

2002

3rd Quarterly Report



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)

* For identification only



Third Quarterly Report for the nine months ended 30 September 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 Quarterly Report, for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this Quarterly 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 Quarterly Report misleading; and (3) all opinions expressed in this Quarterly Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



HIGHLIGHTS

For the nine months ended 30 September 2002, the Company realised a sustainable growth.

- For the nine months ended 30 September 2002, the Company accomplished a net profit of RMB33,058,386 representing an increase of approximately 7.6% as compared to that of the corresponding period in 2001.
- For the nine months ended 30 September 2002, earnings per share is approximately RMB11.6 cents.
- For the three months ended 30 September 2002, approvals were granted by the State Economic and Trade Committee (the “SETC”) of the People’s Republic of China (the “PRC”) for the 9 new products including light-sized buses, medium-sized buses and large-sized buses developed by the Company.
- On September 2, 2002, the Company was granted “Diamond Award” of the Corporate and Employee Contribution Programme by THE COMMUNITY CHEST of Hong Kong.
- Trademark of Mudan was awarded the “Famous Trademark in the City of Suzhou” in July 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 and nine months ended 30 September 2002, together with the comparative figures of the corresponding period of 2001 as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2002 RMB (Unaudited)	2001 RMB (Unaudited)	2002 RMB (Unaudited)	2001 RMB (Audited)
Revenue	2	261,966,624	237,032,077	686,963,716	599,212,114
Cost of sales		(235,345,801)	(205,205,189)	(606,738,095)	(524,367,924)
Gross profit		26,620,823	31,826,888	80,225,621	74,844,190
Other operating income		506,379	1,284,603	1,050,489	944,799
Distribution expenses		(6,991,717)	(7,932,458)	(19,398,355)	(19,361,603)
General and administrative expenses		(1,647,635)	(1,561,137)	(10,715,236)	(5,711,554)
Other operating expenses		–	–	(406,832)	(660,950)
Profit from operations		18,487,850	23,617,896	50,755,687	50,054,882
Net finance costs		(827,250)	(1,811,962)	(1,414,812)	(3,999,334)
Profit before tax		17,660,600	21,805,934	49,340,875	46,055,548
Income tax expense	3	(5,827,998)	(7,334,558)	(16,282,489)	(15,336,931)
Profit attributable to shareholders		11,832,602	14,471,376	33,058,386	30,718,617
Earnings per share	4	4.15 cents	7.1 cents	11.6 cents	15.0 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 nine months ended 30 September 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 the 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 quarterly results determined in accordance with the relevant income tax rules and regulations of the PRC.

4. Earnings per share

For the three months and the nine months ended 30 September 2002, the calculation of earnings per share is based on the unaudited profit attributable to shareholders of about RMB11,832,602 and RMB33,058,386 respectively (For the three months and nine months ended 30 September 2001, the profit is about RMB14,471,376 and RMB30,718,617 respectively) divided by the weighted average number of shares issued during the respective period. For the three months and the nine months ended 30 September 2002, the weighted average number of shares in issued is 284,800,000 and 284,800,000 respectively (For the three months and the nine months ended 30 September 2001, the weighted average number of shares in issued is 204,300,000 and 204,300,000 respectively). 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 and nine months ended 30 September 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 nine months ended 30 September 2002 (2001: Nil).

BUSINESS REVIEW

1. Financial growth

Revenue for the three months ended 30 September 2002 amounted to approximately RMB261,966,624 (2001: RMB237,032,077) representing an increase of approximately 10.5% as compared to that of the corresponding period in 2001. The net profit reached RMB11,832,602 (2001: RMB14,471,376) representing an decrease of approximately 18.2% as compared to that of the corresponding period in 2001.

Revenue for the nine months ended 30 September 2002 amounted to approximately RMB686,963,716 (2001: RMB599,212,114) representing an increase of approximately 14.6% as compared to that of the corresponding period in 2001. The net profit reached RMB33,058,386 (2001: RMB30,718,617) representing an increase of approximately 7.6% as compared to that of the corresponding period in 2001.

