



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 2009

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

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This report, for which the directors (“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 six months ended 30 June 2009, the Group recorded a turnover of RMB54,997,092 (2008: RMB2,228,756), representing an increase of 2,368% as compared with the turnover of the Group for the corresponding period in 2008.
- For six months ended 30 June 2009, the Group recorded a profit attributable to owners of the Company of RMB36,952,003 (2008: loss of RMB46,307,533).
- For the six months ended 30 June 2009, the earnings per share is approximately RMB12.97 cents (2008: loss per share of approximately RMB16.26 cents).

INTERIM RESULTS (UNAUDITED)

The board of directors (“Board”) of Mudan Automobile Shares Company Limited (“Company”) hereby announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 June 2009 together with the comparative unaudited figures for the corresponding periods in 2008 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2009	2008	2009	2008
		RMB	RMB	RMB	RMB
Turnover	2	18,045,348	1,047,940	54,997,092	2,228,756
Cost of sales		(17,903,725)	(949,491)	(53,675,005)	(1,966,649)
Gross profit		141,623	98,449	1,322,087	262,107
Other income	3	75,210,724	144,153	75,507,060	153,993
Distribution expenses		(603,200)	–	(1,022,963)	(340,440)
General and administrative expenses		(6,434,275)	(43,488,323)	(13,601,764)	(46,931,482)
Other operating expense		(25,246,191)	–	(25,246,191)	(1,093)
Net finance (expenses) income		(5,053)	(4,640)	(6,226)	549,382
Profit (loss) before taxation	6	43,063,628	(43,250,361)	36,952,003	(46,307,533)
Income tax expense	4	–	–	–	–
Profit (loss) for the period attributable to owners of the Company		43,063,628	(43,250,361)	36,952,003	(46,307,533)
Earnings (loss) per share – basic (cents)	5	15.12	(15.19)	12.97	(16.26)

UNAUDITED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Profit (loss) for the period	43,063,628	(43,250,361)	36,952,003	(46,307,533)
Other comprehensive income:				
Exchange differences arising from translation of foreign operations	-	-	-	-
Total comprehensive income for the period	43,063,628	(43,250,361)	36,952,003	(46,307,533)
Attributable to:				
Owners of the Company	43,063,628	(43,250,361)	36,952,003	(46,307,533)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2009 RMB (Unaudited)	At 31 December 2008 RMB (Audited)
Non-current asset			
Property, plant and equipment	7	163,624,769	171,643,007
Current assets			
Inventories		34,257,523	30,538,016
Trade and other receivables	8	22,324,484	5,005,494
Amounts due from shareholders		7,949,350	–
Pledged deposits		2,789,646	9,089,340
Cash and cash equivalents		10,254,722	3,669,714
Total current assets		77,575,725	48,302,564
Current liabilities			
Trade and other payables and bills payables	9	151,045,006	109,775,687
Amounts due to former shareholders		5,147,671	–
Amounts due to related parties		2,857,602	112,057,195
Amounts due to shareholders		11,096,914	5,147,671
Income tax payable		1,232,552	1,232,552
Total current liabilities		171,379,745	228,213,105
Net current liabilities		(93,804,020)	(179,910,541)
Total assets less current liabilities		69,820,749	(8,267,534)
Capital and reserves			
Share capital	10	284,800,000	284,800,000
Statutory surplus reserve		15,421,641	15,421,641
Statutory public welfare fund		15,421,641	15,421,641
Accumulated losses		(286,958,813)	(323,910,816)
Total capital and reserves		28,684,469	(8,267,534)
Non-current liability			
Amount due to a related party	11	41,136,280	–
		69,820,749	(8,267,534)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Share capital	Statutory surplus reserve	Statutory public welfare fund	Accumulated losses	Total capital and reserves
	<i>RMB</i>	<i>RMB</i> <i>(Note a)</i>	<i>RMB</i> <i>(Note b)</i>	<i>RMB</i> <i>(Note c)</i>	<i>RMB</i>
At 1 January 2008 (Audited)	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)
At 30 June 2008 (Unaudited)	<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>
1 January 2009 (Audited)	284,800,000	15,421,641	15,421,641	(323,910,816)	(8,267,534)
Profit for the period (Unaudited)	-	-	-	36,952,003	36,952,003
At 30 June 2009 (Unaudited)	<u>284,800,000</u>	<u>15,421,641</u>	<u>15,421,641</u>	<u>(286,958,813)</u>	<u>28,684,469</u>

