



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)



Interim Report

2003

* For identification purpose only

Interim Report For the six months ended 30 June 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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The Stock Exchange takes no responsibility for the contents of this interim report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this interim report.

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

HIGHLIGHTS

- Due to the Severe Acute Respiratory Syndrome (“SARS”) impact, the Company recorded a lower turnover of RMB403,586,161 and a net profit of RMB10,011,699 for the six months ended 30 June 2003 (“Six Months” or “the Half Yearly Period”) respectively as compared to those of the corresponding period in 2002. For the Six Months, earnings per share is approximately RMB3.52 cents.
- During the Half Yearly Period, the Company has a rapidly growth in overseas market sales. The sales amounted to RMB24,281,341, which represent a growth of approximately 701% as compared to those of the corresponding period in 2002.
- For the Half Yearly Period, approval was granted by the National Development and Reform Commission (the “NDRC”) of the People’s Republic of China (the “PRC”) for 38 new products including light-sized buses, medium-sized buses and large-sized buses developed by the Company. Model of MD6122GDU was awarded “The best appearance of the year 2003” by Busworld Asia (世界亞洲客車聯盟).
- During the Half Yearly Period, the Company was granted the “Safety Running Authentication Certificate” jointly by the Trade Department of Embassy of Socialist Republic of Vietnam in China, China Council for the Promotion of International Trade, China’s Foreign Trade Magazine and the Society of Automotive Engineers of China.
- During the Half Yearly Period, the Company’s products passed the China Compulsory Certification (“3C”) Test organized by China Quality Authentication Centre. The Company’s ISO9001 (2000 version) quality system was upgraded successfully.

RESULTS

The Board of Directors (the “Board”) of the Company is pleased to announce that the unaudited results of the Company for the three months and six months ended 30 June 2003 together with comparative unaudited figures for the corresponding periods in 2002 are as follows:

Unaudited Income Statement

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2003 RMB	2002 RMB	2003 RMB	2002 RMB
Revenue	2	192,691,690	250,580,955	403,586,161	424,997,092
Cost of sales		(177,581,445)	(216,865,011)	(364,522,280)	(371,392,294)
Gross Profit		15,110,245	33,715,944	39,063,881	53,604,798
Other income from operation		1,348,076	494,110	2,580,179	544,110
Distribution expenses		(5,782,244)	(6,441,114)	(12,371,403)	(12,406,638)
General and administration expenses		(3,776,931)	(3,880,796)	(12,137,290)	(9,067,601)
Other operating expenses		–	–	(201,476)	(406,832)
Profit from operations		6,899,146	23,888,144	16,933,891	32,267,837
Net finance costs		(925,407)	(283,644)	(1,991,102)	(587,562)
Profit before tax	5	5,973,739	23,604,500	14,942,789	31,680,273
Income tax expense	3	(1,971,333)	(7,789,485)	(4,931,120)	(10,454,491)
Profit attributable to shareholders		4,002,406	15,815,015	10,011,699	21,225,784
Earnings per share	4				
– Basic		1.41 cents	5.55 cents	3.52 cents	7.45 cents

A separate statement of recognized gains and losses is not presented because there were no recognized gains and losses other than the profit (loss) attributable to shareholders for the periods.

