



# 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)



### Third Quarterly Report 2007

## **THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007**

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

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*This report, for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company” or “Mudan”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## **SUMMARY**

- For the nine months ended 30 September 2007, the Company recorded a turnover of RMB314,872,092 (2006: RMB399,350,945), representing a decrease of 21.15% as compared with the corresponding period in 2006.
- For the nine months ended 30 September 2007, the Company recorded a loss attributable to equity holders of RMB38,161,809 (2006: loss of RMB 26,600,850).
- For the nine months ended 30 September 2007, the loss per share was RMB0.134.

## UNAUDITED QUARTERLY RESULTS

The board of Directors (the “Board”) hereby announces the unaudited quarterly results of the Company for the three months and nine months ended 30 September 2007, together with the comparative figures of the corresponding period of 2006 as follows:

|  | Note | For the three months<br>ended 30 September |               | For the nine months<br>ended 30 September |               |
|--|------|--|---------------|---|---------------|
|  |      | 2007                                       | 2006          | 2007                                      | 2006          |
|  |      | RMB  | RMB           | RMB                                       | RMB           |
| Turnover                                       | 2    | <b>71,974,024</b>                          | 148,284,895   | <b>314,872,092</b>                        | 399,350,945   |
| Cost of sales                                  |      | <b>(72,643,092)</b>                        | (140,615,584) | <b>(303,910,888)</b>                      | (377,565,485) |
| <b>Gross (loss) profit</b>                     |      | <b>(669,068)</b>                           | 7,669,311     | <b>10,961,204</b>                         | 21,785,460    |
| Other operating income                         |      | <b>222,662</b>                             | 2,210,244     | <b>1,578,715</b>                          | 6,971,808     |
| Distribution expenses                          |      | <b>(5,402,877)</b>                         | (6,769,654)   | <b>(18,731,651)</b>                       | (20,210,645)  |
| General and administrative<br>expenses         |      | <b>(8,263,755)</b>                         | (7,290,318)   | <b>(31,277,891)</b>                       | (26,142,416)  |
| Other operating expense                        |      | –  | (2,088,611)   | <b>(692,186)</b>                          | (3,951,407)   |
| Net finance income/(costs)                     |      | <b>3,005,715</b>                           | (904,240)     | –   | (5,053,650)   |
| <b>Loss before taxation</b>                    |      | <b>(11,107,323)</b>                        | (7,173,268)   | <b>(38,161,809)</b>                       | (26,600,850)  |
| Income tax expenses                            | 3    | –  | –             | –   | –             |
| <b>Loss attributable to<br/>equity holders</b> |      | <b>(11,107,323)</b>                        | (7,173,268)   | <b>(38,161,809)</b>                       | (26,600,850)  |
| <b>Loss per share</b>                          |      |  |               |   |               |
| – basic  | 4    | <b>(0.039)</b>                             | (0.025)       | <b>(0.134)</b>                            | (0.093)       |

Notes:

### 1. Basis of preparation and accounting policies

The principal accounting policies adopted in preparing the unaudited quarterly results conform with the International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. These unaudited quarterly results for the nine months ended 30 September 2007 also comply with the applicable disclosure provisions of the GEM Listing Rules.

The measurement basis used in the preparation of the quarterly results is historical cost except for certain financial instruments which are measured at fair values.

The accounting policies have been consistently applied by the Company and are consistent with those used in the 2006 annual financial statements.

