



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)



Interim Report 2005

* For identification only

Interim Report For the six months ended 30 June 2005

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This Interim 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 Interim 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 Interim Report misleading; and (3) all opinions expressed in this Interim Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

- In the first half year of 2005, the Company was still under the sustaining impact of austerity measures adopted by the State while the raw material prices were staying high. The competition in the industry became more fierce. The Company recorded turnover of RMB267,559,134 and a loss of RMB13,227,307 for the six months ended 30 June 2005 (“Six Months” or “the Half Yearly Period”) respectively, loss per share is approximately RMB4.6 cents.
- During the Half Yearly Period, approval was granted by the National Development and Reform Commission (the “NDRC”) of the People’s Republic of China (the “PRC”) for 8 new products including light-sized buses, medium-sized buses and large-sized buses developed by the Company.



RESULTS

The Board of Directors (the “Board”) of the Company is pleased to announce that the unaudited results of the Company for the three months and six months ended 30 June 2005 together with comparative unaudited figures for the corresponding periods in 2004 are as follows:

UNAUDITED INCOME STATEMENT

	<i>Note</i>	For the three months ended 30 June		For the six months ended 30 June	
		2005	2004	2005	2004
		RMB	RMB	RMB	RMB
Revenue	2	153,343,085	195,945,063	267,559,134	365,980,050
Cost of Sales		(142,673,379)	(168,471,234)	(250,305,746)	(322,638,802)
Gross Profit		10,669,706	27,473,829	17,253,388	43,341,248
Other income from operation		1,260,439	921,899	1,753,232	1,260,718
Distribution expenses		(6,790,460)	(8,633,855)	(11,757,449)	(17,505,893)
General and administration expenses		(9,449,409)	(5,733,228)	(16,679,737)	(12,293,066)
Other operating expenses		5,300	(229,000)	(56,623)	(428,430)
Profit from operations		(4,304,424)	13,799,645	(9,487,189)	14,374,577
Net finance costs		(2,395,487)	(3,865,594)	(3,740,118)	(6,519,852)
Profit (loss) before tax	5	(6,699,911)	9,934,051	(13,227,307)	7,854,725
Income tax expense	3	-	(3,278,237)	-	(2,592,059)
Profit attributable to shareholders		(6,699,911)	6,655,814	(13,227,307)	5,262,666
Earnings (loss) per share	4				
- Basic		(2.4)	2.34	(4.6)	1.85

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A separate statement of recognized gains and losses is not presented because there were no recognized gains and losses other than the profit (loss) attributable to shareholders for the periods.

BALANCE SHEET

	Note	As at 30 June 2005 RMB Unaudited	As at 31 December 2004 RMB Audited
Non-current assets			
Property, plant and equipment	6	216,773,416	226,331,755
Construction in progress		13,140,911	60,000
Deferred tax assets		–	3,759,815
Total non-current assets		229,914,327	230,151,570
Current assets			
Inventories		97,194,584	87,388,888
Trade and other receivables	7	146,571,143	166,635,340
Amounts due from a shareholder		225,783,843	203,176,037
Amounts due from related parties		–	3,412,918
Pledged deposits		321,979,862	263,286,176
Investments in unit trusts		–	–
Cash and cash equivalents		23,802,778	58,547,175
Total current assets		815,332,210	782,446,534
Current liabilities			
Short-term bank loans (unsecured)	8	164,200,000	166,850,000
Trade and other payables	9	513,514,838	482,294,242
Amounts due to shareholders		6,040,277	7,093,104
Income tax payable		20,675,283	2,317,312
Total current liabilities		704,430,398	658,554,658
Net current assets		110,901,812	123,891,876
Total assets less current liabilities		340,816,139	354,043,446
Non-current liabilities			
Long-term bank loan (secured)	8	–	–
Total non-current liabilities		–	–
Net assets		340,816,139	354,043,446
Equity and liabilities			
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
Retained earnings		25,172,857	38,400,164
Total capital and reserves		340,816,139	354,043,446