Notes:

a. Statutory surplus reserve

According to the Company's articles of association, the Group is required to transfer 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

There was no transfer made to the statutory surplus reserve in the period ended 30 June 2009 (2008: Nil) as the profit for the period was wholly absorbed by accumulated losses brought forward from previous years.

b. Statutory public welfare fund

According to the Company's articles of association, the Group is required to transfer 10% of its net profits, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of dividends to shareholders.

There was no transfer made to the statutory public welfare fund in the period ended 30 June 2009 (2008: Nil) as the profit for the period was wholly absorbed by accumulated losses brought forward from previous years.

c. Accumulated losses

Pursuant to the Company's articles of association, the net profit of the Group for the purpose of profit distribution to shareholders will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations; and (ii) the net profit determined in accordance with International Financial Reporting Standards.

Under the PRC Company Law and the Company's articles of association, net profit after taxation can be distributed as dividends after allowance has been made for:

- (i) making up cumulative prior years' losses, if any;
- (ii) allocations of 10% after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory surplus reserve until the fund aggregates to 50% of the Company's registered capital;
- (iii) allocation of 10% of after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory public welfare fund; and
- (iv) allocations to the discretionary surplus reserve, if approved by the shareholders. There was no distributable reserve of the Group as at 30 June 2009 (2008: Nil).

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June	
	2009	2008
	RMB	RMB
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(15,519,627)	(3,481,538)
Net cash outflow from investing activities	(639,429)	–
Net cash inflow (outflow) from financing activities	22,744,064	(3,086,541)
Increase (decrease) in cash and cash equivalents	6,585,008	(6,568,079)
Cash and cash equivalents at beginning of period	3,669,714	11,780,245
Cash and cash equivalents at end of period	<u>10,254,722</u>	<u>5,212,166</u>

Notes:

1. Basis of preparation and accounting policies

The condensed interim financial information has 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 modified by the marking to market of investments in unit trusts.

The accounting policies have been consistently applied by the Group and are consistent with those used in the 2008 annual financial statements.

2. Turnover and segmental information

The principal activities of the Group 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 Board considers the Group operates within a single business. Accordingly, no detailed analysis of the Group's business segment is disclosed.

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

	Three months ended 30 June		Six months ended 30 June	
	2009 <i>RMB</i> <i>(Unaudited)</i>	2008 <i>RMB</i> <i>(Unaudited)</i>	2009 <i>RMB</i> <i>(Unaudited)</i>	2008 <i>RMB</i> <i>(Unaudited)</i>
Sales of automobiles:				
The PRC	17,326,025	1,047,940	53,046,623	2,228,756
Overseas market	719,323	–	1,950,469	–
	<hr/>	<hr/>	<hr/>	<hr/>
Total	18,045,348	1,047,940	54,997,092	2,228,756
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

3. Other income

	Three months ended 30 June		Six months ended 30 June	
	2009 RMB (Unaudited)	2008 RMB (Unaudited)	2009 RMB (Unaudited)	2008 RMB (Unaudited)
Reversal of bad debts provision	11,493,113	–	11,493,113	–
Waiver of amount due to a former shareholder	63,281,111	–	63,281,111	–
Sundry income	436,500	144,153	732,836	153,993
	<u>75,210,724</u>	<u>144,153</u>	<u>75,507,060</u>	<u>153,993</u>

4. Income tax expense

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

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.

No tax is payable on the profit for the six months ended 30 June 2009 arising in the PRC since the assessable profit is wholly absorbed by tax losses brought forward from previous years.

5. Earnings (loss) per share

The calculation of earnings per share for the three months and the six months ended 30 June 2009 is based on the unaudited profit for the period attributable to owners of the Company of RMB43,063,628 and RMB36,952,003 (2008: loss of RMB43,250,361 and RMB46,307,533) divided by the number of shares in issue of the Company during the respective period. For the three months and the six months ended 30 June 2009, the numbers of shares in issue are 284,800,000 and 284,800,000 respectively (2008: 284,800,000 and 284,800,000). No diluted loss per share is presented as there were no dilutive potential ordinary shares outstanding.

