



**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**



\* For identification only

## First Quarterly Report for the three months ended 31 March 2003

### 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” or “Mudan Auto”) 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 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.*

For the three months ended 31 March 2003, the Company experienced a growth of 20.9% as compared with the corresponding period in 2002.

- For the three months ended 31 March 2003, the Company accomplished a net profit of RMB6,009,263, representing an increase of approximately 11.1% as compared with that of the corresponding period in 2002.
- For the three months ended 31 March 2003, earnings per share is RMB2.11 cents.
- For the three months ended 31 March 2003, approval was granted by the State Economic and Trade Committee (the “SETC”) of the People’s Republic of China (the “PRC”) for 19 new products including light-sized buses, medium-sized buses and large-sized buses developed by the Company.
- On 18 March 2003, “Busworld Asia” exhibition was held in Shanghai New International Expo Center. The Company participated in the event. The Company’s product, luxury high speed bus model of MD6122GDU, was awarded “The best appearance of the year 2003” from the exhibition. The award was selected and presented by BAAV (世界客車聯盟).
- During this period, the Company was awarded “High Quality Brand in favour of Protecting Customer’s Rights and Interests”.
- A grand ceremony was held on 15 March 2003 to mark the exportation of 250 units of light-sized buses of the Company to Northern Africa. This export trade indicates a further move for Mudan buses to go into overseas market.

## UNAUDITED QUARTERLY RESULTS

The board of Director (“the Board”) is pleased to announce the unaudited quarterly results of the Company for the three months ended 31 March 2003, together with the comparative figures of the corresponding period of 2002 as follows:

	<i>Notes</i>	<b>For the three months ended 31 March 2003</b>	For the three months ended 31 March 2002
		<b>RMB</b>	<b>RMB</b>
Revenue	2	210,894,471	174,416,137
Cost of sales		<u>(186,940,835)</u>	<u>(154,527,283)</u>
<b>Gross profit</b>		<b>23,953,636</b>	<b>19,888,854</b>
Other operating income		1,232,103	50,000
Distribution expenses		(6,589,159)	(5,965,524)
General and administrative expenses		(8,360,359)	(5,186,805)
Other operating expenses		<u>(201,476)</u>	<u>(406,832)</u>
<b>Profit from operations</b>		<b>10,034,745</b>	<b>8,379,693</b>
Net finance costs		<u>(1,065,695)</u>	<u>(303,918)</u>
<b>Profit before tax</b>		<b>8,969,050</b>	<b>8,075,775</b>
Income tax expense	3	<u>(2,959,787)</u>	<u>(2,665,006)</u>
<b>Profit attributable to shareholders</b>		<b><u>6,009,263</u></b>	<b><u>5,410,769</u></b>
Earnings per share			
– basic (cents)	4	<u>2.11</u>	<u>1.90</u>

Notes:

## 1. Basis of presentation

The principal accounting policies adopted in preparing the unaudited quarterly results conform with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards and interpretations. These unaudited quarterly results for the three months ended 31 March 2003 also comply with the applicable disclosure provisions of the GEM Listing Rules.

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of investments in units trusts.

The accounting policies have been consistently applied by the Company and are consistent with those used in the 2002 annual financial statements.

## 2. Revenue

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

Revenue is mainly comprised of the sale of automobiles in the PRC. In the circumstances, the Directors consider that the Company operates 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% (2002: 33%) of the estimated assessable income for the year determined in accordance with the relevant income tax rules and regulations of the PRC.

## 4. Earnings per share

The calculation of earnings per share is based on the unaudited net profit attributable to shareholders for the three months ended 31 March 2003 of RMB6,009,263 divided by the weighted average number of shares in issue during the quarter of 284,800,000 (2002 : 284,800,000). No diluted earnings per share was presented as there were no dilutive potential ordinary shares outstanding.

## RESERVES

Other than the net profits for the three months ended 31 March 2003, there were no movement to or from reserve of the Company. (2002: none.)

## DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: Nil).

## BUSINESS REVIEW AND PROSPECTS

### 1. *Operation results growth steadily*

Revenue for the first quarter amounted to RMB210,894,471, (2002: RMB174,416,137) representing about 20.9% increase as compared to that of previous period in 2002. The net profit reached about RMB6,009,263 (2002: RMB5,410,769) representing 11.1% increase than that of the previous period in 2002.

