



**Mudan Automobile Shares Company Limited\***  
**牡丹汽車股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*  
(Stock Code: 8188)



**Interim Report 2008**

## **INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 six months ended 30 June 2008, the Company recorded a turnover of RMB2,228,756 (2007:RMB242,898,068), representing a dramatic decrease of 99.08% as compared with the corresponding period in 2007.
- For six months ended 30 June 2008, the Company recorded a loss attributable to equity holders of RMB46,307,533 (2007: loss of RMB27,054,486).
- For the six months ended 30 June 2008, loss per share was approximately RMB16.26 cents (2007: loss of RMB9.50 cents).

## RESULTS

The board of Directors (the “Board”) hereby announces the unaudited interim results of the Company for the three months and six months ended 30 June 2008 together with the comparative unaudited figures for the corresponding periods in 2007 as follows:

### CONDENSED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2008 RMB	2007 RMB	2008 RMB	2007 RMB
Turnover	2	<b>1,047,940</b>	129,434,371	<b>2,228,756</b>	242,898,068
Cost of sales		<b>(949,491)</b>	(122,009,917)	<b>(1,966,649)</b>	(231,267,796)
Gross profit		<b>98,449</b>	7,424,454	<b>262,107</b>	11,630,272
Other operating income		<b>144,153</b>	583,440	<b>153,993</b>	1,356,053
Distribution expenses		-	(6,861,832)	<b>(340,440)</b>	(13,328,774)
General and administrative expenses		<b>(43,488,323)</b>	(12,066,085)	<b>(46,931,482)</b>	(23,014,136)
Other operating expense		-	(432,590)	<b>(1,093)</b>	(692,186)
Net finance (costs) income		<b>(4,640)</b>	(1,267,556)	<b>549,382</b>	(3,005,715)
Loss before tax	5	<b>(43,250,361)</b>	(12,620,169)	<b>(46,307,533)</b>	(27,054,486)
Income tax expenses	3	-	-	-	-
Loss attributable to equity holders		<b>(43,250,361)</b>	(12,620,169)	<b>(46,307,533)</b>	(27,054,486)
Loss per share					
- basic (cents)	4	<b>(15.19)</b>	(4.43)	<b>(16.26)</b>	(9.50)

## CONDENSED BALANCE SHEET

	<i>Notes</i>	<b>As at 30 June 2008</b>	As at 31 December 2007
		<b>RMB (Unaudited)</b>	<i>RMB (Audited)</i>
<b>Non-current asset</b>			
Property, plant and equipment	6	<b>180,480,461</b>	189,792,794
<b>Current assets</b>			
Inventories		<b>32,655,129</b>	36,310,034
Trade and other receivables	7	<b>15,333,658</b>	56,267,216
Amounts due from a shareholder		<b>1,494,900</b>	1,494,900
Pledged deposits		<b>12,675,120</b>	28,321,490
Cash and cash equivalents		<b>5,212,166</b>	11,780,245
Total current assets		<b>67,370,973</b>	134,173,885
<b>Current liabilities</b>			
Trade and other payables	8	<b>110,433,299</b>	127,130,899
Bills payable	8	–	16,232,150
Amounts due to shareholders		<b>8,228,376</b>	6,080,075
Amounts due from related companies		<b>104,012,465</b>	103,038,728
Income tax payable		<b>1,232,552</b>	1,232,552
Total current liabilities		<b>223,906,692</b>	253,714,404
<b>Net current liabilities</b>		<b>(156,535,719)</b>	(119,540,519)
<b>Net assets</b>		<b>23,944,742</b>	70,252,275
<b>Capital and reserves</b>			
Share capital	9	<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>(291,698,540)</b>	(245,391,007)
<b>Total capital and reserves</b>		<b>23,944,742</b>	70,252,275

## CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2008

	Share capital <i>RMB</i>	Statutory surplus reserve <i>RMB</i>	Statutory public welfare <i>RMB</i>	Accumulated losses <i>RMB</i>	Total capital and reserves <i>RMB</i>
<b>Balance at 1 January 2007</b> <b>(audited)</b>	284,800,000	15,421,641	15,421,641	(115,516,728)	200,126,554
Loss for the period (unaudited)	—	—	—	(27,054,486)	(27,054,486)
<b>Balance at 30 June 2007</b> <b>(unaudited)</b>	<u>284,800,000</u>	<u>15,421,641</u>	<u>15,421,641</u>	<u>(142,571,214)</u>	<u>173,072,068</u>
<b>Balance at 1 January 2008</b> <b>(audited)</b>	284,800,000	15,421,641	15,421,641	(245,391,007)	70,252,275
Loss for the period (unaudited)	—	—	—	(46,307,533)	(46,307,533)
<b>Balance at 30 June 2008</b> <b>(unaudited)</b>	<u>284,800,000</u>	<u>15,421,641</u>	<u>15,421,641</u>	<u>(291,698,540)</u>	<u>23,944,742</u>

**CONDENSED CASH FLOW STATEMENT (UNAUDITED)**

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>RMB</b>	<i>RMB</i>
<b>Net cash outflow from operating activities</b>	<b>(3,481,538)</b>	(18,612,830)
<b>Net cash outflow from investing activities</b>	–	(6,727,834)
<b>Net cash (outflow) inflow from financing activities</b>	<b>(3,086,541)</b>	40,960,000
	<hr/>	<hr/>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(6,568,079)</b>	15,619,336
<b>Cash and cash equivalents at beginning of year</b>	<b>11,780,245</b>	6,291,628
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of period</b>	<b>5,212,166</b>	21,910,964
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Notes:

## 1. Basis of preparation and accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. IFRS includes International Accounting Standards and interpretations. These financial statements also comply with the applicable disclosure provisions of the GEM Listing Rules.

The measurement basis used in the preparation of the interim results is historical cost 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 2007 annual financial statements.

## 2. Turnover and segmental 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.

The Directors consider the Company operates within a single business. Accordingly, no detailed analysis of the Company's business segments are disclosed.

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

	For the three months ended 30 June		For the six months ended 30 June	
	2008 RMB (Unaudited)	2007 RMB (Unaudited)	2008 RMB (Unaudited)	2007 RMB (Unaudited)
Sales of automobiles:				
The PRC	<b>1,047,940</b>	100,814,071	<b>2,228,756</b>	206,752,897
Overseas market	–	28,620,300	–	36,145,171
Total	<b><u>1,047,940</u></b>	<u>129,434,371</u>	<b><u>2,228,756</u></b>	<u>242,898,068</u>



### 3. Income tax expenses

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

### 4. Loss per share

The calculation of loss per share for the three months and six months ended 30 June 2008 is based on the unaudited loss attributable to equity holders of about RMB43,250,361 and RMB46,307,533 respectively (2007: losses of RMB12,620,169 and RMB27,054,486 respectively) divided by the weighted average number of shares in issue of the Company during the respective period. For the three months and six months ended 30 June 2008, the weighted average number of shares in issue is 284,800,000 and 284,800,000 respectively (2007: 284,800,000 and 284,800,000 respectively). No diluted loss per share is presented as there were no dilutive potential ordinary shares outstanding.

### 5. Loss before tax

Loss before tax is arrived at after charging/(crediting):

	<b>For the three months ended 30 June</b>		<b>For the six months ended 30 June</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RMB</b>	RMB	<b>RMB</b>	RMB
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
<b>(a) Net finance costs (income)</b>				
Interest on bank advances and other borrowing repayable	-	1,353,875	-	3,005,189
Bank charges	<b>4,640</b>	29,483	<b>10,836</b>	106,573
Interest income	-	(31,757)	<b>(547,826)</b>	(106,660)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>(b) Other items</b>				
Allowance for bad and doubtful debts	<b>31,547,014</b>	-	<b>31,547,014</b>	-
Depreciation	<b>9,312,333</b>	4,705,494	<b>9,312,333</b>	9,458,271
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 6. Property, plant and equipment

During the six months ended 30 June 2008, the Company did not have additions to property, plant and equipment (2007: RMB6,727,834).