Balance Sheet

	Note	As at 30 June 2003 RMB Unaudited	As at 31 December 2002 RMB Audited
Non-current assets			
Property, plant and equipment	6	170,467,813	177,332,713
Construction in progress		1,253,900	428,000
Deferred tax assets		1,611,772	1,611,772
Total non-current assets		173,333,485	179,372,485
Current assets			
Inventories		160,691,781	165,337,068
Trade and other receivables	7	266,115,906	236,705,417
Amounts due from a shareholder		—	10,180,064
Pledged deposits		165,840,222	59,431,080
Investments in unit trusts		486,500	491,500
Cash and cash equivalents		114,213,956	92,594,293
Total current assets		707,348,365	564,739,422
Current liabilities			
Short-term bank loans (unsecured)	8	50,000,000	20,000,000
Trade and other payables	9	422,166,375	317,732,756
Amounts due to shareholders		—	2,651,730
Income tax payable		13,978,536	8,177,932
Total current liabilities		486,144,911	348,562,418
Net current assets		221,203,454	216,177,004
Total assets less current liabilities		394,536,939	395,549,489
Non-current liabilities			
Long-term bank loan (secured)	8	10,000,000	20,000,000
Total non-current liabilities		10,000,000	20,000,000
Net assets		384,536,939	375,549,489
Equity and liabilities			
Share capital	10	284,800,000	284,800,000
Statutory surplus reserve		15,165,846	15,165,846
Statutory public welfare fund		15,165,846	15,165,846
Retained earnings		69,405,247	60,417,797
Total capital and reserves		384,536,939	375,549,489

Unaudited Cash Flow Statement

	For the six months ended 30 June 2003 <i>RMB</i> <i>Unaudited</i>	For the six months ended 30 June 2002 <i>RMB</i> <i>Unaudited</i>
Net cash flow from operating activities	108,869,281	30,875,166
Investing activities:–		
Acquisition of property, plant and equipment	(1,324,963)	(12,354,806)
Interest received	484,487	694,100
Net cash outflow from investing activities	(840,476)	(11,660,706)
Net cash inflow before financing activities	108,028,805	19,214,460
Financing activities:–		
Decrease/(increase) in pledged deposits	(106,409,142)	9,012,819
Proceeds from bank loans	20,000,000	–
Net cash inflow from financing activities	(86,409,142)	9,012,819
Net increase in cash and cash equivalents	21,619,663	28,227,279
Cash and cash equivalents at beginning of the year	92,594,293	91,159,940
Cash and cash equivalents at end of the period	114,213,956	119,387,219

Notes:–

1. Basis of preparation and accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. IFRS includes International Accounting Standards and interpretations. These financial statements also comply with the applicable disclosure provisions of the Listing Rules of the GEM of the Stock Exchange.

The measurement basis used in the preparation of the interim results is historical cost modified by the marking to market of investments in unit 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 and segmental information

The principal activities of the Company are the manufacture and sales of automobiles in the PRC. Revenue represents income arising from the sales of automobiles net of value added tax.

As revenue mainly comprises sales of automobiles in the PRC, the Directors consider the Company operates within a single business and geographical segment.

An analysis of the Company's revenue by geographical regions is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2003 RMB	2002 RMB	2003 RMB	2002 RMB
Sales of automobiles:				
The PRC	191,359,646	248,672,575	379,304,820	421,965,866
Overseas market	1,332,044	1,908,380	24,281,341	3,031,226
	<u>192,691,690</u>	<u>250,580,955</u>	<u>403,586,161</u>	<u>424,997,092</u>

3. Income tax expense

Income tax expense represents the provision for PRC income tax. The provision for PRC income tax is calculated at the unified tax rate of 33% (2002: 33%) of the estimated assessable income for the interim results as determined in accordance with the relevant income tax rules and regulations of the PRC.

4. Basic earnings per share

The calculation of earnings per share for the three months and six months ended 30 June 2003 is based on the unaudited profit attributable to shareholders of about RMB4,002,406 and RMB10,011,699 respectively (2002: RMB15,815,015 and RMB21,225,784) divided by the weighted average number of shares in issue of the Company during the respective period. For the three months and six months ended 30 June 2003, the weighted average number of shares in issue is 284,800,000 and 284,800,000 respectively (2002: 284,800,000 and 284,800,000). No diluted earnings per share is presented as there were no dilutive potential ordinary shares outstanding.