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Statutory surplus reserve fund (unaudited) RMB'000	Statutory public welfare fund (unaudited) RMB'000	Tax reserve (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Foreign currency translation difference (unaudited) RMB'000	Total (unaudited) RMB'000
Balances as of 1 January 2004	284,800	-	15,166	15,166	-	40,730	-	355,862
Net profit for the six months ended 30 June 2004	-	-	-	-	-	5,263	-	5,263
Dividends	-	-	-	-	-	-	-	-
Appropriation from retained profits	-	-	-	-	-	-	-	-
Balances as of 30 June 2004	284,800	-	15,166	15,166	-	45,993	-	361,125
Balances as of 1 January 2005	284,800	-	15,421	15,421	-	38,401	-	354,043
Net profit for the six months ended 30 June 2005	-	-	-	-	-	(13,227)	-	(13,227)
Dividends	-	-	-	-	-	-	-	-
Foreign currency translation difference	-	-	-	-	-	-	-	-
Appropriation from retained profits	-	-	-	-	-	-	-	-
Balances as of 30 June 2005	284,800	-	15,421	15,421	-	25,174	-	340,816

UNAUDITED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2005 RMB Unaudited	2004 RMB Unaudited
Net cash flow from operating activities	26,934,916	(113,275,257)
Investing activities:		
Acquisition of property, plant and equipment	(2,681,425)	(4,756,571)
Interest received	2,345,798	3,735,304
Net cash outflow from investing activities	(335,627)	(1,021,267)
Net cash inflow before financing activities	26,599,289	(114,296,524)
Financing activities:		
Decrease/(increase) in pledged deposits	(58,693,686)	(3,777,900)
Proceeds from bank loans	(2,650,000)	92,967,954
Net cash inflow from financing activities	(61,343,686)	89,190,054
Net increase in cash and cash equivalents	(34,744,397)	(25,106,470)
Cash and cash equivalents at beginning of the year	58,547,175	114,213,956
Cash and cash equivalents at end of the period	23,802,778	89,107,486

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 modified by the marking to market of investments in unit trusts.



The accounting policies have been consistently applied by the Company and are consistent with those used in the 2004 annual financial statements.

2. Revenue and segmental information

The principal activities of the Company are the manufacture and sales of automobiles in the PRC. Revenue represents income arising from the sales of automobiles net of value added tax.

The Directors consider the Company operates within a single business.

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

	For the three months ended 30 June		For the six months ended 30 June	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Sales of automobiles:				
The PRC	129,851,376	168,932,219	238,985,652	323,945,057
Overseas market	23,491,709	27,012,844	28,573,482	42,034,993
	153,343,085	195,945,063	267,559,134	365,980,050

3. Income tax expense

The provision for PRC income tax is calculated at the tax rate of 33% (2004: 33%) of the estimated assessable income in accordance with the relevant income tax rules and regulations of the PRC.

4. Basic earnings per share

The calculation of loss per share for the three months and six months ended 30 June 2005 is based on the unaudited loss attributable to shareholders of about RMB6,699,911 and RMB13,227,307 respectively (2004: gains of RMB6,655,814 and RMB5,262,666) 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 2005, the weighted average number of shares in issue is 284,800,000 and 284,800,000 respectively (2004: 284,800,000 and 284,800,000). No diluted loss per share is presented as there were no dilutive potential ordinary shares outstanding.