## 7. Trade and other receivables

Trade and other receivables comprise:

	<b>As at 30 June 2008</b>	As at 31 December 2007
	<b>RMB</b>	RMB
	<b>(Unaudited)</b>	(Audited)
Trade debtors and bills receivable	<b>15,333,658</b>	42,196,994
Advance deposits to suppliers	–	10,091,977
Other debtors	–	3,978,245
	<hr/> <b>15,333,658</b> <hr/>	<hr/> 56,267,216 <hr/>

An aging analysis of trade debtors and bills receivable (net of provisions for bad and doubtful debts) is as follows:

	<b>As at 30 June 2008</b>	As at 31 December 2007
	<b>RMB</b>	RMB
	<b>(Unaudited)</b>	(Audited)
Within 3 months	–	2,187,300
Over 3 months but less than 6 months	<b>390,000</b>	15,286,190
Over 6 months but less than 1 year	<b>4,587,945</b>	19,495,458
Over 1 year but less than 2 years	<b>10,355,713</b>	4,907,879
Over 2 years	–	320,167
	<hr/> <b>15,333,658</b> <hr/>	<hr/> 42,196,994 <hr/>

Customers are normally granted credit terms of three months to twelve months (31 December 2007: three months to twelve months), depending on the Company's assessment of the credit worthiness of individual customers. In addition, certain established customers with good repayment record are allowed to settle by instalments over a period of not more than eighteen months (31 December 2007: eighteen months).

#### 8. Trade and other payables and bills payable

Trade and other payables and bills payable comprise:

	<b>As at</b>	As at
	<b>30 June 2008</b>	31 December 2007
	<b>RMB</b>	RMB
	<b>(Unaudited)</b>	(Audited)
Trade payables	<b>59,616,778</b>	75,678,707
Bills payables	–	16,232,150
Accrued salaries, bonus and welfare fund	<b>6,080,082</b>	6,080,082
Other payables	<b>44,736,439</b>	45,372,110
	<b>110,433,299</b>	143,363,049

An aging analysis of trade creditors and bills payables is as follows:

	<b>As at</b>	As at
	<b>30 June 2008</b>	31 December 2007
	<b>RMB</b>	RMB
	<b>(Unaudited)</b>	(Audited)
Due within 3 months	–	324,305
Due after 3 months within 6 months	–	39,050,972
Due after 6 months within 1 year	<b>15,081,197</b>	37,649,460
Due over 1 year	<b>44,535,581</b>	14,886,120
	<b>59,616,778</b>	91,910,857

## 9. Share capital

	As at 30 June 2008		As at 31 December 2007	
	Number of Shares	%	Number of Shares	%
Registered, issued and fully paid:				
Domestic shares of				
RMB1.00 each	196,250,000	68.9	196,250,000	68.9
H shares of RMB1.00 each	<u>88,550,000</u>	<u>31.1</u>	<u>88,550,000</u>	<u>31.1</u>
Total	<u>284,800,000</u>	<u>100</u>	<u>284,800,000</u>	<u>100</u>

## 10. Reserves

Other than the loss for the six months ended 30 June 2008, there were no movement to or from reserves of the Company during the relevant period (2007: Nil).

## 11. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

## BUSINESS REVIEW

### *Results performance*

For the six months ended 30 June 2008, the Company recorded a turnover of RMB2,228,756 (2007: RMB242,898,068) and a loss of RMB46,307,533 (2007: loss of RMB27,054,486) respectively, among which the turnover represented a decrease of approximately 99.08% as compared to those of the Company for the corresponding period in 2007.

During the period ended 30 June 2008, loss per share was approximately RMB16.26 cents (2007: loss of RMB9.50 cents).

