



**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)*



**1st Quarterly Report 2002**

\* For identification only



## **First Quarterly Results Announcement for the three months ended 31 March 2002**

**Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

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

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*This announcement, for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*\* For identification purpose only*



## HIGHLIGHTS

For the three months ended 31 March 2002, the Company realised a sustainable and high-speed growth.

- For the three months ended 31 March 2002, the Company accomplished a net profit of RMB5,410,769, representing an increase of approximately 34.8% as compared to that of the corresponding period in 2001.
- For the three months ended 31 March 2002, earnings per share is approximately RMB1.90 cents.
- For the three months ended 31 March 2002, approval was granted by the State Economic and Trade Committee (the “SETC”) for the 11 new products including light-sized buses, medium-sized buses and large-sized buses developed by the Company.
- The Company received the “Approval on the Proposed Technical Reform Project of Medium-sized Buses of Mudan Automobile Shares Company Limited” (《關於牡丹汽車股份有限公司中型客車技術改造項目建議書的批復》) issued by the SETC during the period. Pursuant to the approval, the SETC permitted the Company to upgrade the technology of production line for medium-sized buses.
- The Company was awarded “An Enterprise of Outstanding After-sales Service and Quality Management” (「售後服務管理質量先進企業」) by 「中國質量萬里行」 on the “Customers’ Rights Day on 15 March” (「3.15消費者權益日」) in 2002.

**UNAUDITED QUARTERLY RESULTS**

The board of Directors (the “Board”) is pleased to announce the unaudited quarterly results of the Company for the three months ended 31 March 2002, together with the comparative figures of the corresponding period of 2001 as follows:

	Notes	<b>For the three months ended 31 March 2002 RMB</b>	For the three months ended 31 March 2001 RMB
Revenue	2	<b>174,416,137</b>	156,021,457
Cost of sales		<b>(154,527,283)</b>	(138,291,636)
<b>Gross profit</b>		<b>19,888,854</b>	17,729,821
Other operating income		<b>50,000</b>	14,399
Distribution expenses		<b>(5,965,524)</b>	(6,409,767)
General and administrative expenses		<b>(5,186,805)</b>	(2,862,085)
Other operating expenses		<b>(406,832)</b>	(747,646)
<b>Profit from operations</b>		<b>8,379,693</b>	7,724,722
Net finance costs		<b>(303,918)</b>	(1,732,802)
<b>Profit before tax</b>		<b>8,075,775</b>	5,991,920
Income tax expense	3	<b>(2,665,006)</b>	(1,977,334)
<b>Profit attributable to shareholders</b>		<b>5,410,769</b>	4,014,586
Earnings per share	4	<b>1.90 cents</b>	1.97 cents



Notes:

### 1. Basis of preparation

The principal accounting policies adopted in preparing the unaudited quarterly results conform with the International Accounting Standards issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (formerly called Standing Interpretations Committee) of the IASB. These unaudited quarterly results for the three months ended 31 March 2002 also comply with the applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange.

The measurement basis used in the preparation of the quarterly results is historical cost.

The accounting policies have been consistently applied by the Company and are consistent with those used in the 2001 annual financial statements.

### 2. Revenue

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

Revenue mainly comprises the sale of automobiles in People’s Republic of China (“PRC”). In the circumstances, the Directors consider that the Company is operating within a single business and geographical segment.

### 3. Income tax expense

Income tax expense represents the provision for PRC income tax. The provision for PRC income tax is calculated at a statutory rate of 33% (2001: 33%) of the estimated assessable income for the quarter determined in accordance with the relevant income tax rules and regulations of the PRC.

### 4. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the three months ended 31 March 2002 of RMB5,410,769 divided by the weighted average number of shares in issue during the quarter of 284,800,000 (2001: 204,300,000). No diluted earnings per share was presented as there were no dilutive potential ordinary shares outstanding.

## RESERVES

Other than the net profit for the three months ended 31 March 2002, there were no movements to or from reserves of the Company during the quarter (2001: none).

## DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2002 (2001: Nil).



## BUSINESS REVIEW

### **1. Financial growth**

Revenue for the first quarter amounted to RMB174,416,137 (2001: RMB156,021,457) representing an increase of approximately 11.8% as compared to that of the corresponding period in 2001. The net profit reached RMB5,410,769 (2001: RMB4,014,586) representing an increase of approximately 34.8% as compared to that of the corresponding period in 2001.

The increase in revenue was mainly due to the steady increase in the sales of buses in Eastern China. The Company has also captured potential business opportunities in Western China by enhancing the sales and marketing activities in the regions. As a result, the sales of buses in Western China have increased.

### **2. An approval was issued by the SETC for the reform project in respect of medium-sized buses**

The Company received the “Approval on the Proposed Technical Reform Project of Medium-sized Buses of Mudan Automobile Shares Company Limited” (《關於牡丹汽車股份有限公司中型客車技術改造項目建議書的批復》) issued by the SETC from Jiangsu Provincial Economic and Trade Committee within the period. Pursuant to the approval, the SETC permitted the Company to upgrade the technology of production line for medium-sized buses.

### **3. Eleven new products were approved by the SETC**

During the first quarter of this year, there were eleven new products of the Company approved and announced by the SETC, including two models of the MD6601 series light-sized buses, two of the MD6701 series light-sized buses, two of the MD6701 series medium-sized buses, three of the MD6800 series medium-sized buses and two of the MD6100 series large-sized buses.

