




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)



Annual Report 2001

Mudan Automobile Shares Company Limited

Founded in 1998, Mudan Automobile Shares Company Limited (“Mudan Automobile” or the “Company”) is one of the largest bus manufacturers in The People’s Republic of China (the “PRC”). The Company’s H shares were listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 December 2001. The Company principally manufactures and sales of a range of light-sized, medium-sized and large-sized buses in the PRC under the brandname “牡丹” and trademark of “”. Headquartered in Jiangsu province with its production plants of over 103,000 square metres, Mudan Automobile has an annual production capacity of 20,000 buses. Major markets for Mudan buses include Guangdong province, Liaoning province, Jiangsu province and Shanghai.

Mudan buses have become popular in many industries. As a result, the Company has received the numerous awards for its leading market position, including “Name-brand Product in the PRC (中國名牌產品)”, “One of the Most Popular Name-brand Products in the PRC (中國暢銷品牌產品之一)”, “The Frist Recommended City Tourist Bus in the PRC (首屆中國城市旅遊汽車推薦會推薦產品)”, “Designated Name-brand Product in Jiangsu Province (江蘇省重點名牌產品)”, and “Name-brand Product in Jiangsu Province (江蘇省名牌產品)”.

Mudan Automobile’s expertise in strong product development as well as its extensive distribution network, efficient after-sales services and reputable brandname provide a solid foundation for further business expansion. Mudan Automobile’s mission is to become a leading bus manufacturer worldwide. To accomplish this mission, the Company will use its successful experience obtained in the PRC to tap overseas markets and opportunities for a global expansion.



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 annual report in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at <http://www.hkgem.com> in order to obtain up-to-date information on GEM listed issuers.

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

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Corporate Information

Executive Directors

SONG Bo Xiang (*Chairman*)
SUN Min Biao (*Vice-Chairman*)
SHI Jin Cheng (*Vice-Chairman*)
SHAO Zhi Nan (*Vice-Chairman*)
HOU Cheng Bao
JIANG Wei Sheng

Non-executive Director

YOU Lian Qun

Independent non-executive Directors

ZHANG Xiao Yu
WU Chang Fa

Supervisors

ZHU Xia Zheng
DING Shao Hua
JIN Hong

Senior management

YANG DE Xiang
LU Guo Zhang
ZHOU Pei Lin
LI Ning Yi
CAO Quan
YUE Fu Gen
XU Hong Bing
TANG Wei Dong
CHANG Jun
LI Jing Shan

Qualified accountant

LUI Wing Hong, Edward CPA (Aust.), FHKSA

Company secretary

LUI Wing Hong, Edward CPA (Aust.), FHKSA

Members of the audit committee

ZHANG Xiao Yu
WU Chang Fa

Compliance officer

SHAO Zhi Nan

Authorized representatives

SUN Min Biao
SHAO Zhi Nan

Authorized persons to accept service of process and notice

LEE Sing Leung, Robin

Auditors and reporting accountants

KPMG

Sponsor

CEF Capital Limited

Legal advisers to the Company

Preston Gates & Ellis
Kwok & Yih

Financial advisor to the Company

SCC Mandarin Financial Services Limited

Principal bankers

Bank of China
Zhangjiagang Branch

Agricultural Bank of China
Zhangjiagang Branch

Construction Bank of China
Zhangjiagang Branch

Hong Kong branch share registrar and transfer office

Hong Kong Registrars Limited
2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Registered office

No. 30 Lehong Road
Le Yu Town
Zhangjiagang City
Jiangsu Province
PRC

Website

www.mudanauto.com

Principal place of business in Hong Kong

Room 3602
New York Life Tower
Windsor House
311 Gloucester Road
Causeway Bay
Hong Kong


Stock code

8188

Chairman's Statement



I am pleased to submit to the shareholders the annual report of Mudan Automobile Shares Company Limited ("Mudan Automobile" or the "Company") for the year ended 31 December 2001.

The Company was incorporated on 18 September 1998 under the approval of Jiangsu Province People's Government as a joint stock limited company by six promoters including Zhangjiagang Municipal Public Assets Management Co., Ltd. (張家港市直屬公有資產經營有限公司) ("ZMPAM"), and Jiangsu Mudan Automobile Group Company Limited (江蘇牡丹汽車集團有限公司) ("Jiangsu Mudan"). The Company is principally engaged in the manufacture and sale of buses under the brandname "牡丹" and the trademark of "" in the PRC. The major products of the Company are five series of light-sized, medium-sized and large-sized buses, namely MD6601, MD6701, MD6800, MD6901 and MD6100, and the series are further classified into over 200 models. The Company is one of the largest bus manufacturers in the PRC.

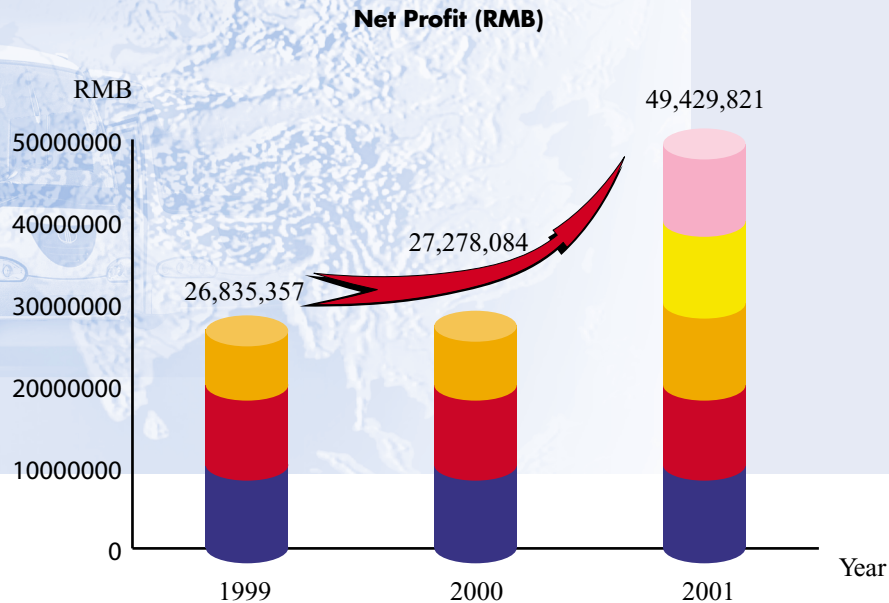
On 18 December 2001, Mudan Automobile was listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During December 2001, Mudan Automobile's public offering in Hong Kong attracted general interest from the investment sector. The Company issued and allotted a total of 88,550,000 H shares ("H Shares") by public offer and placing, among which included the conversion of 8,050,000 state-owned shares by ZMPAM into H Shares for sale to the public. The H Shares offered to the public was over-subscribed at over 50 times of the total number of H Shares available for subscription under the public offer. Based on the issue price of HK\$1.13 per H Share, the share offer raised a total capital of over HK\$90 million for the Company.

Business review

In 2001, with the continuous efforts made by all our staff members, the Company's business activities have all progressed satisfactorily that accomplished our profit forecast as disclosed in the prospectus published by the Company on 4 December 2001 ("Prospectus").

Chairman's Statement

Turnover for the year ended 31 December 2001 increased by approximately 10.5% from last year to RMB857,038,069. Net profit stood at RMB49,429,821, representing an increase of approximately 81.2% from last year.



Production

The Company further strengthened its production management to ensure that orders are met on schedule. The Company's production facilities, which consist of two factories, were fully complementary to each other by giving full play to the strengths of the staff and equipment of both factories, enhancing product innovation, increasing value added, strengthening cost management, further developing internal capability, lowering costs and increasing efficiency. In addition, the Company stepped up the execution and appraisal procedures and introduced a new system of motivation and control that ran smoothly. All production sectors were market-oriented and their management was improved so that they were able to amend production plans in a timely manner and carry out each tasks efficiently. The overall management standard was lifted successfully.

Sales

- A. The Company enhanced the sales of the Company's products by promoting sales, changing its selling method and improving its sales strategies. The Company segmented markets, strengthened customer relations, established flexible marketing practice and boosted initiatives of sales persons. The Company accomplished its sales targets by linking performance targets to cost, reward and appraisal.

The Company's buses are marketed and sold under the brandname "牡丹" which is owned Jiangsu Mudan. Such brand has been proved popular since its inception 19 years ago, and has been awarded "Famous Trademark in Jiangsu Province".

Chairman's Statement



The Company placed great emphasis on carrying out brand marketing strategies as well as effective market plans which included identifying most favored products and core products and enhanced products' awareness in the market. Exhibitions were held in major cities such as Shenzhen, Shanghai, Dalian, Changchun, Shenyang, Hangzhou, Xian, Guilin, Suzhou and Beijing. In Shanghai, Nanjing and other major cities and Shanghai-Ningbo Expressway and Guangzhou-Shenzhen Expressway, lit-up boards and billboards were erected. The Company also provided the Fourth APEC Technology Shows and Trade Fair with transportation services for promotion of its products. TV commercials and print advertisements were placed. Promotional leaflets were distributed and customer meetings were conducted. Through these channels, "Mudan City Star King", "Lower cabin floor buses" and "Luxury touring buses" were promoted. As a result, our products were better recognized by the market, and a mix of superb products were established.

Domestic sales in 2001 were RMB853,803,766, increasing by 10.6% from the previous year.

Chairman's Statement

B. Active development on the overseas markets has been one of the sales strategies of the Company . We have kept an eye on market changes and adjusted sales strategies of the overseas market swiftly. Major efforts were made to enlarge the market share, including arranging the sale of new products likely to have good market potential, and making use of the existing brandname “**牡丹**”. The Company participated in certain trade fairs and exhibitions such as World Bus Exhibition 2001 and '2001 Ulaanbaatar International Fair with encouraging results and was well received by customers. With on-going efforts in identifying new customers and new markets while strengthening the existing markets and customer base, we developed the markets in South Africa, South America and Asia.

Overseas sales in 2001 were RMB3,234,303.

Progress of research and development (R&D) centre

As to research and development, the Company has improved the operation of the R&D center, on the other hand, technology innovation is building up. In order to improve the competitive advantages of the Company , we added more technical and research staffs and speeded up the introduction and registration of new products, as well as upgraded the existing product. The R&D center is operated to fit market demand and acted as a strong backup of our marketing team. The center has completed the selection of a few study issues including quality problems and adoption of new technology. Dedicated team leaders and members have been selected and started for some of the projects.

Development of new products

More resources on R&D have been placed to develop new market-oriented products and applications have been made to the State Economic and Trade Commission for the approval of new product models. The Company has also commenced cooperation with external academic and research institutions to speed up the progress of new projects and enhance the development of new products.

New products under development include new models of MD6701 series, MD6901 series and MD6800 series of medium-sized buses.