The unaudited turnover of the Company for the three months ended 30 June 2008 was RMB1,047,940 (2007: RMB129,434,371) representing a decrease of approximately 99.19% as compared to those of the corresponding period in 2007. The unaudited loss for the three months ended 30 June 2008 was RMB43,250,361 (2007: loss of RMB12,620,169).

#### *Sales of buses*

Owing to the Company suspended production in October 2007 (retained only a small portion of sales business), the number of staff after January 2008 was substantially reduced to approximately 24 (retained only a small number of finance, personnel and administrative key personnel), the turnover of the light-sized series of buses decreased to RMB1,695,679 (2007: RMB66,029,874) for the period ended 30 June 2008. The turnover of medium-sized and large-sized series of buses amounted to RMB533,077 and nil respectively for the period ended 30 June 2008 (2007: RMB152,479,159 and RMB24,389,035 respectively). Compared to the same corresponding period in 2007, turnover for light-sized, medium-sized and large-sized series of buses decreased by 97.43%, 99.65% and 100% respectively.

During the quarterly period, turnover of light-sized, medium-sized and large-sized series of buses amounted to RMB1,047,940, nil and nil respectively (2007: RMB38,326,765, RMB74,366,289 and RMB16,741,317 respectively). Compared to the same corresponding period in 2007, turnover for light-sized and large-sized series of buses decreased by 97.02%, 100% and 100% respectively.

#### *Overseas market*

For the six months ended 30 June 2008, the Company recorded no overseas sales turnover (2007: RMB36,145,171), which represent a decreased by 100% as compared to those of the corresponding period in 2007.

Based on the Company's present situation, the Board 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 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, the Company will be able to further develop and grow.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### *Cost of sales and gross profits*

The cost of the sales of the Company for the six months ended 30 June 2008 was RMB1,966,649 (2007: RMB231,267,796). The unaudited gross profit margin of the Company was approximately 11.76%, about 6.97% increased than the gross profit margin of 4.79% for the corresponding six months period in 2007.

The increase of gross profit mainly resulted from the Company is now in the production suspension stage.

#### *Other operating income*

Other operating income of the Company during the three months ended and the six months ended 30 June 2008 was about RMB144,153 and RMB153,993 respectively (2007: RMB583,440 and RMB1,356,053 respectively).

Other operating income mainly comprises sale of scrap materials and steel.

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

Distribution expenses for the six months ended 30 June 2008 was in the sum of RMB340,440, represents a decrease of approximately 97.45% as compared to the amount from RMB13,328,774, in the corresponding six months period in 2007.

The total general and administrative expenses for the period ended 30 June 2008 was approximately RMB46,931,482, represents an increase of approximately 103.92% as compared to the amount of RMB23,014,136 in the corresponding six months period in 2007. The increase of general and administrative expenses are mainly resulted from the allowance the Company made for bad and doubtful debts which amounted to RMB31,547,014 (2007: Nil).

#### *Material investments and capital assets*

The Company did not have any plan for material investments and acquisition of material capital assets for the six months ended 30 June 2008, and at present it does not have other future plans for material investments or capital assets.

#### *Exposure in exchange rate fluctuations*

The Company has foreign currency sales, 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 need arises.

#### *Significant investments held*

The Company has no significant investments held during the six months ended 30 June 2008.

### *Financial resources and liquidity*

The shareholders' equity amounted to RMB23,944,742 as at 30 June 2008 (31 December 2007: RMB70,252,275). Current assets amounted to RMB67,370,973 (31 December 2007: RMB134,173,885), of which RMB5,212,166 were cash and bank balances (31 December 2007: RMB11,780,245).

