



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)



3rd Quarterly Report 2005

* For identification only

Third Quarterly Report For the nine months ended 30 September 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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 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 nine months ended 30 September 2005, the Company recorded a turnover of RMB413,747,309, representing a decrease of 19.07% as compared with the corresponding period in 2004.
- For the nine months ended 30 September 2005, the Company recorded a net loss of RMB20,174,213 (2004 : net loss of RMB 2,005,762) and loss per share is RMB7.08 cents.
- For the nine months ended 30 September 2005, approvals were 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.

UNAUDITED QUARTERLY RESULTS

The board of Directors (the “Board”) hereby announces the unaudited quarterly results of the Company for the three months and nine months ended 30 September 2005, together with the comparative figures of the corresponding period of 2004 as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2005 RMB (Unaudited)	2004 RMB (Unaudited)	2005 RMB (Unaudited)	2004 RMB (Unaudited)
Revenue	2	146,188,175	145,255,631	413,747,309	511,235,681
Cost of sales		(136,728,061)	(137,843,998)	(387,033,807)	(460,482,800)
Gross profit		9,460,114	7,411,633	26,713,502	50,752,881
Other operating Income		1,503,394	1,369,392	3,256,626	2,630,110
Distribution expenses		(6,985,826)	(9,748,318)	(18,743,275)	(27,254,211)
General and administrative expenses		(9,292,314)	(6,612,802)	(25,972,051)	(18,905,868)
Other operating expenses		(242,178)	124,932	(298,801)	(303,498)
Profit (Loss) from operations		(5,556,810)	(7,455,163)	(15,043,999)	6,919,414
Net finance costs		(1,390,096)	(2,405,324)	(5,130,214)	(8,925,176)
Profit (Loss) before tax		(6,946,906)	(9,860,487)	(20,174,213)	(2,005,762)
Income tax expense	3	-	-	-	-
Profit (Loss) attributable to shareholders		(6,946,906)	(9,860,487)	(20,174,213)	(2,005,762)
Earnings (Losses) per share (cents)	4	(2.44)	(3.46)	(7.08)	(0.70)



Notes:

1. Basis of preparation and accounting policies

The principal accounting policies adopted in preparing the unaudited quarterly results conform with the International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. These unaudited quarterly results for the nine months ended 30 September 2005 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 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

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.

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2005	2004	2005	2004
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Sales of automobiles:				
The PRC	140,546,069	129,167,357	379,531,721	451,649,316
Overseas Market	5,642,106	16,088,274	34,215,588	59,586,365
Total	146,188,175	145,255,631	413,747,309	511,235,681

3. Income tax expense

Income tax expense represents the provision for PRC income tax. The provision for PRC income tax is calculated at the unified tax rate of 33% (2004: 33%) of the estimated assessable income for the quarterly results as determined in accordance with the relevant income tax rules and regulations of the PRC.

4. Basic earnings (losses) per share

For the three months and the nine months ended 30 September 2005, the calculation of earnings per share is based on the unaudited loss attributable to shareholders about RMB6,946,906 and RMB20,174,213 respectively (2004 : the unaudited net loss were RMB 9,860,487 and RMB 2,005,762 respectively) divided by the weighted average number of shares in issue of the Company during the respective period. For the three months and the nine months ended 30 September 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 earnings per share is presented as there were no diluting potential ordinary shares outstanding.

RESERVES

Other than the net loss for the three months and nine months ended 30 September 2005, there were no movements to or from reserves of the Company during the quarter (2004: none).

DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (2004: Nil).

BUSINESS REVIEW

1. Results performance

During this quarter, under the impact of the keen competition in the market, revenue for the nine months ended 30 September 2005 amounted to RMB413,747,309 (2004: RMB511,235,681) representing a decrease of approximately 19.07% as compared to that of the corresponding period in 2004. The net loss reached RMB20,174,213 (2004: net loss of RMB2,005,762).

Revenue for the three months ended 30 September 2005 amounted to RMB146,188,175 (2004: RMB145,255,631) representing an increase of approximately 0.6% as compared to that of the corresponding period in 2004. The net loss reached RMB6,946,906 (2004: net loss of RMB9,860,487).



2. New products were approved by the NDRC

For the three months ended 30 September 2005, there were 8 new products of the Company approved and announced by the NDRC, including 3 models of the MD6601 series light-sized buses, 1 model of the MD6701 series medium-sized buses, 2 models of the MD6800 series medium-sized buses and 2 models of the MD6100 series large-sized buses.