Chairman's Statement

New model of MD6701 series of medium-sized buses

The new model of bus is another model of high speed bus recently released by the Company. The model has the characteristics of the bus body of Suzuki, of which the chassis under a more established brand is selected. The model is equipped with rear-located power system. With its modernized appearance, wide vision, luxurious internal fitting, comfortable seats, this model has the features of great power, safety and environmental friendliness, and is suitable for long to medium journeys and travelling between cities.

New model of MD6901 series of medium-sized buses

The model is a new model of high speed bus launched to fulfill the market demand for highway transportation in the country. The model uses the the German-made "Man" chassis. It is equipped with rear-located diesel engine. The internal fitting is soft and the bus is equipped with adjustable high back seat covered with genuine leather. The bus is installed with roof-mounted air-conditioner and independent water-warmed unit. On top of each seat there is a reading light and air vent. The bus is installed with car-used drinker and refrigerator. A turnable LCD monitor is installed on the roof and the dashboard is equipped with parking monitoring device. An electronic defrost outer rear mirror is installed outside the bus.

The chassis is equipped with anti-lock brake system ("ABS"), ASR anti-skid device, air suspension and full automatic lubricating device to ensure safety in driving.

The bus looks mechanised and is internally luxurious with reasonable fittings. It is easy to drive and is a contemporary choice for long distance passenger transportation.

New model of MD6800 series of medium-sized buses

The new model of bus is equipped with ABS, power steering device, satellite navigation system and surround sound entertainment system which makes driving comfortable and convenient.

In 2001, the Company developed a total of 48 new products which passed the verification of relevant State authorities. These products were announced by the State Economic and Trade Commission in the form of notice.

ISO9002 quality certification

The Company obtained the ISO9002 quality certification granted by China Certification Committee for Quality Mark-Certification Centre on 22 October, 2001.

Future prospect

The Company will capitalise on the anticipated increase in demand for buses in the PRC by modernisation of production facilities and introduction of advanced technologies, expansion in sales and marketing activities and enhancement of the research and development capabilities, details of which are described as follows:

Technological renovation for medium-sized bus production lines

The Company will implement modernization of the existing production facilities such as the welding, painting, assembly and final inspection lines for the production of medium-sized buses. In addition, the Company plans to pursue strategic alliances with foreign and/or domestic automobile manufacturers in the future for technology transfer arrangements in relation to the production of medium-sized bus body.

Chairman's Statement

Increased sales and improved sales networks

The marketing department of the Company will be re-structured as the Company's sales branch to engage itself in active expansion of sales and marketing activities. With the continuous economic development for both of the PRC and overseas markets and the anticipated population growth in the PRC, there will be an increase in demand for the Company's products to meet the transportation needs. In order to capture the potential business opportunities, the Company intends to increase its sales in both the PRC and the overseas markets by expanding its sales force and marketing activities. The sales and marketing activities of the Company include: (a) extending its geographical exposure and expanding its sales network throughout the PRC, especially in Western China, and the overseas markets in South Africa, Asia and South America; and is intended to set up two sales offices in Lhasa and Xining; (b) participating in major sales exhibitions and trade shows to enhance the awareness of the brandname of the Company's products; and (c) launching extensive advertising plan.

Optimised construction of the R&D centre

The Company will enhance its R&D capabilities. In order to maintain the leading position in the bus industry and to compete in the international bus market, the Company strives to strengthen its R&D capability by recruiting more high calibre research personnel and equipping more advanced and comprehensive facilities to develop 10 new bus models in the year of 2002 to meet the special requirements of customers.

The Company will continue to be technology driven and continue to place emphasis on the production of medium-sized and large-sized buses. Efforts will also be made to expand its businesses with the aim of generating more profits and better results for each of our shareholders.

Mudan Automobile Shares Company Limited

SONG Bo Xiang

Chairman

Zhangjiagang City, Jiangsu Province, the PRC

18 March 2002

Management Discussion and Analysis

Market Overview

Expecting rapid growth of highway construction in the PRC

The highway construction in the PRC is at an initial stage, as its proportion of mileage to total mileage of the whole road transportation system is far lower than those of western countries.

According to the government's program, the Ministry of Communications would, starting from the Eighth Five Year Plan period for a total duration of about 30 years, construct 12 national trunk highways with a total length of 3.5×10^4 k.m., and 45 main transport hubs, linking up all major cities, industrial centers, transport hubs and major boundary areas. In 2000, total road mileage amounted to approximately 125×10^4 k.m. The construction of a great deal of high-grade highway is beneficial to the manufacture and sale of light-sized and medium-sized buses.

Burgeoning coach leasing business in the PRC

The tourism industry in the PRC represents a large sector of economy. Most of the large and medium-sized coaches operating in the tourism industry should be retired, putting pressure on the transport capacity in the industry. Coupled with the rising numbers of scenic points and longer travel distance of trips, the shortage of coaches is evident, which leads to a large potential market for medium to high class hired coaches.

Growing demand of medium to large-sized buses for long distance transportation in the PRC

Alongside the development of national economy and rising living standards, demand for fast, safe and comfortable means of transportation is increasing. The growth of social and economic activities resulted in the number of rides per person per year by highway increasing from 6.83 in 1993 to 13.7 in 2000. The average length of ride per person by highway also increased from 302 k.m. in 1993 to 590 k.m. in 2000. Moreover, the growth of population also stimulates the demand for passenger buses.

In short, the business of the Company greatly benefited by the rapid growth of the medium to large-sized bus market. The Company will continue to meet the demand by supplying quality medium and large-sized buses.

Meanwhile, the development in the Western China brings energy to the economy activities as well as room for development and immense opportunities to bus manufacturers.

Developing of new products

During the year, the Company had deployed substantial resources in developing and improving medium and large-sized buses. More than 20 new models of medium and large-sized buses were developed in 2001 and all of them have been approved by relevant PRC governmental departments.

In 2001, the Company developed 48 new models among which included MD6601 series of light-sized buses, MD6701 series of light and medium-sized buses, MD6800 series and MD6901 series of medium-sized buses, and MD6100 series of large-sized buses.

Management Discussion and Analysis

Revenue

Total revenue for the fiscal year 2001 amounted to approximately RMB857,038,069, representing approximately 10.5% increase than that of RMB775,719,118 generated in 2000, in which for light, medium and large-sized series of buses amounted to approximately RMB659,399,766, RMB145,372,316 and RMB52,265,987. Compared to 2000, revenue for light and medium-sized series of buses increased by 2%, 12% respectively.

Cost of sales and gross profit

Due to the increase in total revenue, cost of sales increased proportionately to approximately RMB750,295,261 in 2001 from approximately RMB686,870,458 in 2000. Gross margin of the Company's products increased to approximately 12.5% in 2001 from 11.5% in 2000. The slight increase in gross margin was primarily attributable to the increased profit of the new models of medium and large-sized buses.

Other operating income

Other operating income for the fiscal year 2001 amounted to approximately RMB5,829,036, which included the sale of scrap materials approximately RMB2,913,907.

Distribution expenses and general and administrative expenses

The Company also continued to expand its sales and marketing network. The Company strictly instituted a cost control policy (which was mainly used to control the fixed costs of all the representative offices, including costs and expenses relating to salaries, administration, housing and communications) to better control distribution expenses, as a result, distribution expenses for 2001 totalled approximately RMB25,710,585. This represents a decrease of RMB111,210 from that of 2000.

The total general and administrative expenses for the fiscal year 2001 was approximately RMB8,373,848, a decrease of RMB1,325,695 or 13.6% as compared to the amount of RMB9,699,543 in 2000. Such decrease was mainly attributed to the strict control of travelling allowances of executives and operating expenses by the Company.

The Company's expenses on salaries, wages and bonus for the fiscal year 2001 amounted to approximately RMB29,554,054, as compared to RMB25,167,984 in 2000, an increase of RMB4,386,070. The main reason was the increase in the number of staff. The average number of employees of the Company during 2001 was 2,105, as compared to 1,967 in 2000. The new staff included sales personnel, persons engaged in research and development as well as technical operators.

Other operating expenses for the fiscal year 2001 totalled to approximately RMB815,646, as compared to RMB6,027,309 in 2000, a drop of 86.5%, which was mainly due to impairment losses on fixed asset charges incurred in 2000.

In the financial year of 2001, the net finance costs of approximately RMB4,539,496 comprised interest on bank advances and other borrowings, bank charges and interest income, representing approximately 0.5% of turnover for the year 2001, as compared to approximately RMB7,819,607 in year of 2000, a decrease of approximately RMB3,280,111 which is due to decrease the amount of other borrowings.

Management Discussion and Analysis

Material investments and capital assets

Other than those disclosed in the Company prospectus dated 4 December 2001 under the section headed "Business Objectives", the Company did not have any plan for material investments and acquisition of material capital assets as at 31 December 2001.

Exposure in exchange rate fluctuations

Substantially all the Company sales and raw materials purchase are settled in RMB. In the circumstances, the directors considered that the exchange rate fluctuations is limited for the year of 2001.

Financial resources and liquidity

The Company continues to be in a healthy financial position with shareholders equity amounted to approximately RMB337,891,786 as at 31 December 2001 (2000: RMB262,740,381). Current assets amounted to approximately RMB415,351,153 as at 31 December 2001 (2000: RMB312,360,640), of which approximately RMB91,159,940 (2000: RMB25,244,014) were cash and bank balances. Approximately RMB31,920,018 (2000: RMB1,807,200) was placed as pledged deposits to secure certain banks in issuing bill payable of approximately RMB36,470,000 as at 31 December 2001 (2000: RMB1,807,200). As at 31 December 2001, the Company has a short-term bank loans and long-term bank loans of about RMB13,000,000 and RMB20,000,000 respectively, the short-term bank loans are repayable within one year and the long-term bank loans are repayable within two years. The abovesaid bank loans were secured by a legal charge on the facilities of the Company situated in the PRC. The Company's gearing ratio as at 31 December 2001 was expresses as percentage of total liabilities over total equity 76.5% (2000: 91%).

Contingent liabilities

As at 31 December 2001, the Directors are not aware of any material contingent liabilities.

Business Objective Review

A comparison of business plans and actual progress.

From 1 December, 2001 to 31 December, 2001

The Company was successfully listed on the GEM of the Stock Exchange on 18 December, 2001. The Company stated its business objectives for the period from 30 November, 2001 to 30 June, 2002 in the prospectus dated 4 December, 2001. The actual project progress mentioned below covers only the period from 1 December, 2001 to 31 December, 2001, and since the above period is short, the various progress is still at its preliminary stage.