### *Contingent Liabilities*

Up to the date of this report, the Company had contingent liabilities amounting to approximately RMB45,548,048 in respect of involving in a number of litigations in the PRC, the details of which are summarized as follows:

1. On or about 17 September 2007, 湖南汽車車橋廠 (Hunan Vehicle Chassis Factory) filed its writ with 天津市人民法院 (the Kinship City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB 331,193 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company.
2. 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 is stated in the writ that the Company has failed to pay a total of RMB 1,539,902 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company.
3. 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 a total of RMB 636,698 to the plaintiff for payment of metal accessories supplied by the plaintiff to the Company. 張家港市人民法院 (the Zhangjiagang City People's Court) has ruled against the Company, and the Company is ordered to pay the plaintiff RMB 636,698. Execution of the said order is being applied for by the plaintiff;



4. 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. 張家港市人民法院 (the Zhangjiagang City People's Court) has ruled against the Company, and the Company is ordered to pay the plaintiff RMB 734,718. Execution of the said order is now being applied for by the plaintiff.
5. On or about 25 February 2008, 無錫市上工電器有限公司 (Wuxi City Shanggong Electric 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 a total of RMB198,760 to the plaintiff for payment of fans for buses supplied by the plaintiff to the Company. 張家港市人民法院 (the Zhangjiagang City People's Court) has ruled against the Company, and the Company is ordered to pay the plaintiff RMB 198,760. However, up to the date hereof, the Company has not received the application from the plaintiff in relation to the execution of the said claim.
6. On or about 5 March 2008, 河北省晉州市福利汽車材料廠 (Heibei Province Jinzhou City Fuli Automobile Materials Factory) 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 RMB434,117 to the plaintiff for payment of automobile accessories for production use supplied by the plaintiff to the Company. 張家港市人民法院 (the Zhangjiagang City People's Court) has ruled against the Company, and the Company is ordered to pay the plaintiff RMB 434,117.
7. On or about 7 April 2008, 南京康尼機電新技術有限公司 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 RMB 556,340 in relation to the vehicle accessories and materials provided by the plaintiff.

8. On or about 21 April 2008, 安徽江淮汽車股份有限公司 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 RMB 36,337,910 in relation to the chassis provided by the plaintiff.
9. On or about 16 May 2008, 東風杭州汽車有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB4,778,409 in relation to the chassis provided by plaintiff.

#### *Gearing ratio*

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 9.35 as at 30 June 2008 (31 December 2007: 3.61).

#### *Capital Structure*

During the six months ended 30 June 2008, there is no change in the Company's share capital. As at 30 June 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*

As at 30 June 2008, the Company employed 24 employees (2007: 2,112). Staff cost was RMB1,738,291 for the six months ended 30 June 2008, representing a decrease of 90.35% as compared with that of RMB18,018,947 for the corresponding period in 2007.

#### *Interim Dividend*

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

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

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

As at 30 June 2008, 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 June 2008, the Directors are not aware of any other interests and short positions in shares and underlying shares of substantial shareholders of the Company and other persons, 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*

<b>Name of shareholder</b>	<b>Number of shares (domestic shares)</b>	<b>Nature of Interest</b>	<b>Percentage of the issued shares capital (domestic shares and H shares)</b>
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	95,310,000	Beneficial Owner	33.47%
Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan")	100,340,000	Beneficial Owner	35.23%
Zhangjiagang Jin Mao Investment Development Co., Ltd. ("Jin Mao")	100,340,000	Interest of a controlled 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 corporation ( <i>Note 1</i> )	35.23%

*Note:*

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, each of Jin Mao and 虹達 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.

## **DIRECTORS' RIGHTS TO ACQUIRE H SHARES**

As at 30 June 2008, none of the Directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2008, none of the Directors, supervisors and chief executive of the Company had any rights to acquire H shares in the Company.

## **COMPETING INTEREST**

The Directors, supervisors, management shareholders and substantial shareholders of the Company and their respective associates (for definition, refer to "GEM Listing Rules") did not have any interest in any business which directly or indirectly compete with business of the Company for the six months ended 30 June 2008.

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

During the six months ended 30 June 2008, the Company and any of its subsidiaries have not purchased, sold or redeemed any of its listed securities.

