



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 2008

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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.

The Stock Exchange takes no responsibility for the contents of this report, 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 report.

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 GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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 2008, the Company recorded a turnover of RMB2,228,756 (2007: RMB314,872,092), representing a decrease of 99.29% as compared with the corresponding period in 2007.
- For the nine months ended 30 September 2008, the Company recorded a loss attributable to equity holders of RMB50,026,192 (2007: loss of RMB38,161,809).
- For the nine months ended 30 September 2008, the loss per share was RMB17.57 cents (2007: loss per share of RMB13.40 cents).

UNAUDITED QUARTERLY RESULTS

The board of directors (the “Board”) of Mudan Automobile Shares Company Limited (the “Company”) hereby announces the unaudited condensed consolidated third quarterly results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30 September 2008, together with the comparative unaudited figures of the corresponding period of 2007 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2008

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2008	2007	2008	2007
		(Unaudited) RMB	(Unaudited) RMB	(Unaudited) RMB	(Unaudited) RMB
Turnover	2	-	71,974,024	2,228,756	314,872,092
Cost of sales		-	(72,643,092)	(1,966,649)	(303,910,888)
Gross (loss) profit		-	(669,068)	262,107	10,961,204
Other operating income		-	222,662	153,993	1,578,715
Distribution expenses		-	(5,402,877)	(340,440)	(18,731,651)
General and administrative expenses		(3,694,458)	(8,263,755)	(50,625,940)	(31,277,891)
Other operating expense		(22,299)	-	(23,392)	(692,186)
Net finance (costs)/income		(1,902)	3,005,715	547,480	-
Loss before taxation		(3,718,659)	(11,107,323)	(50,026,192)	(38,161,809)
Income tax expenses	3	-	-	-	-
Loss attributable to equity holders		(3,718,659)	(11,107,323)	(50,026,192)	(38,161,809)
Loss per share					
- basic (cents)	4	(1.31)	(3.90)	(17.57)	(13.40)

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 2008 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 2007 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.

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 September		For the nine months ended 30 September	
	2008 (Unaudited) RMB	2007 (Unaudited) RMB	2008 (Unaudited) RMB	2007 (Unaudited) RMB
Sales of automobiles:				
The PRC	-	58,763,071	2,228,756	265,515,968
Overseas market	-	13,210,953	-	49,356,124
	<hr/>	<hr/>	<hr/>	<hr/>
Total	-	71,974,024	2,228,756	314,872,092
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3. Income tax expenses

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

4. Loss per share

The calculation of basic loss per share for the three months and the nine months ended 30 September 2008 is based on the unaudited loss attributable to equity holders of about RMB3,718,659 and RMB50,026,192 respectively (2007: loss of RMB11,107,323 and RMB38,161,809 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 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 diluting potential ordinary shares outstanding.

RESERVES

Other than the transfer of loss attributable to equity holders into reserve, for the three months and nine months ended 30 September 2008, there were no movements to or from reserves of the Company (2007: Nil).

DIVIDEND

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

BUSINESS REVIEW AND OUTLOOK

The Board is pleased to announce that with cooperation by each party, the Company had resumed production successfully in the third quarter of 2008 with the base of global staff recruitment and construction of sturdy company organization. In regard of a number of aspects, after more than half a year of production suspension, all the internal production organization, technological preparation or external marketing of Mudan Automobile, has made well recovery.

Pursuant to the relevant provision of supervision, 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 focus of this quarter is on the construction of organization, recruitment of staff, resumption of production conditions and carrying out of trial production to build solid foundation for passing the product quality assurance and relevant product certification in one take.

With reference to the transfer of shareholding in the joint announcement of the Company dated 6 June 2008, progress in the stages of the examination and approval of the relevant supervision department in the PRC have been made. Currently the transfer of the shareholding of the Company, which is state-owned in nature, has obtained approval from the State-owned Assets Supervision and Administration Commission. As the Company is an foreign-funded enterprise, the transfer of shareholding cannot be proceeded until the approval from the Ministry of Commerce has been obtained.

1. *Results performance*

Turnover for the nine months ended 30 September 2008 amounted to RMB2,228,756 (2007: RMB314,872,092) representing a decrease of approximately 99.29% as compared to that of the corresponding period in 2007. The loss attributable to equity holders of the Company for the nine months ended 30 September 2008 has reached RMB50,026,192 (2007: loss of RMB38,161,809).