Business objectives for the period ending 30 June 2002 as mentioned in the prospectus

The actual progress as at 31 December 2001

(1) Business development/expansion in sales and marketing activities

- | | |
|--|--|
| 1. Launch one to five new bus models; | Three new models comprising one model of MD6701 series of medium-sized buses, one model of MD6800 series of medium-sized buses and one model of MD6100 series of large-sized buses have been applied to the State Economic and Trade Committee for approval. |
| 2. Explore opportunities to expand the organized distribution network in the overseas market; | Specialised team (comprising 5 members) organized for study on exploring overseas markets. |
| 3. Appoint a non-exclusive distribution agent in South Africa, Asia and South America to increase the Company's presence in the overseas market; | Sales arrangements under negotiation. |
| 4. Commence feasibility study on setting up sales offices in the PRC; | The marketing department is conducting feasibility studies. |
| 5. Place advertisement in the media to promote the Company's overall image; | Marketing project for 2002 under formulation. |
| 6. Participate in major sales exhibitions and trade shows; | Preparation for exhibitions for Mudan new products in 2002. |
| 7. Recruit 150-230 sales staff. | 229 sales staff recruited. |

(2) Modernisation of production facilities

- | | |
|--|--|
| 1. Enhance the functions and features of the existing production facilities to improve efficiency and increase productivity; | Production quality department is proceeding with investigation and research to explore possibility of full utilisation of existing facilities. |
| 2. Commence feasibility study on modernising the existing production facilities for the production of medium-sized buses. | Specialised personnel are appointed to carry out feasibility studies of upgrading existing production lines. |

Business Objective Review

(3) Introduction of advanced technologies

- | | |
|---|---|
| 1. Commence feasibility study on introducing advanced technologies for the production of medium-sized bus body (in particular, the technologies in the welding, painting, assembly and final inspection processes.) | Specialized personnel are appointed to conduct feasibility studies. |
| 2. Seeking alliance with domestic/foreign bus manufacturers for technological transfer arrangement in respect of the production of medium-sized bus body. | Under preliminary negotiation. |

(4) Enhancement of research and development capabilities

- | | |
|--|---|
| 1. Provide training for the existing research and development staff. | Staff training program is being formulated. |
|--|---|

Use of proceeds from listing

The Company has issued and allotted a total of 88,550,000 H Shares by public offer and placing, among which included the conversion of 8,050,000 state-owned shares by Zhangjiagang Municipal Public Asset Management Co., Ltd into H Share for sale to the public. These H shares are listed on the GEM of the Stock Exchange in December 2001. The net proceeds (net of relevant expenses) for the Company amounted to approximately HK\$67,438,116.03, which remained unutilised during the year.

The Board expects that the proceeds from the aforesaid public offer and placing will be used for purpose as disclosed in the prospectus. Those proceeds which are not immediately applied are placed on deposit with financial institutes.

Report of the Board of Directors

The board of Directors ("the Board") takes the pleasure in submitting the report of the Board together with the audited financial statements for the year ended 31 December 2001.

Principal activities

The principal activities of the Company are the manufacture and sale of light-sized, medium-sized and large-sized buses under the brandname of "金龙" and trademark of "金" in the PRC.

Revenue mainly comprises the sale of automobiles in the PRC. In the circumstances, the Directors consider that the Company operates within a single business and geographical segment.

Major customers and suppliers

The Company's sales to the five largest customers accounted for less than 30% of the Company's turnover during the financial year.

The information in respect of the Company's purchases attributable to the major suppliers during the financial year is as follows:

	Percentage of the Company's total purchases
The largest supplier	20%
Five largest suppliers in aggregate	32%

During the year, Zhangjiagang Mudan Automobile Accessories Co., Ltd. ("ZMAAC") is the fifth largest supplier of the Company. It has contributed RMB20,289,091 to the Company. ZMAAC is one of the promoters of the Company which owns as to 0.11% of the Company. Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan"), one of the promoters of the Company, owns as to 82.07% in the issue capital of ZMAAC.

Apart from the foregoing, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major suppliers.

Financial statements

The profit and cash flows of the Company for the year ended 31 December 2001 and the state of the Company's affairs as at the date are set out in the financial statements on pages 30 to 56.

A special dividend of RMB0.24 per share (2000: RMB Nil) was paid on 28 September 2001. The Directors now recommend the payment of a final dividend of RMB0.03 per share in respect of the year ended 31 December 2001.

Charitable donations

Charitable donations made by the Company during the year amounted to RMB689,000 (2000: RMB Nil).

Report of the Board of Directors

Property, plant and equipment

Details of the movements in property, plant and equipment during the year are set out in note 14 on the financial statements.

Share capital

As of 31 December 2001, the Company registered, issued and fully paid share capital consisted of:

Type of share capital	Number of shares	Percentage of share capital
Domestic Shares	196,250,000	68.9%
H Shares	88,550,000	31.1%
Total	284,800,000	100.0%

Details of the equity structure of the Company during the year are set out below:

1. Upon the establishment of the Company, its registered share capital was RMB204,300,000 divided into 204,300,000 domestic shares of RMB1.00 each;
2. In preparation for the listing of H Shares of the Company on the GEM of the Stock Exchange, pursuant to the relevant regulations of China, Jiangsu Mudan Automobile Group Company Labour Union (the "Union") (one of the promoters of the Company) transferred 38,000,000 Domestic Shares to Jiangsu Mudan for a consideration of RMB 41,540,810 on 18 September 2001.

Immediately after the listing of the Company's H Shares on the GEM of The Stock Exchange on 18 December 2001, the registered share capital of the Company was increased from RMB204,300,000 to RMB284,800,000, consisting of 196,250,000 domestic shares and 88,550,000 H Shares of RMB1.00 each.

3. Pursuant to the Provisional Measures on the Administration of Reduction of the State-owned shares for Raising of the Public Security Funds promulgated by the State Council on 12 June 2001, Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM") (one of the promoters of the Company), a state-owned enterprise converted 8,050,000 domestic shares, representing the equivalent of 10% of the total number of H Shares (excluding the H Shares converted from the domestic shares), into H Shares upon the listing of the Company's H Shares on the GEM of the Stock Exchange.

Reserves

Movements in reserves during the year are set out in the statement of changes in equity.

Report of the Board of Directors

Substantial shareholders

As of 31 December 2001, holders of the Company's domestic shares representing 10% or more of the Company's total issued capital were as follows:

Name of shareholders	Number of shares	Percentage
ZMPAM	94,310,000	33.11%
Jiangsu Mudan	100,340,000	35.23%

As of 31 December 2001, the holder of H Shares representing 10% or more of the Company's total issued capital was as follows:

Name of shareholders	Number of shares	Percentage
HKSCC Nominees Limited	87,790,000	30.83%

Save for the information stated above, the Company is not aware of any interests required to be disclosed by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as of 31 December 2001.

Interests of Directors, supervisors in the share capital

Madam YOU Lian Qun, non-executive Director of the Company, owns as to 12.2% shares of Zhangjiagang Automobile Accessories Factory ("ZAAF"), one of the promoters of the Company. ZAAF owns as to 0.35% shares of the Company. Madam YOU Lian Qun is also the director and legal representative of ZAAF.

Save as disclosed above, none of the Directors or supervisors or senior management or any of their spouses or children under the age of 18 had, as at 31 December 2001, any interest in any shares or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance).

None of the Directors or the supervisors, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities in the Company during the year ended 31 December 2001.

Directors' and supervisors' interests in contracts

Save as disclosed on the Note 28 on the financial statements, the Directors considered that none of the Directors nor the supervisors of the Company had any material interests in any material contracts to which the Company, its holding companies or any of subsidiaries of its holding companies was a party subsisted at the end of the year or at any time during the year.

Report of the Board of Directors

Service contracts of Directors and supervisors

Each of the executive Directors and supervisors of the Company has entered into a service contract with the Company. These contracts are in all material respects identical. Each service contract is for an initial term of three years commencing on the respective date of appointment by the shareholder's meeting and shall continue until the conclusion of the annual general meeting of the Company in 2004 and thereafter, subject to the approval of the shareholders' meeting of the Company, each service contract may be renewed each time for three years.

The Company did not enter into any service contract with each of the non-executive Directors. The terms of each non-executive Directors expires at the conclusion of the annual general meeting in 2004.

Save as disclosed above, no Director and supervisor has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than normal statutory obligations.

Practices and procedures of the board

The Directors considered that the Company has complied with the requirement of Board practices and procedures of Rules 5.28 to 5.39 of the Listing Rules of the GEM throughout the year.

Directors and supervisors

The Directors and supervisors during the financial year were:

Executive Directors

SONG Bo Xiang (<i>Chairman</i>)	(appointed on 18 September, 1998)
SUN Min Biao (<i>vice-chairman</i>)	(appointed on 18 June, 2001)
SHI Jin Cheng (<i>vice-chairman</i>)	(appointed on 18 June, 2001)
SHAO Zhi Nan (<i>vice-chairman</i>)	(appointed on 18 June, 2001)
HOU Cheng Bao	(appointed on 18 September, 1998)
JIANG Wei Sheng	(appointed on 18 September, 1998)
WANG Yi Ping	(appointed on 18 September, 1998 and resigned on 18 June, 2001)
ZHOU Pei Lin	(appointed on 18 September, 1998 and resigned on 18 June, 2001)
SI Feng Gao	(appointed on 18 September, 1998 and resigned on 18 June, 2001)

Non-executive Directors

YOU Lian Qun	(appointed on 18 September, 1998)
DING Shao Hua	(appointed on 18 September 1998 and resigned on 18 June, 2001)
GU Mei Juan	(appointed on 18 September 1998 and resigned on 18 June, 2001)

Independent non-executive Directors

ZHANG Xiao Yu	(appointed on 27 July, 2001)
WU Chang Fa	(appointed on 27 July, 2001)

Report of the Board of Directors

Supervisors

ZHU Xia Zheng	(appointed on 18 June, 2001)
JIN Hong	(appointed on 18 September 1998)
DING Shao Hua	(appointed on 18 June 2001)
ZHAO Zhen Ming	(appointed on 18 September 1998 and resigned on 18 June, 2001)
LI Jing Shan	(appointed on 18 September 1998 and resigned on 18 June, 2001)
YAO Yong Qing	(appointed on 18 September 1998 and resigned on 18 June, 2001)
ZHANG Yong Qing	(appointed on 18 September 1998 and resigned on 18 June, 2001)

Directors' and supervisors' emoluments

Details of the Directors and supervisors' emoluments for the year are set out in note 12 on the financial statements.

Connected transactions

Details of the connected transactions of the Company carried out in the year are disclosed in note 28 on the financial statements.

The Company's independent non-executive Directors have examined the connected transactions which are set out in note 28(a) on the financial statements and confirmed that those transactions are executed in a fair and reasonable basis. The Company's independent non-executive Directors considered that those connected transactions agreement should be executed continuously.

Competing interests

On 29 November 1999, Jiangsu Mudan, a substantial shareholder of the Company, together with four independent third parties, submitted a tender to the government of South Africa tendering for a contract for the supply of new buses of 5.98 m or above in length to replace 127,000 obsolete buses currently used in South Africa. In the event that such tender is accepted by the government of South Africa, Jiangsu Mudan has undertaken that it will use its best endeavour to procure the sub-contract of all the production orders to be responsible under the tender to the Company to avoid competition with the business of the Company. If Jiangsu Mudan fails to procure the sub-contracting of all the production orders, Jiangsu Mudan has further undertaken that it will not proceed with the tender and will not participate or provide any support in relation to the manufacturing of buses to the government of South Africa.