5. Profit before tax

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

	For the three months ended 30 June		For the six months ended 30 June	
	2005 RMB Unaudited	2004 RMB Unaudited	2005 RMB Unaudited	2004 RMB Unaudited
(a) Net finance costs				
Interest on bank advances and other borrowing repayable within five years	2,924,235	5,016,616	5,782,655	8,898,586
Bank charges	144,177	85,800	303,261	156,000
Interest Income	(672,925)	(1,236,822)	(2,345,798)	(2,534,734)
(b) Other items				
Depreciation	(4,649,285)	4,671,473	(9,273,435)	9,298,655
Operating lease rentals in respect of land and properties	-	-	-	-
Research and development expenses	222,615	357,159	326,688	489,020

6. Property, plant and equipment

During the Half Yearly Period, the Company had additions to property, plant and equipment in the amount of RMB2,681,425 (2004: RMB8,300,562)

7. Trade and other receivables

Trade and other receivables comprise:

	As at 30 June 2005 RMB Unaudited	As at 31 December 2004 RMB Audited
Bills receivable	130,208,946	132,773,821
Advance deposits to suppliers	4,456,487	28,009,880
Trade debtors and other debtors	11,905,710	5,851,639
	146,571,143	166,635,340

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

	As at 30 June 2005	As at 31 December 2004
	RMB Unaudited	<i>RMB</i> <i>Audited</i>
Within 3 months	46,267,904	28,330,003
Over 3 months but less than 6 months	12,480,912	15,582,428
Over 6 months but less than 1 year	9,994,652	42,816,207
Over 1 year but less than 2 years	46,526,865	40,360,276
Over 2 years	14,938,613	5,684,907
	130,208,946	132,773,821

Customers are normally granted credit terms of three months to twelve months (31 December 2004: 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 2004: eighteen months).

8. Bank Loans

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Short-term bank loan

Details of the short-term bank loans as at 30 June 2005 are as follows:

Principal	Interest rate	Loan period
25,000,000	5.0445%	12 July 2004 to 11 July 2005
20,000,000	5.742%	27 January 2005 to 26 July 2005
20,000,000	5.742%	7 June 2005 to 6 December 2005
2,800,000	5.22%	27 June 2005 to 27 July 2005
4,800,000	5.22%	27 June 2005 to 27 July 2005
4,900,000	5.22%	28 June 2005 to 28 July 2005
17,700,000	5.22%	28 June 2005 to 28 July 2005
9,000,000	5.742%	30 April 2005 to 26 October 2005
20,000,000	5.481%	19 January 2005 to 18 July 2005
15,000,000	5.481%	21 March 2005 to 20 September 2005
10,000,000	5.742%	21 April 2005 to 20 October 2005
15,000,000	5.859%	17 January 2005 to 16 January 2006
164,200,000		

Among the short-term bank loans as at 30 June 2005, RMB110,000,000 has no pledge (2004: no pledge). RMB54,200,000 was pledged over plant, building and bills receivables.

Long-term bank loan (secured)

The long-term bank loans as at 30 June 2005: Nil.

9. Trade and other payables

Trade and other payables comprise:

	As at 30 June 2005 RMB Unaudited	As at 31 December 2004 RMB Audited
Trade creditors	81,347,859	104,749,511
Bills payable	393,866,918	320,501,232
Accrued salaries, bonus and welfare fund	18,834,361	22,174,416
Other payables	19,465,700	34,869,083
	513,514,838	482,294,242

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

	As at 30 June 2005 RMB Unaudited	As at 31 December 2004 RMB Audited
Due within 3 months	92,127,701	320,542,307
Due after 3 months within 6 months	388,002,811	104,708,436
Over 6 months but less than 1 year	11,713,299	-
Over 1 year	-	-
	491,843,811	425,250,743



10. Share Capital

	As at 30 June 2005		As at 31 December 2004	
	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	88,550,000	31.1	88,550,000	31.1
Total	284,800,000	100	284,800,000	100

11. Reserves

Other than the net loss for the six months ended 30 June 2005, there were no movement to or from reserves of the Company during the relevant period (2004: Nil).

BUSINESS REVIEW

Results performance

In the first half year of 2005, owing to the austerity measures adopted by the State, the ever raising raw material prices and the more keen competition in the industry, the Company recorded turnover of RMB267,559,134 and a loss of RMB13,227,307 for the six months ended 30 June 2005 respectively, among which the turnover represented a decrease of approximately 26% as compared to those of the Company for the corresponding period in 2004.