3. Latest awards

During the period, the Company participated in the Second National Bus Competition in China and received the following awards: the new MD6123 high-speed luxury large-sized bus was awarded “The Best Touring Outlook Award”, the Mudan light-sized bus, MD6608, was awarded “Village Bus Outstanding Award” and the medium-sized bus MD6110 was awarded “The City Bus Bronze Award”. During the period, the Company was approved by the Provincial Technical Centre of Jiangsu Province organized by the Economic and Trade Commission of Jiangsu Province as one of the eighth batch of Jiangsu Provincial Technical Centre, which indicated the advance of the Company’s technology to a higher level.

FUTURE PROSPECTS

1. To strengthen technology research, to create competitive advantage

As a Provincial Technical Centre, the Company will put further effort on technology management; upgrade technology software; fortify technical supervision and improve technical quality control and enhance production capacity. The Company will also focus on the research and development of the technology on light petroleum gas powered, electricity powered and mixed power motor vehicles and establish its own intellectual property.

2. To improve sales service, to increase market share

The Company will strengthen the research and collection of market information to provide accurate and timely information and basis for management decision. The Company will also strengthen customer relation management, and provide quality service to customers. The Company will develop systematic sales and operation strategy in order to encourage the performance of the sales team, and to achieve a higher sales quantity and quality.

3. To strengthen promotion of Mudan brand, to raise influence of Mudan

To follow up with the marketing and promotion after the 10th National Games, the Company will form an active interaction relationship with the media, and raise the awareness of Mudan brand to foster better attention, understanding and trust of the customers and potential customers on Mudan.

4. To reinforce corporate governance, fortify Mudan's strength

The Company will put its first priority on quality, and reinforce high quality corporate governance continuously. The Company will strive to get product inspection exemption. Also the continuous improvement is one of the most important tasks of the Company, which will involve improving the quality of all operations. The Company will make good use of every resource available so as to implement cost saving activities which will give rise to a cost competitive advantage over the market.

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 September 2005, none of the Directors, supervisors or chief executive of the Company or their associates (as defined in the GEM Listing Rules) had any interest or short position in shares, underlying shares or debentures of the Company or any 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 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 September 2005, the Directors are not aware of any other interests and short positions of any substantial shareholders (defined in the GEM Listing Rules) of the Company and other persons (other than a Director or chief executive of the Company) in the share or underlying shares of the Company, which will have to be notified to the Company and the Stock Exchange pursuant to 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
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	95,310,000 100,340,000	Beneficial Owner Interest of a controlled corporation (Note 1)	33.47% 35.23%
Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan")	100,340,000	Beneficial Owner	35.23%
Zhangjiagang Municipal Leyu Town Assets Management Company ("Leyu Town Assets Management")	100,340,000	Interest of a controlled corporation (Note 2)	35.23%

Notes:

1. ZMPAM has 33.4% equity 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% equity 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 (as defined in the GEM Listing Rules) has any interest in any businesses which directly or indirectly compete or may compete with the business of the Company for the period ended 30 September 2005.

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

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

AUDIT COMMITTEE

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

RULES OF DEALING WITH THE SECURITIES

The operation of dealing with the Company's securities (if any) of the Directors has complied with the standard requirement of Rules 5.47 to 5.67 of the GEM Listing Rules throughout the nine months ended 30 September 2005 and no other standard is adopted.

For the nine months ended at 30 September 2005, every director's action comply with the Rules 5.47 to 5.67 of the GEM Listing Rules according to the special inquiry made to the Directors by the Company.

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

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



As at 30 September 2005, trade receivables from Guangzhou Baiyun Hua Gang Automobile Trade Centre, a customer of the Company, amounted to about HK\$19,499,146 (RMB20,279,112), representing approximately 20.26% of the Company's total market capitalization as at 30 September 2005. The above mentioned customer is independent of, and not connected with, the Company, the Directors, supervisors, chief executive, substantial shareholders or management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules). As at 30 September 2005, the repayment terms and schedules have not been determined yet.

The captioned 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 includes normal terms of settlement. Due to the nature of the transactions and business practice, the amount of trade receivables can only be finalized at month end. Pursuant to the normal trading practices in respect of such trade receivables and the relevant commercial terms, the customer will verify and confirm the amount of the trade receivable. As the captioned trade receivable was recorded during the period of nine months ended 30 September 2005, this gave rise to a disclosure obligation under Rule 17.22 of the GEM Listing Rules.

By order of the Board

Mudan Automobile Shares Company Limited

SUN Min Biao

Chairman

8 November, 2005

Zhangjiagang, Jiangsu Province, the PRC