On 8 October 2001, each of ZMPAM and Jiangsu Mudan (the "Undertaking Party") has undertaken to the Company that neither of them nor their respective subsidiaries will engage or be interested, directly or indirectly, in business and hold any interest or benefits in or by any other means engage or participate in any business activities, which may compete directly or indirectly with the business of the Company. In relation to each Undertaking Party, such undertaking shall remain in force so long as (1) such Undertaking Party and its associates shall, singly or together, remain beneficially interested, directly or indirectly, in 30% or more of the entire shareholding interest of the Company; and (2) the H Shares or any equity securities of the Company are listed on the Stock Exchange or on any other stock exchange.

Report of the Board of Directors

Save as disclosed herein, none of the Directors, supervisors, initial management shareholders, substantial shareholders and significant shareholders of the Company and their respective associates has any interest in any businesses which directly or indirectly compete with the business of the Company for the year ended 31 December 2001.

Purchase, sale or redemption of the listed shares of the Company

During the year, the Company has not purchased, sold or redeemed any of its listed securities.

Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Audit committee

The Company set up an audit committee (the "Committee") on 3 September, 2001 with written terms of reference in compliance with the requirements as set out in Rule 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Company. The committee comprises two independent non-executive directors, ZHANG Xiao Yu and WU Chang Fa. The Company's financial statements for the year ended 31 December 2001 have been reviewed by the Committee, who were 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. The Committee held one meeting for the year ended 31 December, 2001.

Bank loans

Particulars of bank loans as at 31 December 2001 are set out in notes 22 and 23 on the financial statements.

Retirement scheme

Particulars of the retirement scheme of the Company are set out in note 7 on the financial statements.

Financial summary

A summary of the results and of the assets and liabilities of the Company for the last four financial years is set out on pages 58.

Interests of sponsor

Neither CEF Capital Limited (the "Sponsor") nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 31 December 2001.

Report of the Board of Directors

Pursuant to the agreement dated 30 November 2001 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained Sponsor for the period from 18 December 2001, the date on which the shares of the Company are listed, to 31 December 2003.

Save as disclosed above, the Sponsor has no other interest in the Company as at 31 December 2001.

Auditors

KPMG Peat Marwick Huazhen and KPMG were the Company's domestic and international auditors respectively in 2001.

A resolution for the reappointment of KPMG Peat Marwick Huazhen and KPMG as the domestic and international auditors of the Company respectively is to be proposed at the forthcoming annual general meeting.

By order of the Board

Mudan Automobile Shares Company Limited

SONG Bo Xiang

Chairman

Zhangjiagang, Jiangsu Province, PRC

18 March 2002

Report of the Supervisory Committee

To: All Shareholders

The supervisory committee (“we”) of Mudan Automobile Shares Company Limited (the “Company”), in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the “Articles of Association”) during the year ended 31 December, 2001, exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year we carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the Prospectus of the Company and provided reasonable suggestions and advice on the operations and development plans to the Directors and strictly and effectively monitored whether the policies and decisions made had conformed with the state laws and regulations and the Articles of Association or safeguarded the interests of the shareholders.

After investigation, we consider that the financial statements of the Company, audited by KMPG, truly and sufficiently reflects the operating results and asset positions of the Company. We also reviewed the Report of the Board of Directors and the profit distribution proposal. We consider that the above report and proposal meet the requirements of the relevant regulations and Articles of Association. We have attended the meeting of the Board. We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors, general manager and the officers have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the company and its staff, nor have they violated any laws, regulations or the Company’s Articles of Association.

We are satisfied with the various tasks achieved as well as the cost-effectiveness gained and are confident about the prospects of future development of the Company.

By order of the Board

Mudan Automobile Shares Company Limited

ZHU Xia Zheng

Chairman of the Supervisory Committee

Zhangjiagang City, Jiangsu Province, the PRC

18 March, 2002

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. SONG Bo Xiang (宋伯祥), aged 53, is an executive Director and the chairman of the board of directors of the Company. He graduated from Nanjing University in 1989 and finished the postgraduate course of economy management research in Southeast University in 1999. Mr. Song has been conferred the title of Outstanding Entrepreneur of Jiangsu Province (江蘇省優秀企業家) in 1999. He has over 16 years' experience in production and enterprise management. He is responsible for the Company's overall strategic planning and policy making. Prior to joining the Company in September 1998, Mr. Song was the General Manager of Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan") for the period from January 1996 to August 1998.

Mr. SUN Min Biao (孫敏彪), aged 39, is an executive Director, vice-chairman of the board of directors and chief executive officer of the Company. Mr. Sun was formerly deputy general manager and chief economist of Jiangsu Mudan for the period from April 1995 to August 1998. He is now responsible for the overall business development, sales and marketing, financial planning, administration and human resources management of the Company. Mr. Sun has over 10 years of experience in business management. Mr. Sun holds the title of senior engineer. He graduated from Southeast University formerly known as Nanjing Industrial College with a bachelor degree in Automatic Control in 1982. He finished the postgraduates course of economy management research in Southeast University in 1999. He has been conferred the titles of Excellent Entrepreneur of Suzhou City (蘇州市優秀廠級領導幹部) in 1998; Top Ten Outstanding Youth in Zhangjiagang City (張家港市十大傑出青年) in 1999; and First Senior Talents in the 21st Century of Suzhou City (蘇州市首批跨世紀高級人才培養對象) in the same year. In 2001, Mr Sun has also been conferred the title of Advanced Entrepreneur (先進企業家榮譽). He joined the Company in September 1998.

Mr. SHI Jin Cheng (施錦成), aged 51, is an executive Director, vice-chairman of the board of directors, deputy general manager and chief engineer of the Company. Mr. Shi was formerly deputy general manager of Jiangsu Mudan for the period from January 1996 to August 1998. He is now responsible for the overall product research and development, production and quality control of the Company. Mr. Shi holds the title of economist. He has over 10 years' experience in technology management and product development. He joined the Company in September 1998.

Mr. SHAO Zhi Nan (邵志南), aged 46, is an executive Director, vice-chairman of the board of directors, deputy general manager of the Company. Mr. Shao was formerly the deputy general manager of Jiangsu Mudan for the period from January 1996 to August 1998. He is now responsible for the product research and development and foreign economic co-operation of the Company. He has over 15 years' experience in product development, marketing and enterprise management. Mr. Shao holds the title of senior engineer and is the deputy chairman of the Automobile Engineering Council of Jiangsu Province. He graduated from Suzhou Machinery Industrial University in Industrial Enterprise Management in 1992. He has been conferred the Prize of Technology Development in Shazhou County (沙州縣科學技術進步獎) in 1984. He joined the Company in September 1998.

Mr. HOU Cheng Bao (侯成保), aged 50, is an executive Director of the Company. Mr. Hou holds the title of engineer. He graduated from Zhenjiang Agricultural Machinery College in machinery production and engineering in 1978. Mr. Hou is now responsible for the parts and component sourcing of the Company. He has extensive years of experience in the production management. Prior to joining the Company in September 1998, Mr. Hou was formerly the head of general manager's office of Jiangsu Mudan for the period from January 1996 to August 1998.

Profiles of Directors, Supervisors and Senior Management

Mr. JIANG Wei Sheng (姜渭生), aged 46, is an executive Director of the Company. He is responsible for the administration of the Company. He was formerly the deputy section head of the production development of Jiangsu Mudan for the period from January 1996 to March 1997. He is currently the director and manager of Zhangjiagang Mudan Bus Parts Co., Ltd. ("ZMBPC"), a non-wholly owned subsidiary of Jiangsu Mudan, since April 1997. He graduated from Le Yu Middle School in Zhangjiagang City in 1972. He has over 21 years' experience in enterprise management and automobile production. He joined the Company in September 1998.

Non-executive Directors

Madam YOU Lian Qun (游聯群), aged 39, is a non-executive Director. She is the chairman and legal representative of Zhangjiagang Automobile Accessories Factory ("ZAAF"), with a shareholding of approximately 12.3% in ZAAF. She graduated from Jiangsu Chinese Communist Party College with a diploma. Prior to joining the Company in September 1998, she was the deputy general manager and director of Jiangsu Mudan for the period from January 1996 to August 1998.

Independent non-executive Directors

Mr. ZHANG Xiao Yu (張小虞), aged 57, is an independent non-executive Director who joined the Company in July 2001. He is the vice-chairman of the China Machinery Industrial Association since April 2001. Prior to April 2001, Mr. Zhang had been the deputy commissioner of SMIB, the chief of Automobile Industry Division of MMI, the deputy chief economist and the chief of the State Plan Division in China Automobile Industry Group Company, and the engineer of Automobile General Bureau of China First Engineering Industry Ministry. Mr. Zhang holds the title of senior engineer. He obtained a bachelor's degree in automobile engineering from Tsing Hua University.

Mr. WU Chang Fa (吳長發), aged 62, is an independent non-executive Director who joined the Company in July 2001. He was the deputy chief at the Changchun Automobile Research Institute (長春汽車研究所). He holds the title of senior engineer. He has been conferred the first prize for State Scientific Technology Advancement (國家科技進步一等獎) for automobile development in 1982 and 1988. In 1994, Mr. Wu has also been conferred the title of Machinery Industrial Scientific Technology Specialist of the PRC (中國機械工業科技專家) from MMI. Prior to joining the Company, he was the deputy head of State Automobile Standard Committee. Mr. Wu graduated from Jilin Industrial University in 1965 with a bachelor degree in automobile design.

Supervisors

Mr. ZHU Xia Zheng (朱俠征), aged 50, is the chairman of supervision department of the Company. He graduated from Nanjing University in History in 1977. He was formerly the deputy secretary of the Commission of Communist Party of Jiangsu Mudan. He joined the Company in September 1998.

Mr. JIN Hong (金洪), aged 41, is the supervisor of the Company. He joined the Company in September 1998. He graduated from Le Yu Middle School in Zhangjiagang City in 1977. He was formerly the section head of the servicing department of Jiangsu Mudan for the period from January 1996 to August 1998.

Mr. DING Shao Hua (丁少華), aged 43, is the supervisor of the Company. He graduated from Shanxi Broadcasting and Television University in 1987. He was formerly the vice-chairman of the Union and a committee member of Political Consultant Committee of Zhangjiagang City. He joined the Company in September 1998.

Profiles of Directors, Supervisors and Senior Management

Senior management

Mr. YANG De Xiang (楊德祥), aged 47, is the chief economist of the Company. He holds the title of engineer. He is responsible for the enterprise management of the Company. He completed an advanced continuing studies in automobile engineering from Jiangsu Technical University in 1997. He is the member of the Zhangjiagang Municipal People's Congress. In 2000, he has been conferred the title of Best Labour (模範勞動) in Zhangjiagang City. Mr. Yang has over 24 years of enterprise in automobile production and enterprise management. Prior to joining the Company in September 1998, he was the deputy general manager of Jiangsu Mudan for the period from January 1996 to August 1998.