During the period, loss per share is approximately RMB4.6 cents.

The unaudited revenue of the Company for the three months ended 30 June 2005 (the “quarterly period”) was RMB153,343,085, representing a decrease of approximately 21% as compared to those of the corresponding period in 2004. The unaudited loss for the quarterly period was RMB6,699,911.

Sales of buses

Owing to the impact of the decreasing demand from the market, the revenue of the light-sized series of buses decreased to RMB93,895,758 (2004: RMB157,433,290) for the Half Yearly Period. The revenue of medium and large-sized series of buses amounted to RMB124,313,610

and RMB49,349,766 respectively for the Half Yearly Period (2004: RMB150,763,160 and RMB 57,783,600). Compared to the same corresponding period in 2004, revenue for light-sized, medium-sized and large-sized series of buses decreased by 40.35%, 17.54% and 14.59% respectively.

During the quarterly period, revenue of light, medium and large-sized series of buses amounted to RMB58,764,673, RMB64,898,273 and RMB29,680,139 respectively (2004: RMB87,070,116, RMB67,691,603 and RMB41,183,344). Compared to the same corresponding period in 2004, revenue for light-sized and large-sized series of buses decreased by 32%, 4% and 28% respectively.

Overseas market

For the six months ended 30 June 2005, the overseas sales revenue amounted to RMB28,573,482 (2004: RMB:42,034,993), which represent a drop of approximately 32.02% as compared to those of the corresponding period in 2004.

New products

During the half year period, there were 8 new products of the Company approved and announced by the NDRC, including 1 model of the MD6700 series light-sized buses, 2 models of the MD6700 series medium-sized buses, 1 model of the MD6820 series medium-sized buses, 1 model of the MD6790 series medium-sized buses, 1 model of the MD6902 series medium-sized buses, and 2 models of the MD6120 series large-sized buses.

Market promotion

During the Half Yearly Period, the Company secured improving market responses by organizing road-show activities for the new products in the domestic market. By holding meetings with clients in different regions, the Company promoted the brand of its products, obtained feedbacks from clients on the market and the products information by direct communication with clients in such meetings. These enhance better understanding of the clients' needs, improve the products and after-sales services, maintain close client relationships and ensure the Company's products meet the needs of the market.

During the Half Yearly Period, the Company joined the World Automobile Exhibition Asian Division (世界客車博覽會亞洲分會) held in Shanghai and the products displayed received high rating from the industrial experts.



Technology cooperation

During the half year period, the Company was in cooperation with Jiangsu University to develop technology. We have made progress in improving the quality of the traditional products and part of the newly developed models. By applying science reasonably to the perfecting of the body structure design of bus, and steel raw materials, lightened design of bus, intensive cooperation has been made to resolving many technical difficulties and achieving remarkable results.

FUTURE PROSPECTS

To focus on developed channels, to adjust to the market intensively, to collect opinions from the market

For the next step, the Company will fully make use of the strength over the domestic sales network on the national sales and services locations over different provinces and cities and the overseas sales network. Also the Company will intensively adjust to the market changes and initiate more sincere negotiations with customers, and to grasp the demand of the market. Also the Company will establish a system to quickly respond to the opinions from the market so as to keep an eye closely on the market which is expected to meet the expectation of the customers in a better way.

To make use of the scale of economy, to amplify creativity, to improve the quality of management

For the next step, the Company will take advantage of the strength of scale of economy. The employees are expected to develop technology creativity on a large scale, and to improve quality. Also the Company is expected to improve the product quality, reduce the production costs, improve quality of management, and provide the best quality and price competitive Mudan products for the best interest of the customers.