6. Profit (loss) before taxation

Profit (loss) before taxation is arrived at after charging (crediting):

	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	RMB	RMB	RMB	RMB
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(a) Net finance expenses (income)				
Bank charges	6,740	4,640	11,404	10,836
Exchange loss (gain)	4,472	–	4,472	(12,392)
Interest income	(6,159)	–	(9,650)	(547,826)
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>
(b) Other item				
Depreciation of property, plant and equipment	4,329,348	9,312,333	8,657,667	9,312,333
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

7. Property, plant and equipment

During the six months ended 30 June 2009, the Group spent RMB639,429 (2008: Nil) on acquisition of property, plant and equipment.

8. Trade and other receivables

Trade and other receivables comprise:

	At	At
	30 June 2009	31 December 2008
	RMB	RMB
	(Unaudited)	(Audited)
Trade receivables	16,135,316	4,098,665
Advance deposits to suppliers	326,831	165,992
Other receivables	5,862,337	740,837
	<hr/> 22,324,484 <hr/>	<hr/> 5,005,494 <hr/>

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

	At	At
	30 June 2009	31 December 2008
	RMB	RMB
	(Unaudited)	(Audited)
Within 3 months	2,540,931	1,227,636
Over 3 months but less than 6 months	11,220,000	70,000
Over 6 months but less than 1 year	45,000	–
Over 1 year but less than 2 years	2,010,136	2,801,029
Over 2 years	319,249	–
	<hr/> 16,135,316 <hr/>	<hr/> 4,098,665 <hr/>

Customers are normally granted credit terms of 3 months to 12 months (31 December 2008: 3 months to 12 months), depending on the Group'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 24 months (31 December 2008: 24 months).

9. Trade and other payables and bills payables

Trade and other payables comprise:

	At	At
	30 June 2009	31 December 2008
	RMB	RMB
	(Unaudited)	<i>(Audited)</i>
Trade payables	87,772,184	70,649,182
Bills payables	7,701,991	–
Accrued salaries, bonus and welfare fund	1,492,637	743,423
Other payables	54,078,194	38,383,082
	151,045,006	109,775,687

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

	At	At
	30 June 2009	31 December 2008
	RMB	RMB
	(Unaudited)	<i>(Audited)</i>
Due within 3 months	9,275,241	18,486,460
Due after 3 months within 6 months	908,393	–
Due after 6 months within 1 year	13,036,039	–
Due over 1 year	72,254,502	52,162,722
	95,474,175	70,649,182

As at 30 June 2009, the Company had amounts included in the payables of approximately RMB54,497,609 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. As at 30 June 2009, the amounts outstanding was RMB317,063.
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.

Pursuant to the commercial agreement between both parties on 3 June 2009, the said amounts shall be paid off before the end of 25 December 2009, of which RMB1,500,000 was applied as the Company's chassis working capital for 2009. On 30 June 2009, the amounts outstanding was RMB1,539,902.

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.

Pursuant to the initial judgment (2008) Yu Min Er Chu No. 23 by 南京市雨花區人民法院 (the Nanjing City Yufa District People's Court) the Company shall repay RMB556,340 to 南京康尼機電新技術有限公司 (Nanjing Hongne Mechanical New Technology Limited). As at 30 June 2009, the amounts outstanding was RMB351,840.

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) ("Jianghuai Vehicles") 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.

Pursuant to the final judgment (2009) Wan Min Er Zhong Zi No. 0004 by 安徽省高級人民法院 (Anhui Provincial High People's Court) and settlement agreement signed between both parties on 6 June 2009, it was agreed that the Company shall pay RMB33,662,434 to Jianghuai Vehicles and pay the relevant enforcement cost to 合肥市中級人民法院 (the Hefei City Middle People's Court) by 20 December 2011. As at 30 June 2009, the amounts outstanding was RMB19,987,857, and the Company is in the process of performing the settlement agreement.

5. On or about 25 June 2008, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) filed a writ with 張家港人民法院 (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 RMB5,239,754 in relation to chassis.

