



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)



Third Quarterly Report 2006

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 2006, the Company recorded a turnover of RMB399,350,945 (2005: RMB413,747,309), representing a decrease of 3.48% as compared with the corresponding period in 2005.
- For the nine months ended 30 September 2006, the Company recorded a loss attributable to equity holders of RMB26,600,850 (2005: net loss of RMB 20,174,213).
- For the nine months ended 30 September 2006, loss per share is RMB0.093.

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 2006, together with the comparative figures of the corresponding period of 2005 as follows:

| | Note | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|------|--|---------------|---|---------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | RMB | RMB | RMB | RMB |
| Turnover | 2 | 148,284,895 | 146,188,175 | 399,350,945 | 413,747,309 |
| Cost of sales | | (140,615,584) | (136,728,061) | (377,565,485) | (387,033,807) |
| Gross profit | | 7,669,311 | 9,460,114 | 21,785,460 | 26,713,502 |
| Other operating income | | 2,210,244 | 1,503,394 | 6,971,807 | 3,256,626 |
| Distribution expenses | | (6,769,654) | (6,985,826) | (20,210,645) | (18,743,275) |
| General and administrative expenses | | (7,290,318) | (9,292,314) | (26,142,417) | (25,972,051) |
| Other operating expense | | (2,088,611) | (242,178) | (3,951,406) | (298,801) |
| Net finance costs | | (904,240) | (1,390,096) | (5,053,650) | (5,130,214) |
| Loss before taxation | | (7,173,268) | (6,946,906) | (26,600,850) | (20,174,213) |
| Income tax expenses | 3 | - | - | - | - |
| Loss attributable to equity holders | | (7,173,268) | (6,946,906) | (26,600,850) | (20,174,213) |
| Loss per share | | | | | |
| - basic | 4 | (0.025) | (0.024) | (0.093) | (0.071) |

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 2006 also comply with the applicable disclosure provisions of the GEM Listing Rules.

The measurement basis used in the preparation of the quarterly results is historical cost except for certain financial instruments which are measured at fair value.

The accounting policies have been consistently applied by the Company and are consistent with those used in the 2005 annual financial statements.

2. Turnover and segment information

The principal activities of the Company are the manufacture and sales of automobiles in the PRC. Turnover 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 | |
|-----------------------|--|--------------------|---|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| Sales of automobiles: | | | | |
| The PRC | 136,627,345 | 140,546,069 | 350,466,587 | 379,531,721 |
| Overseas market | 11,657,550 | 5,642,106 | 48,884,358 | 34,215,588 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | <u>148,284,895</u> | <u>146,188,175</u> | <u>399,350,945</u> | <u>413,747,309</u> |

3. **Income tax expense**

No provision for PRC income tax had been made as the Company did not derive any assessable profits for both periods.

4. **Basic loss per share**

For the three months and the nine months ended 30 September 2006, the calculation of loss per share is based on the unaudited loss attributable to equity holders about RMB7,173,268 and RMB26,600,850 respectively (2005: the unaudited loss were RMB6,946,906 and RMB20,174,213 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 2006, the weighted average number of shares in issue is 284,800,000 and 284,800,000 respectively (2005: 284,800,000 and 284,800,000). No diluted loss 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 2006, there were no movements to or from reserves of the Company during the quarter (2005: none).

DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (2005: Nil).

BUSINESS REVIEW AND OUTLOOK

1. *Results performance*

During this quarter, under the impact of the keen competition in the market, turnover for the nine months ended 30 September 2006 amounted to RMB399,350,945 (2005: RMB413,747,309) representing a decrease of approximately 3.48% as compared to that of the corresponding period in 2005. The loss attributable to equity holders of the Company reached RMB26,600,850 (2005: net loss of RMB20,174,213).

Turnover for the three months ended 30 September 2006 amounted to RMB148,284,895 (2005: RMB146,188,175) representing an increase of approximately 1.43% as compared to that of the corresponding period in 2005. The loss attributable to equity holders of the Company reached RMB7,173,268 (2005: loss of RMB6,946,906).

2. *Overseas sales*

The Company recorded a turnover of approximately RMB48,884,358 (2005: RMB34,215,588) from overseas sales in the quarter.

Based on the Company's present situation, the Board of Directors is of the opinion that Mudan Auto brand has a history of over 30 years, it enjoys rather high reputation in both mainland China and abroad, Mudan Auto has apparent competitive advantage in production facilities, manufacturing skills and product quality etc.

Although the Company is now in the production suspension stage, the Board of Directors is of the view that if there is sufficient injection of capital, the Company can re-start production business and can further strengthen internal control, standardize management of the company, Mudan will be able to further develop and grow.

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*

For the nine months ended 30 September 2006, 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 of the Company or any 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*

Save as disclosed below, as at 30 September 2006, 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) | Nature of Interest | Percentage of the issued shares capital (domestic shares and H shares) |
|---|---------------------------------------|--|---|
| Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM") | 95,310,000 | Beneficial Owner | 33.47% |
| Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan") | 100,340,000 | Beneficial Owner | 35.23% |
| Zhangjiagang Jin Mao Investment Development Co., Ltd. ("Jin Mao") | 100,340,000 | Interest of a controlled corporation (Note 1) | 35.23% |
| 張家港虹達運輸有限公司(「虹達」) | 100,340,000 | Interest of a controlled corporation (Note 1) | 35.23% |

Notes:

1. Jin Mao and 虹達 each has 19.35% interests in Jiangsu Mudan. Accordingly, Jin Mao and 虹達 is entitled to exercise or control the exercise of one-third or more of the voting rights in general meeting of Jiangsu Mudan. Under the SFO, 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

Current Directors did not discover any event in which any of the original 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 2006.

AUDIT COMMITTEE

The Audit Committee of the Company 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 Committee were to review and monitor the financial reporting process and internal control of the group. As at 30 September 2006, Mr. JIANG Lei, Mr. HUANG Zhen Hua and Ms. XIAO Wei Hong were members of the Audit Committee of the Company. However, they were dismissed at the Extraordinary General Meeting held on 3 March 2008. As at the date of the announcement, the Audit Committee of the Company 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 un-audited quarter results for the nine months ended 30 September 2006 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.

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

During the nine months ended 30 September 2006, the Company and any of its subsidiaries has not purchased, sold or redeemed any of the listed shares of the Company.

DISCLOSURE OF TRADE RECEIVABLES PURSUANT TO RULES 17.15 AND 17.17 OF THE GEM LISTING RULES

As at 30 September 2006, there were 284,000,000 shares of the Company in issue. Based on the closing price of the Company's shares of HK\$0.34 per share on 29 March 2005, the total market capitalization for the Company was approximately HK\$96,832,000 as at 30 September 2006.

As at 30 September 2006, trade receivables from Guangzhou Baiyun Hua Gang Automobile Trade Centre, a customer of the Company, amounted to about HK\$18,738,905 (RMB18,193,912), representing approximately 19.4% of the Company's total market capitalization as at 30 September 2006. The above mentioned customer is independent of, and not connected with, the Company, the Directors, supervisors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules). The Company had lost contact with the Customer and the Trade Receivables had been written off on the balance sheet date of 2005.

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 2006, this gave rise to a disclosure obligation under Rule 17.17 of the GEM Listing Rules.

By order of the Board

Mudan Automobile Shares Company Limited

GUO ZHI RONG

Chairman

Zhangjiagang, Jiangsu Province, the PRC
30 April 2008