### 2. Turnover and segment information

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

An analysis of the Company's revenue from sales by geographical regions is as follows:

|                       | For the three months<br>ended 30 September |                    | For the nine months<br>ended 30 September |                    |
|-----------------------|--|--------------------|---|--------------------|
|                       | 2007<br>RMB                                | 2006<br>RMB        | 2007<br>RMB                               | 2006<br>RMB        |
| Sales of automobiles: |  |                    |   |                    |
| The PRC               | <b>58,763,071</b>                          | 136,627,345        | <b>265,515,968</b>                        | 350,466,587        |
| Overseas market       | <b>13,210,953</b>                          | 11,657,550         | <b>48,356,124</b>                         | 48,884,358         |
| Total                 | <b><u>71,974,024</u></b>                   | <u>148,284,895</u> | <b><u>314,872,092</u></b>                 | <u>399,350,945</u> |

**3. Income tax expense**

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

**4. Basic loss per share**

For the three months and the nine months ended 30 September 2007, the calculation of loss per share is based on the unaudited loss attributable to equity holders about RMB11,107,323 and RMB38,161,809 respectively (2006: the unaudited net loss were RMB7,173,268 and RMB26,600,850 respectively) divided by the weighted average number of shares in issue of the Company during the respective period. For the three months and the nine months ended 30 September 2007, the weighted average number of shares in issue is 284,800,000 and 284,800,000 respectively (2006: 284,800,000 and 284,800,000). No diluted loss per share is presented as there were no diluting potential ordinary shares outstanding.

## **RESERVES**

Other than the transfer of loss after tax into reserve, for the three months and nine months ended 30 September 2007, there were no movements to or from reserves of the Company (2006: none).

## **DIVIDEND**

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2007 (2006: Nil).

## **BUSINESS REVIEW AND OUTLOOK**

### **1. *Results performance***

During this quarter, under the impact of the keen competition in the market, turnover for the nine months ended 30 September 2007 amounted to RMB314,872,092 (2006: RMB399,350,945) representing a decrease of approximately 21.15% as compared to that of the corresponding period in 2006. The loss attributable to equity holders of the Company reached RMB38,161,809 (2006: loss of RMB26,600,850).

Turnover for the three months ended 30 September 2007 amounted to RMB71,974,024 (2006: RMB148,284,895) representing a decrease of approximately 51.46% as compared to that of the corresponding period in 2006. The loss attributable to equity holders of the Company reached RMB11,107,323 (2006: loss of RMB7,173,268).

### **2. *Sales of buses***

For the nine months ended 30 September 2007, the revenue of the light-sized series of buses amounted to RMB91,914,146 (2006: RMB122,143,281), and the revenue of medium and large-sized series of buses amounted to RMB187,376,986 and RMB35,580,980 respectively (2006: RMB208,547,269 and RMB68,660,395). Compared to the same corresponding period in 2006, revenue for light-sized, medium-sized and large-sized series of buses decreased by 24.75%, 10.15% and 48.18% respectively.

During the Quarterly Period, revenue of light, medium and large-sized series of buses amounted to RMB25,884,272, RMB34,897,807 and RMB11,191,945 respectively (2006: RMB14,829,867, RMB115,564,832 and RMB17,890,196). Compared to the same corresponding period in 2006, revenue for light-sized and large-sized series of buses increased/(decreased) by 74.54%, (69.80)% and (37.44)% respectively.

### 3. *Overseas market*

For the nine months ended 30 September 2007, the overseas sales revenue amounted to RMB48,356,124 (2006: RMB:48,884,358), which represent a rise of approximately 0.96% as compared to those of the corresponding period in 2006.

Based on the Company's present situation, the Board of Directors is of the opinion that Mudan Auto brand has a history of over 30 years, it 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.

Although the Company is now in the production suspension stage, the Board of Directors is of the view that if there is sufficient injection of capital, the Company can re-start production business and can further strengthen internal control, standardize management of the company, Mudan will be able to further develop and grow.



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

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

For the nine months ended 30 September 2007, none of the Directors, supervisors and chief executive of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest and short position in shares, underlying shares of the Company or any associated corporation (within the meaning of Part XV of the SFO), which will be required, pursuant to section 352 of the SFO, to be entered in the register of the Company or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.