Pursuant to the settlement agreement signed between both parties on 14 May 2009 (the "Agreement"), the Company shall pay principal and legal expenses amounting to RMB4,823,439 (of which RMB4,778,409 is the principal, and the legal cost is RMB45,030 (excluded in the payables and subject to the debit amount by the court)) to 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) by 30 October 2010. If the Company were to pay the said amount on time and in full as stipulated in the Agreement, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) would waive of the payment of interest by the Company. On 30 June 2009, the amounts outstanding was RMB3,814,509, and the Company is in the process of performing the settlement agreement.

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 Group has failed to pay the debt of RMB28,486,438. As at 30 June 2009, the Company has not repaid the said amount.

10. Share capital

	At 30 June 2009		At 31 December 2008	
	Amount		Amount	
	RMB		RMB	
Number of shares	(Unaudited)	Number of shares	(Audited)	
Authorised, issued and fully paid:				
Domestic shares of RMB1.00 each	196,250,000	196,250,000	196,250,000	196,250,000
H shares of RMB1.00 each	88,550,000	88,550,000	88,550,000	88,550,000
Total	<u>284,800,000</u>	<u>284,800,000</u>	<u>284,800,000</u>	<u>284,800,000</u>

11. Amount due to a related party

The amount due to Zhangjiagang Jin Mao Investment Development Company Limited ("Zhangjiagang Jin Mao") (張家港市金茂投資發展有限公司) is unsecured, non-interest bearing and is repayable starting from 1 January 2011 to 31 December 2013.

12. Reserves

Other than the profit (loss) for the period, there were no movement to or from reserves of the Company during the six months ended 30 June 2009 and 30 June 2008.

13. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).

14. Related party transactions

Acquisition of shares in the Company by certain purchasers, 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”) had been completed on 16 June 2009.

During the six months ended 30 June 2009, the Group entered into the following transactions with existing shareholders and other related parties as follows:

Relationship	Sales to related parties		Purchases from related parties	
	Three months ended	Six months ended	Three months ended	Six months ended
	30 June 2009	30 June 2009	30 June 2009	30 June 2009
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Chengdu New Dadi	–	2,165,500	31,623,000	43,760,000
Shunde Zhongyu	33,300,000	33,300,000	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Relationship	Sales to related parties		Purchases from related parties	
	From 16 June 2009		From 16 June 2009	
	to 30 June 2009		to 30 June 2009	
	<i>RMB</i>		<i>RMB</i>	
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Chengdu New Dadi	–	–	–	5,622,500
Shunde Zhongyu	–	–	–	–
	<u> </u>		<u> </u>	

		Amounts due from	Amounts due to
	Relationship	At 30 June 2009	At 30 June 2009
		<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
Chengdu New Dadi	Shareholder	–	(10,201,464)
Shunde Zhongyu	Shareholder	349,350	–
Rixin Investment Management Co., Ltd.	<i>Note 1</i>	–	(1,857,602)
Shunde Ganghua	Shareholder	–	(895,450)
Foshan Heli	Shareholder	7,600,000	–
Beijing Huaxia Danni Motor Investment Co., Ltd.	<i>Note 2</i>	–	(1,000,000)
Zhangjiagang Jin Mao	<i>Note 3</i>	–	(41,136,280)
		<u>7,949,350</u>	<u>(55,090,796)</u>

Notes:

1. Ms. Pan Li Chan is a director of Rixin Investment Management Co., Ltd. and Shunde Ganghua is a shareholder of Rixin Investment Management Co., Ltd..
2. Mr. Li Zi Hao and Ms. Pan Li Chan has beneficial interests in Beijing Huaxia Danni Motor Investment Co., Ltd..
3. Zhangjiagang Jin Mao has beneficial interests in Jiangsu Mudan Automobile Group Co., Ltd. ("Jiangsu Mudan"), in which Jiangsu Mudan is the former shareholder of the Company.

BUSINESS REVIEW AND PROSPECT

The Board is pleased to announce that the Group has conducted the following items during the second quarter of 2009:

1. MD 6703 rolling off the production line and double-decker bus launch was held in the Company in June 2009

In the launch, the Group delivered 30 luxurious light buses to a customer from Sichuan, and conveyed to the market the message that Mudan has resumed its production and sales with the commencement of the marketing campaigns of the Mudan bus. The news reporters from the major auto industry media across China, representatives of the customers and leaders in charge of public utilities were invited to the launch. Subsequently, the Group also held the sample buses exhibition in the domestic markets, including Hebei and Shaanxi.