To take advantage of the Company's brandname, to promote the Mudan's brandname intensively, to enhance the awareness of the Company's brandname

The Company will further promote the Mudan's brandname by making use of mass media like network, television broadcasting stations and newspapers, especially by making use of the 10th National Games, to effectively enhance the awareness and influence of Mudan's bus brandname in the form of two dimensional advertisement, multi-media advertisement and actual products.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales and gross profits

The cost of the sales of the Company for the Six Months was RMB250,305,746. The unaudited gross profit margin of the Company was approximately 6.45%, about 5.39% lower than the unaudited gross profit margin of the Company of approximately 11.84% for the corresponding Half Yearly Period in 2004. The decrease mainly resulted from the increasing raw material price of steel and chemical products during the Half Yearly Period.

Other Operating Income

Other operating income of the Company during the quarterly period and the Half Yearly Period was about RMB1,260,439 and RMB1,753,232 respectively (2004: RMB921,899 and RMB1,260,718).

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

Distribution expenses and general administrative expenses

The Company continues to expand its sales and marketing network. The Company had adopted a strict cost control policy to have a control of the distribution expenses. As a result, distribution expenses for the Six Months was in the sum of RMB11,757,449, represents a decrease of approximately 32% as compared to the amount from RMB17,505,893 in the corresponding period in 2004.

The total general and administrative expenses for the Half Yearly Period was approximately RMB16,679,737, represents an increase of approximately 36% as compared to the amount of RMB12,293,066 in the corresponding six months period in 2004. Among which, the increased employees' social insurance fees and housing accumulation funds results from the policy reasons, and the management payout fees amounted to about RMB7,424,488, represents a decrease of 16% as compared to the amount of RMB8,931,876 in the corresponding six months period in 2004, this was mainly result from the efficiency control of the management payout fees .

Financial resources and liquidity

The shareholders equity amounted to RMB340,816,139 as at 30 June 2005 (31 December 2004: RMB354,043,446). Current assets amounted to RMB815,332,210 as at 30 June 2005 (31 December 2004: RMB782,446,534), of which RMB23,802,778 were cash and bank balances (31 December 2004: RMB58,547,175). As at 30 June 2005, the Company has a short-term bank loans of about RMB164,200,000 (31 December 2004: RMB166,850,000). The short-term bank loans are repayable within one year.

Charges on assets

As at 30 June 2005, the short-term bank loans was RMB54,200,000 secured by plant, buildings and bills receivables (31 December 2004: the short-term bank loans was RMB28,000,000 secured by plant and buildings).

Gearing ratio

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 2.07 as at 30 June 2005 (31 December 2004: 1.9).

Capital Structure

During the six months ended 30 June 2005, there is no change in the Company's share capital. As at 30 June 2005, the Company's operations were financed mainly by shareholder's 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.

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 2005 and at present it does not have other future plans for material investments or capital assets.

Exposure in exchange rate fluctuations

Substantially all the Company's monetary assets, sales and raw materials purchases are denominated in RMB and the Directors consider the exchange rate risks of the Company is considered to be minimal.

Employee Information

As at 30 June 2005, the Company employed 2,045 employees (2004: 2,158). Staff cost was approximately RMB21,279,270 for the six months ended 30 June 2005, representing a decrease of 4% as compared with that of approximately RMB22,149,122 for the corresponding period in 2004.

Contingent Liabilities

As at 30 June 2005, the Directors were not aware of any material contingent liabilities.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months and six months ended 30 June 2005 (2004: 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 2005, none of the Directors, supervisors or chief executive of the Company had any interest and short position in shares, debentures or underlying shares of the Company and its associated corporation (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange pursuant to terms 7th and 8th of Part XV of the SFO, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.47 to 5.67 of the GEM Listing Rules.

