

**MUDAN AUTOMOBILE SHARES COMPANY LTD:
TICK, TICK, TICK ...
WILL MANAGEMENT BE ABLE TO PULL THE FAT OUT OF THIS FIRE ?**

Mudan Automobile Shares Company Ltd () (Code: 8188, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd) has just received its 15 lawsuit.

In the Chairman's Statement, dated April 30, 2008, in respect of the results of this bus manufacturer for the Financial Year, ended December 31, 2007, Mr Kuo Zhi Yung () stated that, as at April 23, 2008, *'there are altogether 14 law suits against the Company.'*

Well, now, there are 15 lawsuits.

The latest lawsuit has come from Mr Wang Xiao Jun (), trading as X. J. Wang and Company (), a Sole Proprietorship, practising law in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

Mr Wang Xiao Jun is suing Mudan Automobile Shares Company Ltd for \$HK92,150, being, allegedly, Money Due and Owing for Work Done and Services Rendered, dating back to April 2006.

Paragraph 7 of the Statement of Claim, attached to Writ of Summons, Number 3530, lodged in the District Court of the HKSAR, states that despite *'repeated requests and demands'*, Mudan Automobile Shares Company Ltd *'has failed and/or refused to pay all or any of the total sums of HK\$92,150.00 due under the Bills.'*

While Mudan Automobile Shares Company Ltd is said to be a manufacturer of buses in the PRC, actually, as at October 2007, all production had ceased.

The Company has an unbroken record of losing money, dating back to at least the 2003 Financial Year.

In aggregate, for the 66 months, ended June 30, 2008, the losses were about 347 million renminbi ... and climbing.

The auditing firm of Lo and Kwong C.P.A. Company Ltd () has stated, on April 30, 2008, in respect of the 2007 Financial Year, that *'The financial statements have been prepared on a going concern basis, the validity of which depends on the continuing financial support from the proposed acquirers ...'*.

At Page 34 of the 2007 Annual Report, Note 2, it is stated:

'2. Basis of preparation of financial statements

'As detailed disclosure made in note 25 and 27B to the financial statements, the Company had involved a number of litigations with its suppliers. Part of the bank accounts of the Company have already been frozen following filing of the lawsuits. Up to 23 April 2008, the amount frozen is about RMB1,865,333. As at the date of this report, the Company does not have enough cash to satisfy in full the claims stated in the writs above. Also, the Company had been suspended its business production since October 2007. As a result, the Company

should allot a significant fund for payment to staff for compensation of early termination of employment and compensation and surcharge should be paid to suppliers for those litigations. The amount would be paid to staff for compensation of early termination of employments is about RMB59,232,189 million. However, the amount indemnity should be paid to suppliers and any other possible effect to those litigations are uncertainly and difficult to quantify.

'As disclosed in note 27C to the financial statements, the Board announces that on 25 February 2008, two substantial shareholders of the Company, namely, Jiangsu Mudan (Jiangsu Mudan Automobile Group Company Ltd []) and (Zhangjiagang Municipal Public Assets Management Co. Ltd., "ZMPAM"), which hold approximately 35.23% and 33.47% of the entire issued share capital of the Company respectively, and two minority shareholders, (Zhangjiagang Municipal Mudan Bus Accessories Co. Ltd., "ZMMBA") and (Zhangjiagang Municipal Mudan Car Accessories Co. Ltd., "ZMMCA") have signed their respective memorandum and agreements for the intended disposal of their entire respective interests to the proposed acquirers upon fulfillment of the conditions as mentioned in note 27C.'

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