5. Profit before tax

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

	For the three months ended 30 June		For the six months ended 30 June	
	2003 RMB Unaudited	2002 RMB Unaudited	2003 RMB Unaudited	2002 RMB Unaudited
(a) Net finance costs				
Interest on bank advances and other borrowing repayable within five years	880,275	504,959	1,378,925	1,210,837
Bank charges	68,929	32,855	127,690	70,825
Interest Income	23,797	(254,170)	(484,487)	(694,100)

	For the three months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002
	RMB <i>Unaudited</i>	RMB <i>Unaudited</i>	RMB <i>Unaudited</i>	RMB <i>Unaudited</i>
(b) Other items				
Depreciation	3,387,242	3,226,080	6,723,823	6,442,200
Operating lease rentals in respect of land and properties	162,400	140,000	324,800	280,000
Research and development expenses	1,048,360	55,054	1,466,410	162,293

6. Property, plant and equipment

During the Half Yearly Period, the Company had additions to property, plant and equipment in the amount of RMB1,324,963. (2002: RMB12,354,806)

7. Trade and other receivables

Trade and other receivables comprise:

	As at 30 June 2003 RMB <i>Unaudited</i>	As at 31 December 2002 RMB <i>Audited</i>
Trade debtors and bills receivable	216,365,789	206,104,879
Advance deposits to suppliers	13,298,203	28,134,949
Other debtors	36,451,914	2,465,589
	<u>266,115,906</u>	<u>236,705,417</u>

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

	As at 30 June 2003 RMB <i>Unaudited</i>	As at 31 December 2002 RMB <i>Audited</i>
Within 3 months	68,682,733	98,728,832
Over 3 months but less than 6 months	45,230,819	45,255,051
Over 6 months but less than 1 year	60,957,062	49,680,276
Over 1 year but less than 2 years	41,495,175	12,400,720
	<u>216,365,789</u>	<u>206,104,879</u>

Customers are normally granted credit terms of three months to twelve months (31 December 2002: three months to twelve months), depending on the Company's assessment of 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 eighteen months (31 December 2002: eighteen months).

8. Bank Loans

Short-term bank loan (unsecured)

Details of the short-term bank loans as at 30 June 2003 are as follows:

Principal	Interest rate	Loan period
10,000,000	5.04% p.a.	17 February 2003 to 17 August 2003
20,000,000	4.536% p.a.	29 May 2003 to 28 November 2003
20,000,000	4.536% p.a.	26 June 2003 to 15 December 2003
<u>50,000,000</u>		

Long-term bank loan (secured)

Details of the long-term bank loans as at 30 June 2003 are as follows:

Principal	Interest rate	Loan period	Security
10,000,000	5.841% p.a.	29 March 2003 to 28 March 2004	Pledge over machinery

The above bank loan with an original term of over one year and repayable on 28 March 2004 remains classified as a non-current liability in the balance sheet as an agreement has been reached with the banker subsequently to refinance the loan on a long term basis.

9. Trade and other payables

Trade and other payables comprise:

	As at 30 June 2003 RMB Unaudited	As at 31 December 2002 RMB Audited
Trade creditors	41,603,955	86,144,676
Bills payable	335,630,000	191,630,000
Accrued salaries, bonus and welfare fund	16,808,693	16,065,740
Other payables	28,123,727	23,892,340
	<u>422,166,375</u>	<u>317,732,756</u>

An ageing analysis of trade creditors and bills payables is as follows:

	As at 30 June 2003 RMB Unaudited	As at 31 December 2002 RMB Audited
Due within 3 months	216,452,313	188,774,676
Due after 3 months within 6 months	157,257,571	89,000,000
Over 6 months but less than 1 year	3,346,221	-
Over 1 year	177,850	-
	<u>377,233,955</u>	<u>277,774,676</u>

10. Share Capital

	As at 30 June 2003		As at 31 December 2002	
	Number of Shares	%	Number of Shares	%
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each	196,250,000	68.9%	196,250,000	68.9%
H shares of RMB1.00 each	88,550,000	31.1%	88,550,000	31.1%
Total	284,800,000		284,800,000	

11. Reserves

Other than the net profit for the six months ended 30 June 2003, there were no movement to or from reserves of the Company during the relevant period in 2003 (2002: Nil).