### 2. *Large increase in the sales of medium and large-sized buses.*

The medium and large-sized buses developed by the Company were well-received by customers. The sale of medium and large-sized buses were increased 59.7% and 107.2% respectively as compared with those of the previous period in 2002. The sale in quantity of city bus increase 236% as compared to that of previous period in 2002.

### 3. *Remarkable overseas sales*

During the period, the revenue of overseas market amounted to about RMB22,949,297 (2002: RMB 1,122,845). The main overseas markets were North Africa, Caribbean, Middle East, Middle America and other areas.

A grand ceremony was held on 15 March 2003 to mark the exportation of 250 units of light-sized buses of the Company to Northern Africa. This export trade indicates a further move for Mudan buses to go into overseas market.

### 4. *Achievement on new product*

During the first quarter of this year, there are 19 models approved and announced by the SETC, including 4 models of MD6600 series light-sized buses, 2 models of MD6700 series of light-sized buses, 4 models of MD6700 series of medium-sized buses, 4 models of MD6800 series of medium-sized buses and 1 model of MD6900 series of medium-sized buses, 1 model of MD6100 series of large-sized buses and 3 models of MD6122 series of large-sized buses.

On 18 March 2003, “Busworld Asia” exhibition was held in Shanghai New International Expo Center. The Company participated in the event. The Company’s product, luxury high speed bus model of MD6122GDU, was awarded “The best appearance of the year 2003” from the exhibition. The award was selected and presented by BAAV (世界客車聯盟).

### **5. *Mudan brandname***

During this period, the Company was awarded “High Quality Brand in favour of Protecting Customer’s Rights and Interests”.

## **FUTURE PROSPECTS**

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

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

The Company plans to modernise and change the technology on welding, painting, assembly and final inspection for the production of medium-sized buses so as to upgrade the products quality and the productivity for the satisfaction of the market needs.

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

In order to capture the 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 include (a) extending its geographical exposure and expanding its sales network throughout the PRC, (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 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 the plants with more advanced and comprehensive facilities. There will also be development of new products with the state accreditation so as to introduce a batch of well known brand name, cost-effective and popular products to meet the special requirements of customers.

## SUBSTANTIAL SHAREHOLDERS

As of 31 March 2003, holders of domestic shares and H shares interest of whom are to be recorded in the register kept under section 16(1) of the Securities (Disclosure of interests) Ordinance (“SDI Ordinance”) were as follows:

Name of shareholders	Number of shares	Note
Zhangjiagang Municipal Public Assets Management Co. Ltd (“ZMPAM”)	195,250,000	(1)
Jiangsu Mudan Automobile Group Company Limited (“Jiangsu Mudan”)	100,940,000	(2)
Zhangjiagang Municipal Leyu Town Assets Management Co. Ltd. (Leyu Town Assets Management)	100,940,000	(3)
HKSCC Nominees Limited	87,982,000	

Notes:

1. Out of 195,250,000 domestic shares, 100,340,000 domestic shares were held through by Jiangsu Mudan, 300,000 domestic shares were held through by Zhangjiagang Mudan Automobile Accessories Co., Ltd. (“ZMAAC”) and 300,000 domestic shares held through by Zhangjiagang Mudan Bus Parts Co., Ltd. (“ZMBPC”).
2. Out of 100,940,000 domestic shares, 300,000 domestic shares were hold through by ZMAAC and 300,000 domestic shares were hold through by ZMBPC.
3. Out of 100,940,000 domestic shares, 100,340,000 domestic shares were held through by Jiangsu mudan, 300,000 domestic shares were held through by ZMAAC and 300,000 domestic shares were held through by ZMBPC.
4. Jiangsu Mudan is owned by ZMPAM, Leyu Town Assets Management and three other shareholders as to 33.4%, 37.2%, 26.3%, 2.2% and 0.9%.

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 March 2003.



## INTERESTS OF DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL

As at 31 March 2003, none of the directors or supervisors or any of their associates had 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 any of their spouses or children under the age of 18 had, at 31 March 2003, any personal, family, corporate or other interests in the equity of the Company, as defined in the SDI Ordinance.

## INTEREST OF THE SPONSOR

Neither VC 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 2003.

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 2003.

## 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 engages 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 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 2003.

### **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 period ended 31 March 2003 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.

### **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 Listing Rules throughout the period.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

For the three months ended 31 March 2003, 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*

29 April 2003  
Zhangjiagang, Jiangsu Province, the PRC