



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)



First Quarterly Report **2009**

* For identification only

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2009

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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 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 three months ended 31 March 2009, the Company recorded a turnover of RMB36,951,744 (2008: RMB1,180,816), representing an increase of 3,029.34% as compared with the corresponding period in 2008.
- For the three months ended 31 March 2009, the Company recorded a loss attributable to owners of the Company of RMB6,111,625 (2008: loss of RMB3,057,172).
- For the three months ended 31 March 2009, the loss per share was RMB2.15 cents (2008: loss per share of RMB1.07 cents).

QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Mudan Automobile Shares Company Limited (the “Company”) hereby announces the unaudited condensed first quarterly results of the Company for the three months ended 31 March 2009, together with the comparative unaudited figures of the corresponding period of 2008 as follows:

UNAUDITED CONDENSED INCOME STATEMENT

For the three months ended 31 March 2009

	Notes	For the three months ended 31 March	
		2009 (Unaudited) RMB	2008 (Unaudited) RMB
Turnover	2	36,951,744	1,180,816
Cost of sales		(35,771,280)	(1,017,158)
Gross profit		1,180,464	163,658
Other operating income		296,336	9,840
Distribution expenses		(419,763)	(340,440)
General and administrative expenses		(7,167,489)	(3,443,159)
Other operating expenses		–	(1,093)
Net finance (expenses) income		(1,173)	554,022
Loss before taxation		(6,111,625)	(3,057,172)
Income tax expenses	3	–	–
Loss for the period attributable to owners of the Company		(6,111,625)	(3,057,172)
Loss per share			
– basic (cents)	4	(2.15)	(1.07)

UNAUDITED COMPREHENSIVE INCOME STATEMENT

	For the three months ended 31 March	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB	RMB
Loss for the period	(6,111,625)	(3,057,172)
Other comprehensive income:		
Exchange differences arising from translation of foreign operations	—	—
Total comprehensive income for the period	<u>(6,111,625)</u>	<u>(3,057,172)</u>
Attributable to the following persons:		
The owners of the Company	<u>(6,111,625)</u>	<u>(3,057,172)</u>

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 three months ended 31 March 2009 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 2008 annual financial statements.

2. Turnover and segment information

The principal activities of the Company are the manufacture and sales of automobiles in the People's Republic of China (the "PRC"). Turnover represents income arising from the sales of automobiles net of value added tax.

The Board considers the Company operates within a single business. Accordingly, no detailed analysis of the Company's business segments is disclosed.

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

	For the three months ended 31 March	
	2009	2008
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB	RMB
Sales of automobiles:		
The PRC	35,720,598	1,180,816
Overseas market	1,231,146	–
	<hr/>	<hr/>
Total	<u>36,951,744</u>	<u>1,180,816</u>

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 ended 31 March 2009 is based on the unaudited loss attributable to owners of the Company of RMB6,111,625 (2008: loss of RMB3,057,172) divided by the weighted average number of shares in issue of the Company during the respective period. For the three months ended 31 March 2009, the weighted average number of shares in issue is 284,800,000 (2008: 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 attributable to owners of the Company into reserve, for the three months ended 31 March 2009 and 31 March 2008, there were no movements to or from reserves of the Company.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2009 (2008: Nil).

BUSINESS REVIEW AND OUTLOOK

The Board is pleased to announce that the Company has accomplished the following tasks during the first quarter of 2009:

1. Upon resumption of production last year, the Company has progressively hired sales staff with extensive experience to build up its sales team and develop the sales network in our domestic and overseas markets for reshaping the market image of Mudan passenger cars.
2. The Company has appointed SHINEWING Risk Services Limited to perform an internal control review on the Company's operations upon resumption of production and sales of the Company, who give suggestions for improvement to the management, thus laying the foundation for establishing an effective system for regulating the internal management of the Company.

3. During the first quarter of 2009, the Company and Chengdu New Dadi Motor Company Limited (hereinafter referred to as “Chengdu New Dadi”) jointly researched and developed the new Mudan double-decker bus, adopting the coach chassis of Chengdu New Dadi. The principle features of the double-decker bus include large passenger carrying capacity to meet the demand of huge population flow in urban development and the adoption of more humanized design technologies for automobiles. The double-decker bus will become one of our development directions for new products.
4. The research and manufacture of special chassis of Mudan luxury bus model ART have made new progress. The Company and Chengdu New Dadi reached an agreement to jointly research and manufacture special chassis for high grade coaches which will be developed by Chengdu New Dadi in collaboration with SSANGYONG MOTOR COMPANY specially for use in coach chassis of Mudan luxury bus model ART. This will be an advantage for the full resumption of production and sales of Mudan luxury bus model ART and achieving the goal of transformation of Mudan passenger cars gradually from low end to high end products so as to cater to the market development trend.

Results performance

Turnover of the Company for the three months ended 31 March 2009 amounted to RMB36,951,744 (2008: RMB1,180,816) representing an increase of approximately 3,029.34% as compared to that of the corresponding period in 2008. The loss attributable to owners of the Company for the three months ended 31 March 2009 has reached RMB6,111,625 (2008: loss of RMB3,057,172).

Sales of light-sized, medium-sized and large-sized buses

For the three months ended 31 March 2009, the sales of light-sized, medium-sized and large-sized buses amounted to RMB1,324,872, RMB2,430,291 and RMB33,196,581 respectively (2008: RMB161,880, RMB1,018,936 and Nil respectively).

CONTINGENT LIABILITIES

Up to the date hereof, the Company had contingent liabilities amounting to approximately RMB73,453,522 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 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.
4. 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.
5. 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.
6. 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.
7. On or about 20 August 2008, 常州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.

Pursuant to the settlement agreement signed between the Company and Changzhou Hongxie Safety Glass Co., Ltd. at 張家港市人民法院 (the Zhangjiagang City People's Court) on 7 April 2009, the Company shall pay RMB791,137 to Changzhou Hongxie Safety Glass Co., Ltd., and after such settlement, the case would be concluded. Up to the date hereof, the Company has made such payment but has not yet completed the procedures with 張家港市人民法院 (the Zhangjiagang City People's Court) to conclude the case.

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 31 March 2009, 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 31 March 2009, 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 Company, 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 share 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%

Long positions in the shares (continued):

Name of shareholder	Number of shares (domestic shares)	Nature of Interest	Percentage of the issued share capital (domestic shares and H shares)
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 31 March 2009, the directors were not aware of any other person 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 Company, 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 31 March 2009, 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 with the business of the Company for the three months ended 31 March 2009.

AUDIT COMMITTEE

The Company has established the audit committee (the “Audit Committee”) 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 Company. As at the date of hereof, 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 Company’s unaudited condensed first quarterly results for the three months ended 31 March 2009 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.

Further details of the Disposal Agreements and the progress of the cash offer are set out in the Company's announcements dated 6 June 2008, 27 June 2008, 2 October 2008 and 31 March 2009.

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

During the three months ended 31 March 2009, the Company 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

Zhangjiagang, Jiangsu Province, the PRC
14 May 2009

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, 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.