Mr. ZHOU Pei Lin (周培林), aged 39, is the chief accountant of the Company. He holds the title of accountant. Mr. Zhou graduated from Correspondence College of the Central School of Communist Party of China in economy management in 1997. Prior to joining the Company in September 1998, he was the former chief accountant of Jiangsu Mudan for the period from January 1996 to August 1998.

Mr. CAO Quan (曹泉), aged 46, is the manager of sales and marketing department of the Company. Prior to joining the Company in September 1998, he was the deputy section head of sales department of Jiangsu Mudan for the period from January 1996 to August 1998. He graduated from Le Yu Dong Jiegang Middle School in Zhangjiagang City in 1972.

Mr. LI Ning Yi (李寧一), aged 41, is the chief of automobile research and development institute of the Company. Mr. Li holds the title of senior engineer. He graduated from Anhui Industrial College with a bachelor degree in agricultural machinery in 1982. He is now a tutor for postgraduates of engineering department of Jiangsu Technical University and a deputy chairman of the Automobile Engineering Council of Suzhou City. Mr. Li has over 19 years' experience in automobile research and development. Prior to joining the Company in September 1998, he was the deputy chief of the automobile research and development institute of Anhui Bus Group Factory.

Mr. LU Guo Zhang (陸國章), aged 46, is the manager of human resources department of the Company. He graduated from the School of Communist Party of Suzhou of China in 1991, majoring in business administration. Prior to joining the Company in September 1998, he was the section head of the human resources department of Jiangsu Mudan for the period from January 1996 to August 1998.

Mr. YUE Fu Gen (岳福根), aged 46, is the manager of material supply department of the Company. He completed an advanced continuing studies in automobile engineering from Jiangsu Technical University in 1997. Prior to joining the Company in September 1998, Mr. Yue was the section head of material supply department of Jiangsu Mudan for the period from January 1996 to August 1998.

Mr. CHANG Jun (常軍), aged 31, is the manager of production and quality management department of the Company. Mr. Chang holds the title of engineer. In 1993, he graduated from Nanjing Technical University with a bachelor degree in machinery design and production. He holds the title of engineer. Mr. Chang is currently studying for a master degree in mechanical engineering in Jiangsu Technical University. Prior to joining the Company in September 1998, Mr. Chang was the head of quality management department of Jiangsu Mudan for the period from January 1996 to August 1998.

Mr. TANG Wei Dong (唐衛東), aged 33, is the manager of finance and investment department of the Company. He holds the title of statistician. He graduated from Jiangsu Broadcasting and Television University, with a diploma in finance and accounting in 1995. Prior to joining the Company in September 1998, Mr. Tang was the section head of finance department of Factory No.7 of Jiangsu Mudan for the period from January 1996 to August 1998.

Profiles of Directors, Supervisors and Senior Management

Mr. LI Jing Shan (李京山), aged 30, is the manager of the enterprise management department of the Company. He holds the title of economist. He graduated from Huaiyin Industrial Professional Training School, with a diploma in mechanical engineering in 1993. Mr. Li has over 8 years' experience in enterprise management. He was formerly the member of the staff disciplinary committee of Jiangsu Mudan for the period from January 1996 to August 1998. He joined the Company in September 1998.

Mr. XU Hong Bing (徐宏兵), aged 31, is the head of the general manager's office of the Company. He holds the title of associate engineer. Mr. Xu graduated from Jiangsu Technical University with a bachelor degree in mechanical engineering in 1995. He is currently studying for a master degree in mechanical engineering in Jiangsu Technical University. Prior to joining the Company in September 1998, he was the section head of the staff training department in Jiangsu Mudan for the period from January 1996 to August 1998.

Qualified accountant and company secretary

Mr. LUI Wing Hong (呂榮匡), Edward, aged 39, is a financial controller, company secretary and the qualified accountant of the Company. He is responsible for the financial and accounting management and secretarial affairs of the Company. He graduated from York University with a Bachelor of Arts degree in Business and Economics. He further obtained a postgraduate diploma in Financial Management from the University of New England. Mr. Lui is an associate member of the Australian Society of Certified Practising Accountants and the fellow of Hong Kong Society of Accountants. He has over 10 years experience in, accounting, taxation and financial management in Hong Kong and the PRC. He joined the Company in September 2001.

Compliance officer

Mr. SHAO Zhi Nan (邵志南). For details, please refer to the paragraph headed "Executive Directors" above. Mr. Shao will be advising on and assisting the Board in implementing procedures to ensure that the Company complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and responding promptly and efficiently to all enquires directed to him by the Stock Exchange.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2001 annual general meeting (“AGM”) of Mudan Automobile Shares Company Limited (the “Company”) will be held at “JuXian” Hall, 3/F, No. 1 Building, Guomao Hotel, 42 Renminzhong Road, Yangshe Town, Zhangjiagang City, Jiangsu Province, the PRC at 9:00 a.m. on Wednesday, 22 May 2002 for the following purposes:

- I. To consider and if thought fit, pass the following matters as ordinary resolutions:
- (1) To consider and approve the report of the Board of Directors of the Company (“the Board”) for the year 2001;
 - (2) To consider and approve the report of the Supervisory Committee of the Company for the year 2001;
 - (3) To consider and approve the audited financial statements for the year ended 31 December 2001;
 - (4) To consider and approve the proposal of re-appointing KPMG and KPMG Peat Marwick Huazhen as the Company’s international and domestic auditors respectively for the year 2002 and to authorise the Board to fix their remuneration; and
 - (5) To consider and approve a final dividend distribution proposal of the Company for the year 2001.

- II. To consider and if thought fit, pass the following matters as special resolutions:

Special resolutions:

- (1) That, subject to the granting of the necessary approval by China Securities Regulatory Commission, The Stock Exchange of Hong Kong Limited and other regulatory bodies, additional issuing and/or placing of domestic shares and/or H shares by the Company be and is hereby approved, the number of which shall not exceed 20% of the number of such shares in issue; and that the Board is hereby authorized to deal with all the matters relating to the above additional issue and/or placing.

That the above approval and authorization shall be valid for a period of 12 months from the date of passing the resolution, unless revocation or variation of the above approval and authorization is passed by a special resolution in general meeting.

- (2) If the aforesaid resolution is passed and implemented by the Board, authorise the Board to amend the relevant articles of the Company’s Articles of Association to reflect the change of the shareholding structure of the Company.

- III. To consider and approve any proposals put forward by any shareholders holding 5% or more of the shares with voting rights at such meeting.

By Order of the Board
Mudan Automobile Shares Company Limited
SONG Bo Xiang
Chairman

Zhangjiagang City, Jiangsu Province, the PRC

18 March 2002

Notice of Annual General Meeting

Notes:

1. The register of the members of the Company will be closed from Monday, 22 April 2002 to Tuesday, 21 May 2002 (both days inclusive). No transfer of shares will be registered during this period. Holders of domestic shares and H shares whose names appear on the register of the Company before 4:00 p.m. Friday, 19 April, 2002 are entitled to attend and vote at the meeting mentioned above and may appoint one or more proxies to attend and, in the event of a poll, vote on their behalf. A proxy need not be a member of Shareholders of the Company.
2. A proxy form applicable to the AGM is hereinwith enclosed. In order to be valid, the proxy form, under which it is signed, must be deposited by hand or post, for holders of H Shares of the Company to Miss Ho at the H shares registrar of the Company at Hong Kong Registrars Limited at 2/F, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong and, for holders of Domestic Shares, to the registered address of the Company not less than 24 hours before the time for holding the AGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.
3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The final dividend for the year ended 31 December, 2001 is expected to be paid on or before Thursday, 1 August, 2002 to the shareholders whose names appear on the register of the Company on Tuesday, 30 April, 2002. In order to ascertain the identity of shareholders who are entitled to receive the above dividend, all transfers of documents together with the relevant share certificates should be deposited at the share register of the Company (for holders of H shares) or to the Company (for holders of domestic shares) before 4:00 p.m. Friday, 19 April 2002.
5. Shareholders who intend to attend the meeting should complete and return the enclosed reply slip and return it by hand or post to the share registrar of the Company (for holders of H shares) or to the registered address of the Company (for holders of domestic shares) before 4:00 p.m. Thursday, 2 May, 2002.
6. The AGM is expected to take half a day. Shareholders attending the Meeting shall be responsible for their own travel and accommodation expenses.
7. The registered address of the Company and the details of the secretarial office of the Board are as follows:
No. 30 Lehong Road
Le Yu Town
Zhangjiagang City
Jiangsu Province
The PRC
Tel: (0520) 8605010
Fax: (0520) 8660321
Post Code: 215621

Auditors' Report

To the shareholders of

Mudan Automobile Shares Company Limited

(Established as a joint-stock company in The People's Republic of China with limited liability)

We have audited the financial statements on pages 30 to 56 which have been prepared in accordance with International Accounting Standards.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2001 and of the company's profit and cash flows for the year then ended and have been properly prepared in accordance with International Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong,

18 March 2002

Income Statement

for the year ended 31 December 2001

(Expressed in Renminbi Yuan)

	Note	2001	2000
Revenue	3	857,038,069	775,719,118
Cost of sales	4	(750,295,261)	(686,870,458)
Gross profit		106,742,808	88,848,660
Other operating income	5	5,829,036	1,508,973
Distribution expenses	6	(25,710,585)	(25,821,795)
General and administrative expenses		(8,373,848)	(9,699,543)
Other operating expenses		(815,646)	(6,027,309)
Profit from operations		77,671,765	48,808,986
Net finance costs	8(a)	(4,539,496)	(7,819,607)
Profit before tax	8	73,132,269	40,989,379
Income tax expense	9(a)	(23,702,448)	(13,711,295)
Profit attributable to shareholders		49,429,821	27,278,084
Dividends attributable to the year:	10		
Dividend declared during the year		48,805,282	–
Final dividend proposed after the balance sheet date		8,544,000	–
		57,349,282	–
Earnings per share	11	0.24	0.13

The notes on pages 35 to 56 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2001

(Expressed in Renminbi Yuan)

	Note	Share capital (Note 21(a))	Share premium (Note 21(b))	Statutory surplus reserve (Note 21(c))	Statutory public welfare fund (Note 21(d))	Retained earnings	Total capital and reserves
Balance at 1 January 2000		204,300,000	-	2,913,382	2,913,381	25,335,534	235,462,297
Net profit for the year		-	-	-	-	27,278,084	27,278,084
Transfer to/(from) reserve		-	-	3,103,525	3,103,525	(6,207,050)	-
Balance at 31 December 2000		204,300,000	-	6,016,907	6,016,906	46,406,568	262,740,381
Balance at 1 January 2001		204,300,000	-	6,016,907	6,016,906	46,406,568	262,740,381
Issue of share capital	21(a)	80,500,000	15,977,479	-	-	-	96,477,479
Costs of issuing shares		-	(15,977,479)	-	-	(8,915,126)	(24,892,605)
Deferred tax effect in respect of the costs of issuing shares	15	-	-	-	-	2,941,992	2,941,992
Net profit for the year		-	-	-	-	49,429,821	49,429,821
Transfer to/(from) reserve		-	-	4,630,991	4,630,992	(9,261,983)	-
Dividend	10	-	-	-	-	(48,805,282)	(48,805,282)
Balance at 31 December 2001		284,800,000	-	10,647,898	10,647,898	31,795,990	337,891,786

The notes on pages 35 to 56 form part of these financial statements.