There is no turnover for the three months ended 30 September 2008 (2007: RMB71,974,024) representing a decrease of approximately 100% as compared to that of the corresponding period in 2007. The loss attributable to equity holders of the Company for the three months ended 30 September 2008 has reached RMB3,718,659 (2007: loss of RMB11,107,323).

2. *Sales of light-sized, medium-sized and large-sized buses*

For the nine months ended 30 September 2008, the sales of light-sized, medium-sized and large-sized buses amounted to RMB1,695,679, RMB533,077 and Nil respectively (2007: RMB91,914,146, RMB 187,376,986 and RMB35,580,960 respectively).

For the three months ended 30 September 2008, no sales of light-sized, medium-sized and large-sized buses were recorded (2007: RMB25,884,272, RMB34,897,807 and RMB11,191,945 respectively).

The Company has restarted its production in July 2008 and expects that turnover would be recorded in the fourth quarterly results. The Company will be able to further develop and grow in the foreseeable future after strengthening the production business and internal control and standardizing management of the Company.

CONTINGENT LIABILITIES

Up to the date of this report, the Company had contingent liabilities amounting to approximately RMB74,612,915 in respect of involving in a number of litigations in the PRC, the details of which are set out as follows:

1. On or about 17 September 2007, 湖南汽車車橋廠 (Hunan Vehicle Chassis Factory) filed its writ with 天津市市人民法院 (the Tianjin 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.
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 RMB1,539,902 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 RMB636,698 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 RMB636,698. 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 RMB734,718 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 RMB734,718. Execution of the said order is now being applied for by the plaintiff.
5. 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 RMB556,340 in relation to the vehicle accessories and materials provided by the plaintiff.
6. 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 RMB36,337,910 in relation to the chassis provided by the plaintiff.
7. 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.
8. On or about 9 July 2008, 上海遙薇實業有限公司 filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay the debt of RMB33,150.

9. 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.
10. 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 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.
11. 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.
12. On or about 20 August 2008, 張家港保稅區宇松貿易有限公司 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 the loan debt of RMB44,373.

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 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 and debentures of the Company or any of its 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*

As at 30 September 2008, the interests or short positions of person in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any

other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the shares:

Name of shareholder	Number of shares (domestic shares)	Nature of Interest	Percentage of the issued shares capital (domestic shares and H shares)
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 (Note)	35.23%
張家港虹達運輸有限公司 ([虹達])	100,340,000	Interest of a controlled corporation (Note)	35.23%

Note:

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, 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 (domestic shares and H shares).

Save as disclosed above, as at 30 September 2008, the Directors were not aware of any other person (other than the Directors, supervisors and chief executive of the Company) who had an interest or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE H SHARES

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

COMPETING INTEREST

The Directors, supervisors, management shareholders and substantial shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) did not have any interest in any businesses which directly or indirectly compete or may compete with the business of the Company for the nine months ended 30 September 2008.

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 of the Audit Committee. The Group's unaudited condensed consolidated third quarterly results for the nine months ended 30 September 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.

PROPOSED ACQUISITION OF SHARES IN THE COMPANY AND POSSIBLE MANDATORY UNCONDITIONAL CASH OFFER

On 25 February 2008, Jiangsu Mudan Automobile Group Company Limited, Zhangjiagang Municipal Public Assets Management Co. Ltd., Zhangjiagang Municipal Mudan Bus Accessories Co. Ltd. and Zhangjiagang Municipal Mudan Car Accessories Co. Ltd. (all are the shareholders of the Company) have entered into four disposal agreements (the “Disposal Agreements”) with different purchasers (the “Purchasers”) respectively, in relation to the acquisition of all the issued domestic shares of the Company and approximately 68.92% of the entire issued share capital of the Company.

Upon completion of the Disposal Agreements, the Purchasers will hold approximately 68.92% of the issued share capital of the Company and will therefore be required under Rule 26 of the Takeover Code to make an unconditional cash offer.

The details have been published on the Company’s announcement dated 6 June 2008.

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

During the nine months ended 30 September 2008, the Company and any of its subsidiaries has not purchased, sold or redeemed any of the listed shares of the Company.

By order of the Board

Mudan Automobile Shares Company Limited

GUO ZHI RONG

Chairman

7 November 2008

Zhangjiagang, Jiangsu Province, the PRC