BUSINESS REVIEW**Results performance**

SARS has brought a large extensive social and economic impacts. In the first half year of 2003, the markets were covered by uncertainty factors and consumer expenditure was reduced accordingly. In fact, every industry was influenced by SARS. Under this circumstance, the sales of buses of the Company during the period from April 2003 to June 2003 was also affected. The unaudited revenue and net profit of the Company for the six months ended 30 June 2003 was RMB403,586,161 and RMB10,011,699 respectively, representing a decrease of approximately 5.03% and 52.83% as compared to those of the Company for the corresponding period in 2002.

For the Six Months, earnings per share is approximately RMB3.52 cents.

The unaudited revenue and net profit of the Company for the three months ended 30 June 2003 (the “quarterly period”) was RMB192,691,690 and RMB4,002,406 respectively, representing a decrease of approximately 23.10% and 74.69% as compared to those of the corresponding period in 2002.

Sales of buses

Despite the unfavourable market condition, the Company adopt aggressive strategy to promote its buses. Lots of sales promotion projects were carried out to strive the sales for the “Golden Week” in May 2003. Due to the reduction of the selling price of buses, the revenue of the light-sized series of buses was decreased to RMB180,274,982 (2002: RMB245,460,870) for the Half Yearly Period. The medium and large-sized series of buses were increased to RMB150,912,632 and RMB72,398,547 respectively for the Half Yearly Period (2002: RMB129,105,796 and RMB50,430,426). Compared to the same corresponding period in 2002 revenue for light-sized series of buses decreased by 26.55% and medium and large-sized series of buses increased by 16.89% and 43.56% respectively.

During the quarterly period, revenue of light, medium and large-sized series of buses amounted to RMB80,043,400, RMB82,643,675, RMB30,004,615 respectively (2002: RMB134,274,189, RMB86,341,860, RMB29,964,906). Compared to the same corresponding period in 2002, revenue for light-sized and medium-sized series of buses decreased by 40.38% and 4.28% respectively. The large-sized series of buses increased by 0.13%.

Overseas market

Meanwhile, the Company endeavored to explore overseas markets. During the HalfYearly Period, the Company exported 290 units of buses to overseas, which set a new record of highest export quantity amount of the Company. The market covers North Africa, Caribbean, Middle East, Central America and Southeast Asia etc. The sales amounted to RMB24,281,341, which represent a growth of approximately 701% as compared to those of the corresponding period in 2002.

New products

The Company always place emphasis on developing new products. During the HalfYearly Period, there were 38 new products of the Company approved and announced by the NDRC, including 16 models of the MD6601 series light-sized buses, 2 models of the MD6701 series light-sized buses, 3 models of the MD6701 series medium-sized buses, 9 models of the MD6800 series medium-sized buses, 2 models of the MD6901 series medium-sized buses, 2 models of the MD6101 series large-sized buses, 1 model of the MD6111 series large-sized buses and 3 models of the MD6122 series large-sized buses.

25 models of buses had passed the grading assessment held by the Transportation Department of PRC, in which 4 models were classified as first grade and 1 model was classified as second grade and the remaining 20 models were classified as medium grade.

When it comes to the bus body design, model of MD6122GDU was awarded “The best appearance of the year 2003” by Busworld Asia. It embodies the excellence design capability of the Company.

Market promotion

In April 2003, the Company, as the representative of the manufacturer of the medium and large-sized buses, participated in the activities of “China Famous Brand Auto Vietnam Show” in Vietnam. The Company’s products had good reputation in the Vietnam market. For the compliment of the Mudan bus in good performance and safety design, an award of “Safety Running Authentication Certificate” was presented jointly by the Trade Department of the Embassy of the Socialist Republic of Vietnam in China, China Council for the Promotion of International Trade, China’s Foreign Trade Magazine and the Society of Automotive Engineers of China on 25 April 2003.