Two new models comprising one of the MD6601 series light-sized buses and one of the MD6901 series medium-sized buses have been applied to the SETC for approval during the period.

### **4. The posts of sales managers were applied by competition and overseas department was set up**

The Company established flexible marketing system. There was competition for the post of manager for each sales office of the Company throughout the country, and the staff’s rewards were linked with their sales results. The Company chose persons with caliber and the staff was motivated by this plan.

To expand its overseas market, the Company established an overseas department. During the period, the Company exported certain of its products to Asia, Europe, South America and etc. (2001: Nil)



**5. Brand sales strategies were implemented and West China's markets were expanded**

The Company has been actively developing new products, as well as enhancing the market awareness of the products. The Company has organized “Spring Exhibitions for Mudan automobiles” in Chongqing, the PRC. During the exhibition, the Company focused on products such as luxury touring buses for short and medium distance transport, high-speed and luxury buses for long distance transport and public transport buses. “Mudan” brand is very popular in West China.

**6. Awarded “An Enterprise of Outstanding After-sales Service and Quality Management”**

The Company places heavy emphasis on the quality control of buses. It implements a quality assurance system which is of ISO9002 standard and has been granted the international recognised ISO9002 quality system certificate. The Company provides quick and high quality maintenance services to its customers which has enhanced the Company's reputation in the bus market in the PRC. In 2002, during the activity of “Customer's Right Day on 15 March” (「3.15消費者權益日」), the Company was awarded “An Enterprise of Outstanding After-sales Service and Quality Management” (「售後服務管理質量先進企業」) by 「中國質量萬里行」.

**7. Trainings were strengthened to enhance staff's qualification and the skill of research and management**

The Company co-operated with Jiangsu University to organise a class of mechanical and electrical (M & E) engineer during the quarter. The program includes courses relating to the transmission system of M & E ,the computer C-language, test system and hydraulic transmission and etc. Twenty-one technicians attended such training. Six persons engaged in technology research and development were nominated to study the master program of M&E in Jiangsu University. Sales persons were trained concentrating on the sales strategies and technique, negotiation skill and product's parameters.

## **FUTURE PROSPECTS**

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

**1. The modernisation of the existing production facilities**

The Company plans to upgrade the technology of the existing production line for medium-sized buses including welding, painting, assembly and final inspection lines.



## **2. *The expansion in sales and the promotion of marketing activities***

With the continuous development for both of the domestic 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 potential business opportunities, the Company intends to increase its sales in both the domestic and the overseas markets by expanding its sales force and the promotion of 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 the intention to establish sales offices in Western China as well as the development of different forms and kinds of joint ventures and co-operation with overseas companies, (b) participating in major sales exhibitions and trade shows to enhance the awareness of the Company's brandname and products; and (c) launching extensive advertising plans.

## **3. *Enhancement of research and development capabilities***

In order to maintain its leading position in the bus industry and to compete in the international bus market, the Company strives to strengthen its research and development capability by recruiting more high calibre research personnel and equipping more advanced and comprehensive facilities. There will also be development of new products with the state accreditation so as to introduce a batch of branded, cost-effective and popular products to meet the special requirements of customers.

## **SUBSTANTIAL SHAREHOLDERS**

As of 31 March 2002, holders of the Company's domestic shares representing 10% or more of the Company's total issued capital were as follows:

<b>Name of shareholders</b>	<b>Number of shares</b>	<b>Percentage</b>
Zhangjiagang Municipal Public Assets Management Co. Ltd ("ZMPAM")	94,310,000	33.11%
Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan")	100,340,000	35.23%



As of 31 March 2002, the holder of H shares representing 10% or more of the Company's total issued capital was as follows:

<b>Name of shareholders</b>	<b>Number of H shares</b>	<b>Percentage</b>
HKSCC Nominees Limited	87,776,000	30.82%

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 as of 31 March 2002 ("SDI Ordinance").

### **INTEREST OF DIRECTORS, SENIOR MANAGEMENT AND 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 March 2002, 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 or senior management, nor their spouses or children under the age of 18 were granted or had exercised any rights to subscribe for the securities in the Company during the three months ended 31 March 2002.

### **INTEREST OF THE 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 interest in the share capital of the Company as at 31 March 2002.



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 H shares of the Company were listed, until 31 December 2003.

Save as disclosed above, the Sponsor has no other interest in the Company as at 31 March 2002.

## 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-contracting of all the production orders it shall 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 under the tender.

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.

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 period ended 31 March 2002.



## AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) with written terms of reference in compliance with the requirements as set out in Rules 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, Mr. ZHANG Xiao Yu and Mr. WU Chang Fa. The Company’s quarterly results for the three months ended 31 March 2002 have been reviewed by the Committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and other legal requirements, and that adequate disclosure had been made.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31 March, 2002, the Company has not purchased, sold or redeemed any of its listed securities.

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

29 April 2002  
Zhangjiagang, Jiangsu Province, the PRC

*This announcement will remain on the “Latest Company Announcement” page of the GEM website (<http://www.hkgem.com>), at least seven days from its date of publication and will be published on the website of the Company (<http://www.mudanauto.com>).*

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