2. Substantial shareholders of the Company and other persons

Save as disclosed below, as at 30 June 2005, 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 the terms of 2nd and 3rd of 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

Name of shareholder	Number of shares (domestic shares)	Capacity	Approximate percentage of the issued share capital under the relevant classes of shares
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	95,310,000	Beneficial Owner	33.47%
	100,340,000	Interest of a controlled corporation (Note 1)	35.23%
Jiangsu Mudan Automobile Group Co., Ltd. ("Jiangsu Mudan")	100,340,000	Beneficial Owner	35.23%
Zhangjiagang Municipal Leyu Town Assets Management Co. Ltd. ("Leyu Town Assets Management")	100,340,000	Interest of a controlled corporation (Note 2)	35.23%

Notes:

1. ZMPAM has 33.4% interests in Jiangsu Mudan. Accordingly, ZMPAM 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, ZMPAM 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.
2. Leyu Town Assets Management has 37.2% interests in Jiangsu Mudan. Accordingly, Leyu Town Assets Management 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, Leyu Town Assets Management 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.

COMPETING INTEREST

None of the Directors, supervisors, management shareholders and substantial shareholders of the Company and their respective associates (for definition, refer to “GEM Listing Rules”) has any interest in any business which directly or indirectly compete with business of the Company for the six months ended 30 June 2005

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

During the six months ended 30 June 2005, the Company has not purchased, sold or redeemed any of its listed securities.

AUDIT COMMITTEE

The Company's unaudited interim results for the six months ended 30 June 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and disclosure requirements of the Stock Exchange, and that adequate disclosures had been made.

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RULES OF DEALING WITH THE SECURITIES

The operation of dealing with the Company's securities (if any) of the directors of the Company has complied with the standard requirement of Rules 5.47 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2005, no other standard are adopted.

For the six months ended at 30 June 2005, every directors' action comply with the Rules 5.47 to 5.67 of the GEM Listing Rules according to the special inquire made to the directors by the Company.



DISCLOSURE OF TRADE RECEIVABLE PURSUANT TO RULES 17.15 AND 17.22 OF THE GEM LISTING RULES

As at 30 June 2005, there were 284,800,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.338 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 21 March 2005 to 29 March 2005 (both days inclusive), being the five business days immediately preceding 30 June, 2005 during which the Company's shares have been traded, the total market capitalization for the Company was approximately HK\$96,262,400 million as at 30 June 2005.

As at 30 June 2005, trade receivable from one customer of the Company, Guangzhou Bai Yun Hua Gang Motors Trading Centre, amounted to about HK\$20,074,634 (RMB21,279,112), representing approximately 20.9% of the Company's total market capitalization as at 30 June 2005. The above mentioned customer 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). The repayment terms and schedules have not been determined yet.

The above 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 has normal terms of settlement. Due to the nature of the transactions and business practice, trade receivable can only be finalized after month end, which also need to be verified and confirmed by customers pursuant to the normal trading practices in respect of such receivables and the relevant trade terms. As the balance of the trade receivable was recorded in the six months ended 30 June 2005, they shall be disclosed under Rule 17.22 of the GEM Listing Rules.

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CORPORATE GOVERNANCE

Board of directors

Detailed rules are not specified in the rules of procedures of the board of directors meeting which ensures directors have the chance to propose matter to be included in the agenda of the regular board of directors meeting. There is no clear guideline on drafting, distribution, and conclusion of minutes of board of directors meeting. And procedure has not been decided to reasonably seek for independent professional opinion. The board of directors of the Company shall adopt the procedure equivalent to those required by the GEM Listing Rules.

Directors and senior executives

The Chairman of the Company, Mr. Sun Min Biao, is also the Chief Executive Officer (General Manager) of the Company. And the Company does not define clearly the duties of Chairman from General Manager in writing apart from those specified in the Articles of Association. The board of directors of the Company is now actively looking for a replacement to the position of General Manager from other senior executives.

Remuneration committee

During the six months ended 30 June 2005, the Company did not establish a remuneration committee. The Company is going to establish the remuneration committee and to define its duties in accordance with the relevant requirement of the listing rules.

By order of the Board

Mudan Automobile Shares Company Limited

SUN Min Biao

Chairman

10 August 2005

Zhangjiagang City, Jiangsu Province, the PRC