2. The Group has met the conditions of mass production of new type double-decker buses

Double-decker buses are one of the new products the Group developed during the year. On the basis of the previous trial production, the Group's technical research and development and production and manufacturing departments continued to upgrade and improve the manufacturing technical conditions and technology. At the end of the second quarter, whether in terms of hardware facilities or software basis, the Group has met the conditions for the mass production of this type of double-decker buses.

Results performance

In the first half year of 2009, the Group recorded turnover of RMB54,997,092 (2008: RMB2,228,756) and a profit of RMB36,952,003 (2008: loss of RMB46,307,533) for the six months ended 30 June 2009, among which the turnover represented an increase of approximately 2,368% as compared with the turnover of the Group for the corresponding period in 2008.

During the period ended 30 June 2009, earnings per share is approximately RMB12.97 cents (2008: loss per share of RMB16.26 cents).

The unaudited turnover of the Group for the three months ended 30 June 2009 (the “quarterly period”) was RMB18,045,348, (2008: RMB1,047,940) representing an increase of 1,622% as compared with the corresponding period in 2008. The unaudited profit for the three months ended 30 June 2009 was RMB43,063,628 (2008: loss of RMB43,250,361).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Cost of sales and gross profit

The cost of sales of the Group for the six months 30 June 2009 was RMB53,675,005 (2008: RMB1,966,649). The unaudited gross profit margin of the Group was approximately 2%, while the gross profit margin for the corresponding six months in 2008 is 12%.

The decrease of gross profit margin was mainly resulted from the sales of obsolete automobiles by the Group during the six months ended 30 June 2009.

OTHER INCOME

Other income of the Group during the three months ended 30 June 2009 and the six months ended 30 June 2009 was about RMB75,210,724 and RMB75,507,060 respectively (2008: RMB144,153 and RMB153,993).

Other income mainly comprises recoverability of allowance of bad and doubtful debts and waiver of loan due to a former shareholder of the Company.

DISTRIBUTION EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

The Group continues to expand its sales and marketing network. Distribution expenses for the six months ended 30 June 2009 were in the sum of RMB1,022,963, representing an increase of approximately 200% as compared to the amount from RMB340,440 in the corresponding period in 2008. Distribution expenses increased in line with the increase in the turnover.

The total general and administrative expenses for the period ended 30 June 2009 were RMB13,601,764 representing a decrease of approximately 71% as compared to the amount of RMB46,931,482 in the corresponding six months period in 2008.

The decrease of general and administrative expenses are mainly attributable to the significant decrease of the employee compensation due to the business in a state of pending for restructure for the six months ended 30 June 2008.

MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have any plans for material investments and acquisitions of material capital assets for the six months ended 30 June 2009 and at present it does not have other future plans for material investments or capital assets.

During the three months ended 30 June 2009, the Company has established two subsidiaries in the PRC, one with a registered capital of RMB500,000 while the other with a registered capital of RMB600,000.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

The Group has foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances and trade receivables of the Group are denominated in foreign currencies. The Group 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 Group has no significant investments held during the six months ended 30 June 2009.

FINANCIAL RESOURCES AND LIQUIDITY

The capital and reserves amounted to RMB28,684,469 as at 30 June 2009 (31 December 2008 capital deficiency was: RMB8,267,534). Current assets amounted to RMB77,575,725 (31 December 2008: RMB48,302,564), of which RMB10,254,722 (2008: RMB3,669,714) was cash and bank balances. As at 30 June 2009, approximately RMB2,789,646 (31 December 2008: RMB9,089,340) was pledged deposits.

CONTINGENT LIABILITIES

Up to the date of the report, the Company had contingent liabilities amounting to approximately RMB3,126,507 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 21 April 2008, 安徽江淮汽車股份有限公司 (Anhui Jianghuai Vehicles Shares Company Limited) (“Jianghuai Vehicles”) 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.