The increase in revenue was mainly due to the Company having launched different new models of medium and large sized buses which are well received by customers. The Company, at the same time, has also strengthened the sales and marketing activities in the regions. As a result, the sales of medium and large sized buses have increased on the base of the stabilization sales of light-sized buses.

2. Nine new products were approved by the SETC

During the third quarter of this year, 9 new products of the Company were approved and announced by the SETC, including 1 models of the MD6601 series light-sized buses, 1 of the MD6701 series light-sized buses, 1 of the MD6701 series medium-sized buses, 3 of the MD6800 series medium-sized buses and 3 of the MD6100 series large-sized buses.

3. Products exported for overseas market

The Company exported certain products to countries and regions such as South America, North America, North Africa, Mediterranean Sea, South Asia, Middle East and Caribbean etc.



4. *Marketing activities*

During the quarter, the Company placed advertisements on T.V. and internet to offer prize awards for the participants that submitted the proposed associated brand names for the products of the Company, the activities raised the public awareness of various models of the Company's products and enhanced the Company's brand name. This will accelerate the pace of market development.

From 17th August to 20th August, 2002, the Company organized "The first meeting of the 4th Public Transportation Council of Shandong Province and its Municipalities". The council members visited the Company's production plant and gained a better understanding of the Company's products, paving the way for the Company to enter the automobile market in Shandong.

5. *Enterprise Information Technology*

During the quarter, the Company carried out Information Technology system project, and held several seminars on Enterprise Resources Planning ("ERP") and office automation ("OA") for its employees. In September, the Company, by the way of tendering, entered into a contract with a software provider to carry out the project of OA and ERP, this has improved the management tools and model of the Company and enhanced the competitiveness of the Company as well.

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

During the quarter, a team of senior management and engineers attended the vehicle exhibition at the International Academy of Astronautics (IAA) Hanover 2002 and took the opportunity to visit several well-known automobile companies. The team brought back the world's most advanced technology standards and gained a thorough understanding of the future trend of passenger vehicles. This has provided a useful guidance in the new product development of the Company, therefore enhancing the Company's ability to improve product quality and better serve the customers.

The Company co-operated with Jiangsu University to organize a class of mechanical and electrical (M & E) engineer during the quarter. The program includes courses relating to M&E, theory and technique of computer, automobile air-conditioning, automobile mould and CAD/CAM etc. Twenty-one technicians attended the training. Six personnel in technology research and development department were nominated to join the master degree program of M&E in Jiangsu University. Certain employees attended a course of Advanced Management offered by Nanjing University. Internally, the Company also organised a financial training program for 45 staff of non-financial background.



FUTURE PROSPECTS

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

1. Advertising Campaign

The Company plans to conduct a big event in Qingdao named “Mudan New Model Buses Exhibition and Press Conference 2003” in the fourth quarter of the year.

2. Expansion in sales and market promotion 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 brand name 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 so as to introduce a batch of branded, cost-effective and popular products to meet the special requirements of customers.



SUBSTANTIAL SHAREHOLDERS

As of 30 September 2002, 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
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 30 September 2002, the holder of H shares representing 10% or more of the Company's total issued capital was as follows:

Name of shareholders	Number of H shares	Percentage
HKSCC Nominees Limited	87,976,000	30.89%

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 30 September 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 30 September 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 nine months ended 30 September 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 30 September 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 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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. The Committee held three meetings during the nine months ended 30 September 2002.

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 GEM throughout the nine months period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 30 September 2002, the Company has not purchased, sold or redeemed any of its listed securities.

By order of the Board

Mudan Automobile Shares Company Limited

SUN Min Biao

Chairman

25 October 2002

Zhangjiagang, Jiangsu Province, the PRC