Quality control attestation

According to the China relevant governmental regulations, starting from 1 August 2003, automobile cannot be traded on market without having the 3C certificate. During the HalfYearly Period, the Company’s products passed the 3C test organized by China Quality Authentication Centre. On 28 May 2003, the Company awarded the first 3C certificate which was granted by the China Quality Authentication Centre. On 24 June 2003, the Company ISO9001 (2000 version) quality system was upgraded successfully.

Upgrading the production and operation equipments

1. Modernisation of the production facilities for the production of the medium-sized buses

On 7 May 2003, the Company has entered into an agreement with Jiangsu Mudan Automobile Group Company Limited (“Jiangsu Mudan”) in relation to the acquisition of the factory erected on a piece of land with an area of about 79,000 square meters located at the 1st, 3rd and 13th Group, Yong An Village, Le Yu Town, Zhangjiagang City, Jiangsu Province, the PRC together with the existing production facilities installed therein (together, the “Assets”) at a consideration of RMB68,080,000. The acquisition of the Assets is another step to modernise the production facilities for the production of medium-sized buses which is consistent with the Company’s stated business objectives of capitalising on the anticipated increase in demand for buses in the PRC by aggressively identifying modernisation programs for its production facilities so as to achieve expansions in sales. The Directors believe that the location of the Assets, which is adjacent to the existing production plants of the Company, can create management synergy and efficiency within the same vicinity and the acquisition is in consistent with the business objectives of the Company as stated in its prospectus dated 4 December 2001.

2. Implementation of the new management technique

Office automation had been implemented successfully by the Company during the period. It enhanced the working efficiency as well as gave effect to resources sharing. It also provides a new platform for the Company continual innovations.

FUTURE PROSPECTS

For the second half year of 2003, the Company anticipates the bus market will be recovered as the removal of SARS. 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:

Modernisation of the existing production facilities

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

Expansion in the sales and marketing activities

The Company plans to expand the sales and marketing activities in order to increase the sales for both of the domestic and overseas markets. The sales and marketing activities of the Company include: (a) extending its geographical exposure and expanding its sales network throughout the PRC and the overseas markets in South Africa, Asia and South America etc.; (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.

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 so as to strengthen the research and development capabilities.

Established electronic trade business platform

To counteract the Severe Acute Respiratory Syndrome (SARS) impact, the Company plans to set up a contingent measure on the crisis. (i) By using the Company's website to promote the Company's product. (ii) To pursuit business by using email, telephone, fax, business message through internet. The Company had also accelerated the set up of a country-wide electronic customer information system in order to capture a higher percentage of electronic sales. It will enhance the ability of the Company to have a quick respond to the similar crisis in the future.

COMPARISON OF BUSINESS OBJECTIVES PLANS WITH ACTUAL BUSINESS PROGRESS

The Company was successfully listed on the GEM on 18 December 2001. The Company stated its business objectives for the period from 1 January 2003 to 30 June 2003 in the prospectus of the Company dated 4 December 2001 (the "Prospectus"). The actual project progress mentioned below covers only the period from 1 January 2003 to 30 June 2003.

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Business objectives for the six months ended 30 June 2003 as mentioned in the Prospectus

The actual progress for the six months ended 30 June 2003

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

- | | |
|---|---|
| <p>1. Continue to launch two to five new bus models.</p> <p>2. Continue to strengthen the distribution network and the sales of the Company's buses in South Africa, Asia and South America by appointing distribution agents and establishing sales offices if the business opportunities arise.</p> <p>3. Set up sales office in Inner Mongolia, the PRC.</p> | <p>38 new products of the Company were approved and announced by the NDRC.</p> <p>5 non-exclusive distribution agents were appointed in oversea market. The Company exported 290 units of buses to overseas. It set a new record of highest export quantity amount of the Company.</p> <p>As to create management synergy and efficiency for the Company, branch office of Beijing was also used as Inner Mongolia sales office</p> |
|---|---|

Business objectives for the six months ended 30 June 2003 as mentioned in the Prospectus