Pursuant to the final judgment (2009) Wan Min Er Zhong Zi No. 0004 by 安徽省高級人民法院 (Anhui Provincial High People’s Court) and settlement agreement signed between both parties on 6 June 2009, it was agreed that the Company shall pay RMB33,662,434 (included in the payables) to Jianghuai Vehicles, pay the relevant enforcement cost amounting to RMB2,675,476 to the 合肥市中級人民法院 (the Hefei City Middle People’s Court) by 20 December 2011, and the Company is in the progress of performing the settlement agreement.

2. On or about 25 June 2008, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) filed a writ with 張家港人民法院 (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 RMB5,239,754 in relation to chassis.

Pursuant to the settlement agreement signed between the parties on 14 May 2009 (the “Agreement”), the Company shall pay principal and legal expenses amounting to RMB4,823,439 (of which RMB4,778,409 is the principal (included in the payables), and the legal cost is RMB45,030) to 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) by 30 October 2010. If the Company were to pay the said amount

on time and in full as stipulated in the Agreement, 東風杭州汽車有限公司 (Dongfeng Hangzhou Vehicle Co., Ltd) would waive of the payment of interest by the Company. On 30 June 2009, the Company paid RMB1,000,000, and the Company is in the progress of performing the settlement agreement.

3. On or about 16 March 2009, 張家港市城市五金交電貿易有限公司 (Zhangjiagang City City Hardware, Transportation and Electrical Appliances Trading Co., Ltd) filed a writ with 張家港人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay RMB308,133 in relation to hardware accessories.
4. On or about 6 May 2009, 江陰市汽車座椅市有限公司 (Jiangyin City Vehicle Seat Co., Ltd) filed a writ with 江陰華士法庭 (the Jiangyin Huashi Court) against the Company. It is stated in the writ that the Company has failed to pay RMB97,868 in relation goods.

GEARING RATIO

The Group's gearing ratio (expressed as total liabilities to total assets) of approximately 0.88 as at 30 June 2009 as compared with approximately 1.04 as at 31 December 2008.

CAPITAL STRUCTURE

During the six months ended 30 June 2009, there is no change in the Group's share capital. As at 30 June 2009, the Group's operations were financed mainly by shareholder's equity and internal resources. The Group will continue to adopt its treasury policy of placing the Group cash and cash equivalents in interest bearing deposits.

EMPLOYEE INFORMATION

As at 30 June 2009, the Group employed 266 employees (2008: 24). Staff cost was RMB3,468,004 for the six months ended 30 June 2009, representing an increase of 100% as compared with that of RMB1,738,291 for the corresponding period in 2008.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).

SHARE OPTION SCHEME

The Company did not have any share option scheme.

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 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

After making reasonable enquiry, as at 30 June 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	Number of domestic shares held	Nature of Interests	Approximate percentage of total domestic shares of the Company	Approximate percentage of total share capital of the Company
Chengdu New Dadi Motor Company Limited ("Chengdu New Dadi") (Note 1)	100,340,000	Beneficial owner	51.13%	35.23%
Foshan City Shunde Rixin Development Company Limited, ("Shunde Rixin") (Note 2)	100,340,000	Interest of controlled corporation	51.13%	35.23%
Foshan City Shunde Ganghua Shiye Company Limited ("Shunde Ganghua") (Note 3)	95,310,000	Beneficial owner	48.57%	33.47%
Li Zi Hao (Note 4)	100,340,000	Interest of controlled corporation	51.13%	35.23%
	95,310,000	Interest of spouse	48.57%	33.47%
Pan Li Chan (Note 5)	95,310,000	Interest of controlled corporation	48.57%	33.47%
	100,340,000	Interest of spouse	51.13%	35.23%

Notes:

1. Chengdu New Dadi, a limited company incorporated in the PRC, is owned as to 50% by 中汽聯汽車技術(成都)有限責任公司 (Auto Union (Chengdu) Company Limited) (“CAU”), and 50% by 佛山市順德日新發展有限公司 (Foshan City Shunde Rixin Development Company Limited) (“Shunde Rixin”).