Balance Sheet

at 31 December 2001

(Expressed in Renminbi Yuan)

	Note	2001	2000
Assets			
Property, plant and equipment	14	177,719,337	188,288,577
Deferred tax assets	15	5,047,112	2,105,120
Total non-current assets		182,766,449	190,393,697
Inventories	16	64,830,391	86,410,184
Trade and other receivables	17	170,728,649	160,413,651
Amounts due from shareholders	18	56,210,314	38,485,591
Amount due from a related company	18	501,841	–
Pledged deposits	19	31,920,018	1,807,200
Cash and cash equivalents	20(a)	91,159,940	25,244,014
Total current assets		415,351,153	312,360,640
Total assets		598,117,602	502,754,337
Equity and liabilities			
Share capital	21(a)	284,800,000	204,300,000
Statutory surplus reserve	21(c)	10,647,898	6,016,907
Statutory public welfare fund	21(d)	10,647,898	6,016,906
Retained earnings	21(e)	31,795,990	46,406,568
Total capital and reserves		337,891,786	262,740,381
Long-term bank loan	22	20,000,000	–
Total non-current liabilities		20,000,000	–
Short-term bank loans	23	13,000,000	–
Trade and other payables	24	181,683,611	176,452,459
Amounts due to shareholders	18	4,289,807	22,595,851
Amount due to a related company	18	–	22,415,694
Income tax payable		41,252,398	18,549,952
Total current liabilities		240,225,816	240,013,956

Balance Sheet

at 31 December 2001

(Expressed in Renminbi Yuan)

	Note	2001	2000
Total liabilities		260,225,816	240,013,956
Total equity and liabilities		598,117,602	502,754,337

Approved and authorised for issue by the board of directors on 18 March 2002

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) Directors
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SONG Bo Xiang

SUN Min Biao

The notes on pages 35 to 56 form part of these financial statements.

Cash Flow Statement

for the year ended 31 December 2001

(Expressed in Renminbi Yuan)

	Note	2001	2000
Operating activities			
Profit before tax		73,132,269	40,989,379
Depreciation		15,042,675	13,522,790
Impairment losses on property, plant and equipment		–	5,186,178
Loss on disposal of property, plant and equipment		–	841,131
Write off of obsolete inventories		747,646	–
Waiver of an amount due to a related company		(2,706,331)	–
Interest expense (net)		4,492,622	7,769,113
Decrease/(increase) in inventories		20,832,147	(41,721,971)
Increase in trade and other receivables		(5,547,424)	(70,965,711)
Decrease/(increase) in amounts due from/(to) shareholders		57,144,415	(57,275,367)
(Decrease)/increase in amount due to a related company (net)		(20,211,204)	22,415,694
Increase in trade and other payables		4,161,915	123,644,741
Interest paid		(3,728,481)	(1,172,884)
Income tax paid		(1,000,000)	(14,476,950)
Cash flows from operating activities		142,360,249	28,756,143
Investing activities			
Acquisition of property, plant and equipment		(4,968,617)	(442,724)
Interest received		305,094	17,486
Cash flows from investing activities		(4,663,523)	(425,238)
Financing activities			
Increase in pledged deposits		(30,112,818)	(1,807,200)
Net proceeds from the issue of share capital		66,817,300	–
Loan from a shareholder		–	100,880,000
Repayment to a shareholder		(92,680,000)	(103,500,000)
Proceeds from bank loans		121,320,000	–
Repayment of bank loans		(88,320,000)	–
Dividends paid		(48,805,282)	–
Cash flows from financing activities		(71,780,800)	(4,427,200)
Net increase in cash and cash equivalents		65,915,926	23,903,705
Cash and cash equivalents at beginning of year		25,244,014	1,340,309
Cash and cash equivalents at end of year	20(a)	91,159,940	25,244,014

The notes on pages 35 to 56 form part of these financial statements.

Notes on the Financial Statements

(Expressed in Renminbi Yuan)

1 Background of the company

The company was established in the People's Republic of China (the "PRC") on 18 September 1998 as a joint stock company with limited liability. The company's principal activities are the manufacture and sale of automobiles.

2 Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB"), interpretations issued by the Standing Interpretations Committee of the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the company is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2(g)).

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is calculated to write off the cost on a straight-line basis over the estimated useful lives of items of property, plant and equipment, as follows:

Buildings	35 years
Plant and equipment	12 years
Motor vehicles	8 years
Other equipment	8 years

(iv) Disposals

Gains or losses arising from the retirement or disposal of a property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is calculated based on the weighted-average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(e) Trade and other receivables

Trade and other receivable are stated at their cost less impairment losses (note 2(g)).

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice. For the purposes of the cash flow statement, cash equivalents include bank balances within three months of maturity and advances from banks repayable within three months from the date of the advance.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(g) Impairment

The carrying amounts of the company's assets, other than inventories (note 2(d)) and deferred tax assets (note 2(l)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Trade and other payables

Trade and other payables are stated at their cost.

(i) Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(i) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the customers. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(k) Expenses

(i) Retirement benefits

Defined contributions to retirement benefit schemes are recognised as an expense in the income statement as and when incurred.

(ii) Net finance costs

Net finance costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, bank charges and foreign exchange gains and losses that are recognised in the income statement.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net finance costs.

Interest income is recognised in the income statement as it accrues, taking into account the effect yield on the asset.

(iii) Warranty costs

Warranty costs are charged to the income statement as and when incurred.

(iv) Research and development costs

Research and development costs are charged to the income statement as and when incurred.

(v) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the respective leases. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(l) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Foreign currencies translation

Transactions in foreign currency are translated to Renminbi at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(n) Related parties

For the purposes of these financial statements, parties are considered to be related to the company if the company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3 Revenue

Revenue represents income arising from the sale of automobiles net of sales tax and value added tax.

Notes on the Financial Statements

4 Cost of sales

	2001	2000
Materials costs	694,916,914	636,989,174
Direct labour	26,775,082	24,631,004
Factory overheads	28,603,265	25,250,280
	750,295,261	686,870,458

5 Other operating income

	2001	2000
Sale of scrap materials	2,913,907	1,341,569
Waiver of an amount due to a related company	2,706,331	–
Other income	208,798	167,404
	5,829,036	1,508,973

6 Distribution expenses

	2001	2000
Distribution fees	11,672,011	17,118,945
Commission paid	6,068,689	6,069,520
Advertising expenses	1,334,561	2,633,330
Staff costs	3,691,024	–
Others	2,944,300	–
	25,710,585	25,821,795

7 Personnel expenses

	2001	2000
Salaries, wages and bonus	29,554,054	25,167,984
Staff welfare	4,687,298	4,858,212
Contributions to retirement benefit scheme	1,810,350	2,265,300
	36,051,702	32,291,496
Average number of employees during the year	2,105	1,967

Notes on the Financial Statements

7 Personnel expenses (continued)

Pursuant to the relevant labour regulations of the PRC, the company participates in a defined contribution retirement plan organised by the municipal government for its employees. The company is required to make contributions to the retirement plan at 18% of the deemed salary rates stipulated by the municipal government. Retired employees are entitled to a pension equal to a fixed proportion of the salary prevailing at the retirement date payable by Zhangjiagang Society Protection Management Department. The company has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above.

8 Profit before tax

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

	2001	2000
(a) Net finance costs:		
Interest on bank advances and other borrowings repayable within five years	4,797,716	7,786,599
Bank charges	46,874	50,494
Interest income	(305,094)	(17,486)
	4,539,496	7,819,607
(b) Other items:		
Loss on disposal of property, plant and equipment	-	841,131
Impairment losses on property, plant and equipment	-	5,186,178
Auditors' remuneration	1,145,448	304,739
Depreciation	15,042,675	13,522,790
Operating lease rentals in respect of land and properties	560,000	560,000
Research and development expenses	550,665	376,156

9 Income tax expense

(a) Income tax expense represents:

	2001	2000
Provision for PRC income tax	23,702,448	13,711,295

The provision for PRC income tax is calculated at the statutory rate of 33% (2000: 33%) of the estimated assessable income for the year determined in accordance with the relevant income tax rules and regulations of the PRC.

Notes on the Financial Statements

9 Income tax expense (continued)

- (b) The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expense:

	2001	2000
Accounting profit before tax	73,132,269	40,989,379
Income tax computed by applying tax rate of 33% (Under)/over-provision in respect of prior years	24,133,649 (431,201)	13,526,495 184,800
Income tax expense	23,702,448	13,711,295

10 Dividends

Dividends attributable to the year

	2001	2000
Dividend declared and paid of RMB0.24 per share (2000: RMBNil)	48,805,282	–
Final dividend proposed after the balance sheet date of RMB0.03 per share (2000: RMBNil)	8,544,000	–
	57,349,282	–

Pursuant to a resolution passed at the directors' meeting on 18 June 2001, a special dividend of RMB0.24 per share totalling RMB48,805,282 was proposed. The dividends were paid on 28 September 2001.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

11 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of RMB49,429,821 (2000: RMB27,278,084) divided by the weighted average number of shares in issue during the year of 207,387,671 (2000: 204,300,000).

Notes on the Financial Statements

12 Directors' and supervisors' emoluments

Details of directors' and supervisors' emoluments are as follows:

	2001	2000
Fees	70,000	–
Basic salaries, allowances and other benefits	195,895	167,799
Discretionary bonuses	1,225,601	423,166
Contributions to retirement benefit scheme	74,598	58,031
	1,566,094	648,996
Number of directors and supervisors	21	9

An analysis of directors' and supervisors' emoluments by the number of directors and supervisors and emolument range is as follows:

	2001	2000
RMBNil - RMB1,000,000	21	9

The executive directors, non-executive directors and supervisors received individual emoluments of approximately RMB247,110 (2000: RMB150,304), RMB207,110 (2000: RMBNil), RMB186,933 (2000: RMBNil), RMB186,814 (2000: RMBNil), RMB124,648 (2000: RMB66,311), RMB108,910 (2000: RMB57,795), RMB4,064 (2000: RMB67,760), RMB49,755 (2000: RMB65,775), RMB5,762 (2000: RMB51,325), RMB50,000 (2000: RMB103,572), RMB4,008 (2000: RMB50,092), RMB7,416 (2000: RMB35,562), RMB109,820 (2000: RMBNil), RMB52,348 (2000: RMBNil), RMB49,324 (2000: RMBNil), RMB58,820 (2000: RMBNil), RMB26,175 (2000: RMBNil), RMB52,137 (2000: RMBNil) and RMB14,940 (2000: RMBNil).