## **AUDIT COMMITTEE**

The audit committee of the Company (the "Audit Committee") 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 report, the Audit Committee 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 unaudited interim results for the six months ended 30 June 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.

## **CODE OF CONDUCT FOR DIRECTORS CARRYING OUT SECURITIES TRANSACTIONS**

During the six months ended 30 June 2008, the Company had complied with the standard conditions of requirements of transactions set out in rules 5.48 to 5.67 of the GEM Listing Rules. A code of conduct has been adopted with respect to the securities transactions carried out by the Directors.

## **CODE ON CORPORATE GOVERNANCE PRACTICE**

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 30 June 2008, in compliance with the Code on Corporate Governance Practice (the “Corporate Code”) set out by the Stock Exchange in Appendix 15 to the Listing Rules.

## **CHAIRMAN AND MANAGING DIRECTOR**

Under the code provision A.2.1 of the Corporate Code, the posts of chairman and the chief executive officer must be separated. On the Extraordinary General Meeting held on 3 March 2008, Mr KUO Zhi Yung was appointed as chairman of the Company on 3 March 2008. In addition, Mr LI Jing Shan was appointed as chief executive officer (General Director of the Company) by the Company on 10 April 2008.

## **REMUNERATION COMMITTEE**

On 10 April 2008, the Company set up remuneration committee (the “Remuneration Committee”) with written terms of reference pursuant to the Corporate Code, all members were independent non-executive Directors. The Remuneration Committee comprised Mr WANG Cheng Cai, Mr GAO Xue Fei and Mr YAO Zhi Ming, Mr GAO Xue Fei also acted as chairman of the Remuneration Committee. The Remuneration Committee decided to hold at least one meeting each year.

The roles and functions of the Remuneration Committee include determining the emoluments of executive Directors, including benefits in kind, right of retirement and compensation (including any compensation for dismissal or termination of appointment) and determining the remuneration of non-executive Directors and independent non-executive Directors and the Company's supervisors and senior management officers. The Remuneration Committee should consider factors such as the remuneration of comparable companies, time contributed by and functions of the Directors, employment status of the Company and the feasibility of remuneration based on performance, etc.

Prior to the establishment of the Remuneration Committee, the chairman of the Company was responsible for reviewing the remuneration of executive Directors, non-executive Directors and independent non-executive Directors and the Company's supervisors and senior management officers and submitting for approval by the Board in meetings of the Board in which independent non-executive Directors attended.

## **INTERNAL CONTROL**

During the year, as the internal control system of the Company was imperfect, the Company has arranged to review the effectiveness of the internal control system of the Group to ensure that the internal control system is adequate and effective. The Company will hold regular meetings to discuss the finance, operation and risk management control. The Audit Committee will also review the internal control system and assess its adequacy and effectiveness as well as the work carried out by it.

## **DISCLOSURE OF TRADE RECEIVABLE PURSUANT TO RULES 17.15 AND 17.17 OF THE GEM LISTING RULES**

As at 30 June 2008, 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 29 March 2005, 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 June 2008. As at 30 June 2008, 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\$20,693,712 (RMB18,193,912), representing approximately 21.4% of the Company's total market capitalization as at 30 June 2008. The Company had lost contact with the Customer and the Trade Receivables had been written off for the year ended 31 December 2005. The 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 repayable on normal terms. Due to the nature of the transactions and business practice, trade receivables can only be settled after month end, and such balances need to be verified and confirmed by customers pursuant to the normal trading practices and relevant trading terms in respect of such receivables. As the Trade Receivable of the Customer is recorded as at 30 June 2008, it is subject to disclosure pursuant to the requirement under rule 17.17 of the GEM Listing Rules.

By order of the Board

**Mudan Automobile Shares Company Limited**

**GUO ZHI RONG**

*Chairman*

Zhangjiagang City, Jiangsu Province, the PRC  
8 August 2008



As at the date hereof, 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, 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.