2. *Substantial shareholders of the Company and other persons*

Save as disclosed below, as at 30 September 2007, the Directors are not aware of any other interests and short positions of any substantial shareholders (defined in the GEM Listing Rules) of the Company and other persons (other than a Director or chief executive of the Company) in the share or underlying shares of the Company, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

*Long positions in the shares:*

| Name of shareholder   | Number of shares<br>(domestic shares) | Nature of Interest  | Percentage of the<br>issued shares capital<br>(domestic shares<br>and H shares) |
|---|---------------------------------------|---|---|
| Zhangjiagang Municipal<br>Public Assets Management<br>Co., Ltd. ("ZMPAM") | 95,310,000                            | Beneficial Owner  | 33.47%  |
| Jiangsu Mudan Automobile Group<br>Company Limited ("Jiangsu Mudan")       | 100,340,000                           | Beneficial Owner  | 35.23%  |
| Zhangjiagang Jin Mao<br>Investment Development<br>Co., Ltd. ("Jin Mao")   | 100,340,000                           | Interest of a controlled<br>corporation ( <i>Note 1</i> ) | 35.23%  |
| 張家港虹達運輸有限公司(「虹達」)   | 100,340,000                           | Interest of a controlled<br>corporation ( <i>Note 1</i> ) | 35.23%  |

*Notes:*

1. Jin Mao and 虹達 each has 19.35% interests in Jiangsu Mudan. Accordingly, Jin Mao and 虹達 is entitled to exercise or control the exercise of one-third or more of the voting rights in general meeting of Jiangsu Mudan. Under the SFO, Leyu Town Assets Management is deemed to be interested in 100,340,000 domestic shares held by Jiangsu Mudan, representing 35.23% of the issued share capital of the Company.

## **COMPETING INTEREST**

Current Directors did not discover any event in which any of the original Directors, supervisors, management shareholders and substantial shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in any businesses which directly or indirectly compete or may compete with the business of the Company for the period ended 30 September 2007.

## **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 30 September 2007, Mr. JIANG Lei, Mr. HUANG Zhen Hua and Ms. XIAO Wei Hong were members of the Audit Committee of the Company. However, they were dismissed at the Extraordinary General Meeting held on 3 March 2008. As at the date of the 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. The Company's un-audited quarter results for the nine months ended 30 September 2007 had been reviewed by the Audit Committee which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

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

During the nine months ended 30 September 2007, the Company and any of its subsidiaries has not purchased, sold or redeemed any of the listed shares of the Company.

## **DISCLOSURE OF TRADE RECEIVABLES PURSUANT TO RULES 17.17 AND 17.22 OF THE GEM LISTING RULES**

As at 30 September 2007, there were 284,800,000 shares of the Company in issue. Based on the closing price of the Company's shares of HK\$0.34 per share on 30 September 2007, the date on which the trading of the shares of the Company was suspended, the total market capitalization for the Company was approximately HK\$96,832,000 as at 30 September 2007.

As at 30 September 2007, trade receivable from a customer of the Company (the "Trade Receivable"), 廣州白雲華港汽貿中心 (Guangzhou Baiyun Huagang Automobile Trade Center, the "Customer"), a company which is independent of, and not connected with, the Company, the Directors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules), amounted to approximately HK\$18,738,905 (RMB18,193,912), representing approximately 19.4% of the Company's total market capitalization as at 30 September 2007. The Company had lost contact with the Customer and the Trade Receivables had been written off on the balance sheet date of 2005.

The captioned trade receivable was resulted from sales to the customer by the Company in its ordinary course of business and on normal commercial terms. It is unsecured and interest free, and includes normal terms of settlement. Due to the nature of the transactions and business practice, the amount of trade receivables can only be finalized at month end. Pursuant to the normal trading practices in respect of such trade receivables and the relevant commercial terms, the customer will verify and confirm the amount of the trade receivable. As the captioned trade receivable was recorded during the period of nine months ended 30 September 2007, this gave rise to a disclosure obligation under Rule 17.17 of the GEM Listing Rules.

By order of the Board

**Mudan Automobile Shares Company Limited**

**GUO ZHI RONG**

*Chairman*

30 April 2008

Zhangjiagang, Jiangsu Province, the PRC