The independent non-executive directors received individual emoluments of approximately RMB10,000 (2000: RMBNil) and RMB10,000 (2000: RMBNil).

The above emoluments also include emoluments paid to former directors of RMB223,077 (2000: RMBNil).

There were no amounts paid during the years ended 31 December 2000 and 2001 to directors and supervisors in connection with their retirement from employment with the company, or inducement to join. There was no waiver of any emoluments by the directors or supervisors during the years ended 31 December 2000 and 2001.

Notes on the Financial Statements

13 Senior management's emoluments

Of the five individuals with the highest emoluments, four (2000: none) are directors whose emoluments are disclosed in note 12. The emoluments in respect of the other one (2000: five) individual(s) is as follows:

	2001	2000
Basic salaries, allowances and other benefits	222,040	121,892
Discretionary bonuses	-	415,708
Contributions to retirement benefit scheme	-	46,755
	222,040	584,355

The emolument of the one (2000: five) individual(s) with the highest emoluments are within the following bands:

	2001	2000
RMBNil - RMB1,000,000	1	5

There were no amounts (2000: RMBNil) paid during the year to the one (2000: five) individual(s) with the highest emoluments in connection with their retirement from employment with the company, or inducement to join.

Notes on the Financial Statements

14 Property, plant and equipment

	Buildings	Machinery and equipment	Motor vehicles	Other equipment	Total
Cost:					
Balance at 1 January 2001	84,029,202	136,752,246	983,307	437,201	222,201,956
Additions	2,234,435	2,466,490	230,021	37,671	4,968,617
Disposals	(377,575)	(270,000)	(269,800)	–	(917,375)
Balance at 31 December 2001	85,886,062	138,948,736	943,528	474,872	226,253,198
Depreciation and impairment losses:					
Balance at 1 January 2001	10,811,707	22,271,755	629,653	200,264	33,913,379
Charge for the year	3,917,558	10,963,247	112,732	49,138	15,042,675
Written back on disposal	–	(243,000)	(179,193)	–	(422,193)
Balance at 31 December 2001	14,729,265	32,992,002	563,192	249,402	48,533,861
Carrying amount:					
At 31 December 2001	71,156,797	105,956,734	380,336	225,470	177,719,337
At 31 December 2000	73,217,495	114,480,491	353,654	236,937	188,288,577

Upon establishment, all items of property, plant and equipment of the company were revalued by Nanjin Yong Hua, an independent PRC valuer registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment has been determined at RMB163 million. This revaluation was to establish the deemed cost of the property, plant and equipment at the time of the company's establishment.

On 31 December 2000, all items of fixed assets of the company were revalued by China Enterprise Appraisal, an independent PRC valuer registered in the PRC, on a depreciated replacement cost basis. Based on the valuation, the directors of the company considered that the recoverable amount of certain buildings, machinery and equipment, motor vehicles and other equipment were below the respective carrying values by RMB1,995,700, RMB3,060,993, RMB110,708 and RMB18,777 respectively as at 31 December 2000. The impairment losses totalling RMB5,186,178 were charged to the income statement for the year ended 31 December 2000.

Notes on the Financial Statements

14 Property, plant and equipment (continued)

For the purpose of the listing of the company's shares on GEM of the Stock Exchange, the property, plant and equipment of the company were revalued as at 30 September 2001 by Sallmanns (Far East) Limited, a firm of international valuers. Based on the valuation report issued by Sallmanns (Far East) Limited, the aggregate fair market value of certain machinery and equipment, motor vehicles and other equipment was above the respective aggregate carrying value by approximately RMB796,000 as at 30 September 2001. The directors of the company considered that there was no change in the estimates used to determine the recoverable amount and no reversal of impairment losses were recognised.

All of the company's buildings are located in the PRC.

As at 31 December 2001, machineries at net book value totalling RMB64,791,580 (2000: RMBNil) were pledged to secure certain bank loans (notes 22 and 23).

15 Deferred tax assets

	2001	2000
Deferred tax assets are attributable to the following:		
Provision for accounting purposes	2,105,120	2,105,120
Costs of equity transaction deductible for tax purposes	2,941,992	–
	5,047,112	2,105,120
Movement in deferred tax assets:		
At the beginning of the year	2,105,120	2,105,120
Transferred from retained earnings	2,941,992	–
At the end of the year	5,047,112	2,105,120

16 Inventories

Inventories represent:

	2001	2000
Raw materials	26,570,114	21,454,358
Work in progress	14,612,770	35,808,940
Finished goods	23,647,507	29,146,886
	64,830,391	86,410,184

None of the inventories is stated at net realisable value.

Notes on the Financial Statements

17 Trade and other receivables

Trade and other receivables comprise:

	2001	2000
Trade debtors and bills receivable	145,582,753	157,038,615
Advance deposits to suppliers	15,201,581	1,420,738
Other debtors	9,944,315	1,954,298
	170,728,649	160,413,651

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

	2001	2000
Within 3 months	119,520,832	84,783,096
Over 3 months but less than 6 months	21,850,268	52,823,523
Over 6 months but less than 1 year	3,661,653	17,161,956
Over 1 year but less than 2 years	550,000	742,120
Over 2 years	-	1,527,920
	145,582,753	157,038,615

Customers are normally granted credit terms of three months to six months, depending on 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 15 months.

18 Amounts due from/to shareholders/a related company

Amounts due from/to shareholders/related companies are interest free and have no fixed terms of repayment except for the loan disclosed in note 28(b)(iv). The balances arise from the related party transactions disclosed in note 28.

19 Pledged deposits

The deposits are pledged with banks for certain banking facilities granted to the company to the extent of deposits placed with the banks.

Notes on the Financial Statements

20 Cash and cash equivalents

(a) Analysis of the balances of cash and cash equivalents is set out below:

	2001	2000
Cash at bank and in hand	91,159,940	25,244,014

(b) Non-cash transactions

- (i) During the year ended 31 December 2001, the company transferred certain property, plant and equipment, which were not primarily employed for the operations of the company, with an aggregate net book value of RMB495,182 (2000: RMB14,305,967) to Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan") at their net carrying values, the consideration of which was satisfied by a set off of an equivalent amount against the amount due to Jiangsu Mudan.
- (ii) During the year ended 31 December 2001, an amount of RMB2,706,331 (2000: RMBNil) due to a related company was waived and is included in the income statement as other operating income (note 5).

21 Capital and reserves

(a) Share capital

	2001	2000
Registered, issued and fully paid:		
196,250,000 (2000: 204,300,000) domestic shares of RMB1.00 each	196,250,000	204,300,000
88,550,000 (2000: Nil) H shares of RMB1.00 each	88,550,000	-
	284,800,000	204,300,000

Pursuant to a resolution passed at the shareholders' meeting on 22 November 2001 and approvals from relevant government authorities, the company was authorised to increase its share capital to a maximum of RMB284,800,000 immediately after the listing of the company's H shares on the GEM of the Stock Exchange.

On 18 December 2001, the company issued 88,550,000 H shares with a par value of RMB1.00 each, at a price of HK\$1.13 per H share by placing and public offer.

Notes on the Financial Statements

21 Capital and reserves (continued)

(a) Share capital (continued)

Included in the issued H shares were 8,050,000 H shares converted from 8,050,000 domestic shares previously held by Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM"). Pursuant to the Provisional Measures on the Administration of the Reduction of the State-owned Shares for Raising of Public Security Funds promulgated by the State Council of the PRC on 12 June 2001, ZMPAM, a state-owned enterprise and one of the company's promoters, converted 8,050,000 domestic shares, representing the equivalent of 10% of the H shares (excluding the H shares to be converted from the domestic shares), into H shares upon the listing of the company's H shares on the GEM of the Stock Exchange.

All the domestic shares and H shares rank pari passu in all material respects.

(b) Share premium

Pursuant to the PRC Law, the share premium account was utilised to pay off certain listing costs incurred in connection with the issue of share capital.

(c) Statutory surplus reserve

According to the company's articles of association, the company 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 a dividend 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 issued 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.

For the year ended 31 December 2001, the board of directors proposed the transfer of RMB4,630,991 (2000: RMB3,103,525) to the statutory surplus reserve, being 10% of the current year's net profit determined in accordance with the PRC accounting rules and regulations, subject to the shareholders' approval at the annual general meeting.

Notes on the Financial Statements

21 Capital and reserves (continued)

(d) Statutory public welfare fund

According to the company's articles of association, the company 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 a dividend to shareholders.

For the year ended 31 December 2001, the board of directors proposed the transfer of RMB4,630,992 (2000: RMB3,103,525) to the statutory public welfare fund, being 10% of the current year's net profit determined in accordance with the PRC accounting rules and regulations, subject to the shareholders' approval at the annual general meeting.

(e) Distributable reserve

Pursuant to the company's articles of association, the net profit of the company for the purpose of profit distribution to shareholders will deem 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 IAS.

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.

The distributable reserve of the company as at 31 December 2001 amounted to RMB31,795,990. A final dividend of RMB8,544,000 in respect of the financial year 2001 was proposed after the balance sheet date (note 10).

Notes on the Financial Statements

22 Long-term bank loan

	2001	2000
Secured bank loan	20,000,000	–

Details of the long-term bank loan as at 31 December 2001 are as follows:

Principal	Interest rate	Loan period	Security
20,000,000	6.534% p.a.	28 March 2001 to 28 March 2003	Pledge over machinery (note 14)

23 Short-term bank loans

	2001	2000
Secured bank loans	13,000,000	–

Details of the short-term bank loans as at 31 December 2001 are as follows:

Principal	Interest rate	Loan period	Security
10,000,000	6.138%p.a.	28 September 2001 to 28 March 2002	Pledge over machinery (note 14)
3,000,000	6.4584%p.a.	28 September 2001 to 28 March 2002	Pledge over machinery (note 14)
13,000,000			

Notes on the Financial Statements

24 Trade and other payables

Trade and other payables comprise:

	2001	2000
Trade payables	83,194,175	130,161,431
Bills payable	36,470,000	1,807,200
Accrued salaries, bonus and welfare fund	14,182,595	12,600,826
Other payables	47,836,841	31,883,002
	181,683,611	176,452,459
An ageing analysis of trade payables is as follows:		
Within 3 months	80,951,697	128,238,526
Over 3 months but less than 6 months	1,202,019	632,927
Over 6 months but less than 1 year	402,198	267,456
Over 1 year	638,261	1,022,522
	83,194,175	130,161,431

25 Financial instruments

Financial assets of the company include cash and cash equivalents, pledged deposits, trade and other receivables and amounts due from shareholders and a related company. Financial liabilities of the company include bank loans, trade and other payables, amounts due to shareholders and a related company. The company does not hold or issue financial instruments for trading purposes. Exposure to credit, interest rate and currency risk arises in the normal course of the company's business.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The company does not require collateral in respect of financial assets.