CAU is a limited company incorporated in the PRC and is wholly owned by China Auto Union Limited, a company incorporated in Hong Kong. China Auto Union Limited is owned as to 50% by MZ Investment Company, an Egypt company and 50% by Loughborough Limited, a company incorporated in the British Virgin Islands. MZ Investment Company is beneficially owned as to 49%, 49% and 2% by Mrs. Shahira Magdy Zeid, Mrs. Bahira Magdy Zeid and Mrs. Soheir Ahmed Zaki respectively and they are mother and daughters. Loughborough Limited is wholly owned by Mr. Kwok Tat Pui.

2. Shunde Rixin is a limited company incorporated in the PRC and is owned as to 80% by Mr. Li Zi Hao and 20% by Ms. Pan Li Chan.
3. Shunde Ganghua, a limited company incorporated in the PRC, is wholly and beneficially owned by Ms. Pan Li Chan.
4. The interest of Mr. Li Zi Hao included 100,340,000 shares owned by Chengdu New Dadi and 95,310,000 shares owned by Ms. Pan Li Chan who is his spouse.
5. The interest of Pan Li Chan included 95,310,000 shares owned by Shunde Ganghua which is wholly and beneficially owned by her and 100,340,000 shares owned by Mr. Li Zi Hao who is her spouse.

Save as disclosed above, as at 30 June 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 30 June 2009, 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 did not have any interest in any businesses which directly or indirectly compete with business of the Company for the six months ended 30 June 2009.

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

During the six months ended 30 June 2009, the Company has not purchased, sold or redeemed any of its listed securities.

AUDIT COMMITTEE

The audit committee of the Company ("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 to 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 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.

CODE OF CONDUCT FOR DIRECTORS CARRYING OUT SECURITIES TRANSACTIONS

During the six months ended 30 June 2009, 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 2009, in compliance with the Code on Corporate Governance Practice (“CG Code”) set out by the Stock Exchange in Appendix 15 to the Listing Rules.

REMUNERATION COMMITTEE

On 10 April 2008, the Company established the remuneration committee (“Remuneration Committee”) with written terms of reference pursuant to the CG Code and all committee 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 the 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 will consider factors such as the remuneration of comparable companies, time contributed by and duties of the Directors, the employment condition of the Company and the feasibility of remuneration based on performance, etc.

INTERNAL CONTROL

To enhance the internal control system of the Company, the Directors are responsible for regularly reviewing the internal control and risk management system of the Company to ensure its effectiveness and efficiency. With the support of the internal audit department, they have reviewed the practices, procedures, expenditure and internal control of the Company. The management will regularly monitor issues of concern as reported by the internal audit department to ensure appropriate remedial measures have been implemented. The Board or senior management can also request the internal audit group to review specific areas of concern and report significant findings of such review to the Board and the audit committee.

During the year 2008 under review, the Company has appointed an independent auditor to conduct an overall review on the internal control system of the Company. Based on the recommendations made by the independent auditor, the Company has made improvements to its internal control system.

ACQUISITION OF SHARES IN THE COMPANY AND MANDATORY UNCONDITIONAL GENERAL 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 were shareholders of the Company) entered into four separate disposal agreements (the “Disposal Agreements”) and a related memorandum (“Memorandum”) with various purchasers (the “Purchasers”) 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.

All conditions of the Memorandum and Disposal Agreements were fulfilled or, as the case may be, waived and completion of the sale and purchase of the shares as contemplated under the Disposal Agreements and the Memorandum took place on 16 June 2009. After such completion, parties acting in concert with the Purchasers hold approximately 68.92% of issued share capital of the Company, therefore, they are required to make a mandatory unconditional general offer in respect of all shares of the Company (other than those owned or agreed to be acquired by them) under Rule 26 of the Takeovers Code.

To the best estimate of the Directors and the offeror under the general offer mentioned above under the current circumstances, the Directors and the offeror expect that the despatch of the composite offer document will not be later than 17 August 2009.

Further details of the Disposal Agreements and the progress of the general offer are set out in the Company's announcements dated 6 June 2008, 27 June 2008, 2 October 2008, 31 March 2009 and 3 July 2009.

By Order of the Board
Mudan Automobile Shares Company Limited

GUO ZHI RONG

Chairman

Zhangjiagang City, Jiangsu Province, the PRC
10 August 2009

As at the date of this report, 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.