.
- ix. On or about 31 July 2008, 神木縣公共交通有限責任公司公共汽車分公司 (Shenmu County Public Traffic Company Limited Bus branch) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company shall indemnify RMB171,800.
- x. On or about 20 August 2008, 常州市鴻協安全玻璃有限公司 (Changzhou Hongxie Safety Glass Co., Ltd.) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay the debt of automobile glass of RMB961,984.
- xi. On or about 20 August 2008, 張家港保稅區宇松貿易有限公司 (Zhangjiahang tax-protected District Yusong Trading Co., Ltd.) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay the loan debt of RMB44,373.

### **Charges on assets**

As at 31 December 2008, the Company had repaid all its short term bank loan and there was no asset pledged.

### **Gearing ratio**

The Company's gearing ratio, which is calculated from total liabilities divided by net liabilities, was 27.60 (2007: 3.6) as at 31 December 2008.

### **Capital structure**

During the year, there has been no change in the Company's share capital. As at 31 December 2008, the Company's operations were financed mainly by shareholders' equity and internal resources. The Company will continue to adopt its treasury policy of placing the Company cash and cash equivalents in interest bearing deposits.

### **Employee information**

During the year, the average number of employees of the Company was 208 (2007: 1,793). Employees' remuneration included Directors' emoluments and the relevant cost of all staffs of approximately RMB3,336,378 (2007: RMB40,063,483). They were remunerated in accordance with their performance and market condition. Officially employed staff is entitled to social insurance. The Company does not have share option scheme.

## Segment Information

The Company had only one business segment for the two years ended December 31, 2007 and 2008, which was production and sale of automobiles, no separate disclosure of segmental income statement and balance sheet would be made.

## Major customers and suppliers

The Company's sales to the five largest customers for the year ended 31 December 2008 accounted for more than 30% of the Company's turnover for the year (2007: less than 30%). Sales to the largest customer accounted for approximately 51.07% of the Company's turnover for the year. Sales to the five largest customers accounted for approximately 93.62% of the Company's turnover for the year.

The information in respect of the Company's purchases attributable to the major suppliers during the financial year are as follows:

	Percentage of the Company's total purchases	
	2008	2007
The largest supplier	21.72%	39.08%
Five largest suppliers in aggregate	48.40%	58.79%

Save for Zhangjiagang Jishun Transportation Industrial Co., Ltd, being the second largest supplier for the year ended 31 December 2008, which is an associate of Jiangsu Mudan Automobile Group Co., Ltd, at no time during the year have 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.

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

During the year, the Company and its subsidiaries has not purchased, sold or redeemed any of listed shares of the Company.

## Corporate governance practice

The Company has 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.

## Code of conduct for directors carrying out securities transactions

During the year ended 31 December 2008, the current Board did not discover any non-compliance with the requirements of securities 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 Directors.

## **Audit Committee**

The Audit Committee of the Company was established with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the 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 WANG Cheng Cai, Mr GAO Xue Fei and Mr YAO Zhi Ming, of which Mr WANG Cheng Cai is also the Chairman of the Audit Committee. The Company's financial statements for the year ended 31 December 2008 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**  
**Guo Zhi Rong**  
*Chairman*

Zhangjiagang City, Jiangsu Province, China  
31 March 2009

*As at the date of this announcement, the Board comprises nine (9) directors, of which three (3) are executive directors, namely Mr. GUO Zhi Rong (Chairman of the Board), Mr. HOU Cheng Bao and Mr. JIANG Bin; three (3) are non-executive directors, namely Mr. LI Jian Hua, Mr. ZHU Hui Liang and Mr. ZHOU Pei Lin and three (3) are independent non-executive directors, namely Mr. WANG Cheng Cai, Mr. GAO Xue Fei and Mr. YAO Zhi Ming.*