At the balance sheet date the company had no significant concentrations of credit risk except for a trade receivable from one of its customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Amount due from customer represented more than 10% of the outstanding receivables at each balance sheet date is as follows:

	2001	2000
Guangzhou Bai Yun Hua Gang Automobile Company (formerly known as "Guangzhou Tian He Hua Gang Automobile Company")	47,995,651	73,160,076

Notes on the Financial Statements

25 Financial instruments (continued)

(b) Interest rate risk

The interest rates and terms of repayment of the bank loans of the company are disclosed in notes 22 and 23.

(c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

Foreign currency payments, including the remittance of earnings outside of the PRC, are subject to the availability of foreign currency which is dependent on the foreign currency denominated earnings of the company or must be arranged through the People's Bank of China with government approval.

During the years ended 31 December 2000 and 2001, the company have not carried out any material transactions in currency other than Renminbi.

(d) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2000 and 2001.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

- (i) Cash and cash equivalents, pledged deposits, trade and other receivables, trade and other payables, amounts due from/to shareholders and a related company.

The carrying values approximate fair value because of the short maturities of these instruments.

- (ii) Bank loans

The carrying amount of bank loans approximate its fair value based on the borrowing rates currently available for bank loans with similar terms and maturity.

Notes on the Financial Statements

26 Commitments

The company leases rights to use two pieces of land and a property in the PRC through non-cancellable operating leases. The operating leases do not contain provisions for contingent lease rentals. The lease agreements do not contain escalation provisions that may require higher future rental payments.

At 31 December 2001, the future minimum lease payments under operating leases were as follows:

	2001	2000
Less than one year	560,000	–
Between one and five years	2,240,000	–
More than five years	8,260,000	–
	11,060,000	–

27 Segmental information

Revenue mainly comprises the manufacturing and sale of automobiles in the PRC. In the circumstances, the directors consider that the company operates within a single business and geographical segment.

28 Material related party transactions

Particulars of material transactions between the company and certain related parties in which a director or a shareholder of the company is in a position to exercise significant influence are as follows:

(a) Recurring

	Note	2001	2000
Purchases from shareholders/a related company	(i)	47,089,093	54,038,062
Distribution fee paid	(ii)	11,672,011	17,118,945
Rent paid for land use rights	(iii)	460,000	460,000
Rent paid for property	(iv)	100,000	100,000
Management fee received arrangement	(v)	30,000	–

Notes on the Financial Statements

28 Material related party transactions (continued)

Notes:

- (i) This represents purchases of raw materials from the shareholders/a related company (Zhangjiagang Mudan Bus Body Stamping Co., Ltd, Zhangjiagang Mudan Automobile Accessories Co., Ltd, Zhangjiagang Mudan Bus Parts Co., Ltd and Zhangjiagang Automobile Accessories Factory) during the year.
- (ii) Distribution fees were payable to Jiangsu Mudan Automobiles Group Sale Company ("JMAGS"), controlled by Jiangsu Mudan, which handles the sales of the company's products in the PRC. The fee was determined by negotiation between both parties and with reference to the estimated costs of JMAGS in providing the agency services in the PRC. Since 8 October 2001, the sales of the company's products have been handled substantially by the company's sales team.
- (iii) The company has entered into a lease agreement with Jiangsu Mudan whereby the company is granted rights to use two pieces of land in the PRC on which its buildings are erected for a term of 20 years. The annual fixed rental payment is RMB460,000.
- (iv) The company has entered into a lease agreement with Jiangsu Mudan whereby the company is granted rights to use a property in the PRC for a term of 20 years. The annual fixed rental payment is RMB100,000.
- (v) In October 2001, the company has entered a custodian agreement with Jiangsu Mudan. Pursuant to which, Factory No. 1 and Factory No. 7 and certain production facilities of Jiangsu Mudan ("the business") are managed by the company for a management fee of RMB200,000 per annum. Assets and liabilities arising from the business are held for the benefit of Jiangsu Mudan and are not assumed by the company. In addition, the company is not liable, whether severally or jointly and severally, for debts and obligations incurred by the business.
- (vi) During the year, Jiangsu Mudan allowed the company to use the trademark of "Mudan", certain of its sales offices, office equipment and public facilities at nil consideration.

The directors of the company are of the opinion that the above transactions (excluding (v)) with related parties were entered into:

- in the ordinary and usual course of its business;
- either (a) on normal commercial terms; or (b) on terms no less favourable than those available from/to independent third parties; or where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the company are concerned; and
- either in accordance with the terms of the agreement governing each such transaction or where there is no such agreement, on terms no less favourable than terms available from/to third parties

and these have been confirmed by the independent non-executive directors.

(b) Non-recurring

- (i) The company made payments for purchases on behalf of Jiangsu Mudan which amounted to RMB29,513,842 (2000: RMB20,023,500) during the year ended 31 December 2001.
- (ii) Jiangsu Mudan made payments for purchases on behalf of the company which amounted to RMB409,907,406 (2000: RMB557,696,820) during the year ended 31 December 2001.
- (iii) Jiangsu Mudan received sales receipts on behalf of the company which amounted to RMB297,894,690 (2000: RMB509,887,316) during the year ended 31 December 2001.

Notes on the Financial Statements

28 Material related party transactions (continued)

(b) Non-recurring (continued)

- (iv) The company obtained an unsecured loan from Jiangsu Mudan which carried an average interest rate of 7.435% (2000: 7.398%) per annum during the year ended 31 December 2001. Interest expense amounted to RMB1,725,467 (2000: RMB7,786,599) for the year ended 31 December 2001. The maximum outstanding balance of the loan from Jiangsu Mudan was RMB100,880,000 (2000: RMB100,880,000) during the year ended 31 December 2001. The outstanding balance was RMBNil (2000: RMB100,880,000) at 31 December 2001.
- (v) According to the distribution agreement with JMAGS, 60% of the sales commission paid in respect of certain major customers was borne by the company and payable to Jiangsu Mudan. The commission paid to JMAGS for the year ended 31 December 2001 was RMB4,649,689 (2000: RMB6,069,520).
- (vi) During the year, property, plant and equipment with an aggregate net book value of RMB495,182 (2000: RMB14,305,967) were transferred from the company to Jiangsu Mudan at their net book value.
- (vii) Prior to April 2000, pension and welfare expenses totalling RMB631,605 for the year ended 31 December 2000 were paid by Jiangsu Mudan on behalf of the company.

The directors of the company are of the opinion that the above transactions with related parties were conducted on normal commercial terms or on terms described above and in the ordinary course of business and have confirmed that the above transactions was discontinued after the listing of the company on the GEM of the Stock Exchange.

29 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2001 to be Zhangjiagang Municipal Public Assets Management Co., Ltd, which is a state-owned enterprise established in the PRC.

Reconciliation of Net Profit and Net Assets under International Accounting Standards (“IAS”) and PRC Accounting Rules and Regulations

(Expressed in Renminbi Yuan)

	Note	2001		2000	
		Profit attributable to shareholders for the year	Net assets as at 31 December	Profit attributable to shareholders for the year	Net assets as at 31 December
As determined pursuant to PRC accounting rules and regulations		46,309,911	333,215,800	27,838,084	213,136,647
Adjustments:					
Restatement of costs of issuing shares	(i)	-	(8,915,126)	-	-
Recognition of deferred tax assets	(ii)	-	5,047,112	-	2,105,120
Restatement of dividends	(iii)	-	8,544,000	-	48,805,282
Restatement of operating lease rentals	(iv)	1,306,668	-	(560,000)	(1,306,668)
Restatement of waiver of an amount due to a related company (after tax effect)	(v)	1,813,242	-	-	-
As determined pursuant to IAS		49,429,821	337,891,786	27,278,084	262,740,381

Notes:

- (i) The amount represents the different treatment on the costs of issuing shares between the IAS and PRC financial statements. Under the PRC accounting rules and regulations, costs of issuing shares (in excess of the share premium arising from the issue) are recognised as an asset and be amortised over 2 years. Pursuant to IAS, the costs of issuing shares are accounted for as part of the equity transaction to which they relate and are reported as a movement in equity.
- (ii) This represents the recognition of deferred tax assets in respect of the IAS adjustment as noted in note (i) and a provision of bad debt made prior to 1999.
- (iii) Under the PRC accounting rules and regulations, dividends are recognised as a liability in the period to which they related. Pursuant to IAS, dividends are recognised in the period in which they are declared.
- (iv) In October 2001, the company entered into lease agreements with Jiangsu Mudan Automobile Group Company Limited which was effective retrospectively since the establishment of the company in September 1998, whereby the company is granted rights to use two pieces of land in the PRC and a property for a term of 20 years. The annual fixed rental payment for the lease of land and property are RMB460,000 and RMB100,000 respectively. This represents a cut-off adjustment for the PRC financial statements.
- (v) The amount represents the different treatment on a waiver of an amount due to a related company between the IAS and PRC financial statements. Under the PRC accounting rules and regulations, such waiver is dealt with directly as a movement in the capital reserve. In the IAS financial statements, the waiver is recognised as other operating income in the period to which it occurred.

Four Year Summary

(Expressed in Renminbi Yuan)

	2001	Year ended 31 December		Period from
		2000	1999	18 September 1998 (date of establishment) to 31 December 1998
Results				
Revenue	857,038,069	775,719,118	507,051,801	179,614,759
Profit from operations	77,671,765	48,808,986	46,793,734	27,133,223
Net finance costs	(4,539,496)	(7,819,607)	(6,465,142)	(3,326,455)
Profit before tax	73,132,269	40,989,379	40,328,592	23,806,768
Income tax expense	(23,702,448)	(13,711,295)	(13,493,235)	(7,856,233)
Profit attributable to shareholders	49,429,821	27,278,084	26,835,357	15,950,535
Assets and liabilities				
Property, plant and equipment	177,719,337	188,288,577	221,701,919	146,022,164
Deferred tax assets	5,047,112	2,105,120	2,105,120	–
Total current assets	415,351,153	312,360,640	121,170,495	224,998,825
Total current liabilities	(240,225,816)	(240,013,956)	(109,515,237)	(155,973,182)
Total assets less current liabilities	357,891,786	262,740,381	235,462,297	215,047,807
Non-current liabilities	(20,000,000)	–	–	(4,880,000)
	337,891,786	262,740,381	235,462,297	210,167,807
Share capital	284,800,000	204,300,000	204,300,000	204,300,000
Reserves	53,091,786	58,440,381	31,162,297	5,867,807
	337,891,786	262,740,381	235,462,297	210,167,807