4. Place advertisement in the media to promote the Company's overall image.

The actual progress for the six months ended 30 June 2003

The Company placed advertisements on sina website, China automotive website, China Central TV, Shanghai TV, Zhangjiagang TV, China Automotive Market Yearly, China's Foreign Trade Magazine, China Automotive News, Securities Daily, China Customer Daily, Shanghai Securities Daily, Shanghai Automotive News, Business Car News, Contemporary Automotive News, Liaoning Daily, Urumchi Evening News, Suzhou Daily, Zhangjiagang Daily etc to promote the Company's overall image. Also, the Company took part in the exhibition of "Busworld Asia" and the activities of "China Famous Brand Auto Vietnam Show".

(2) Modernisation of production facilities

1. Complete the installation of the modernized production facilities for the production of medium-sized buses.

On 7 May 2003, the Company has entered into an agreement with Jiangsu Mudan in relation to the acquisition of the factory erected on a piece of land with an area of about 79,000 square meters located at the 1st, 3rd and 13th Group, Yong An Village, Le Yu Town, Zhangjiagang City, Jiangsu Province, the PRC together with the existing production facilities installed therein (together, the "Assets") at a consideration of RMB68,080,000. The acquisition of the Assets is another step to modernise the production facilities for the production of medium-sized buses. The Directors expect that the installation of the abovementioned modernised production facilities for the production of medium-sized buses will be completed on or before 31 December 2003.

2. Provide training for staff to use the modernized production facilities.

For the preparation of the staff to use the modernized production facilities, the Company has streamlined the production process, re-arranged the working hours, and organized technical training class for the staff so as to make the staff to operate the new production facilities more efficiency.

Business objectives for the six months ended 30 June 2003 as mentioned in the Prospectus

The actual progress for the six months ended 30 June 2003

3. Carry out trial production to ensure the products produced are able to meet the Company's quality standard of the medium-sized bus with the modernized production facilities. In progress.

(3) Introduction of advanced technologies

1. Implement new technology adopted from transfer arrangements in relation to the production of medium-sized bus body. Designated team was appointed to conduct the research and continues the negotiation with the potential alliance.

(4) Enhancement of research and development capabilities

1. Develop its own new design on the bus body by the research and development staff. Model of MD6122GDU was awarded "The best appearance of the year 2003" by Busworld Asia.
2. Continue to provide training to the existing research and development staff. The Company had organized the training program on ISO9001(2000) quality system, 5S management and 3 Dimensions Computer-Aid Design to its research and development staff.

USE OF PROCEEDS FROM LISTING

The Company has issued and allotted a total 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 ("ZMPAM") 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.

From 18 December 2001 to 30 June 2003, approximately HK\$2,560,000 was used in enhancement of the sales and marketing activities; approximately HK\$976,540 was used for research and development capabilities; approximately HK\$830,110 was used for project of modernization of the Company's production facilities for medium-sized buses; and approximately HK\$21,438,116 was used for general working capital.

As at 30 June 2002, the balance of the unused proceeds from listing amount to HK\$41,633,350. The unused proceeds which are not immediately applied are placed on deposits with financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

SARS impact on the bus industry in PRC

The months of April and May are traditional the first peak season for the sale of buses in the bus market in a year. Unfortunately, the outbreak of SARS in the month of April and May of 2003 in PRC has brought negative impact on both people daily life and economy: (i) Many large economic activities had been cancelled or postponed. (ii) Business trip had been stringently controlled. (iii) In order to avoid the fast spread of the epidemic, the China government called for no travel. (iv) No huge seasonal locomotion of labour (v) Within the city, many people prefer riding bicycle as transportation.

During the SARS period, locomotion of people dropped gradually and led to reduce usage of the long-distance passenger transportation, travelling transportation and the city transportation. As a result, the demand of the buses, which are used for public transportation purpose, was decreased.

Major mature geographical bus markets in the PRC are located in the SARS infected area. At the same time, the relevant governmental department suspended the approval procedure temporarily, which caused delay to the Company's new products assessment. The delay of public notice of the products and the temporarily suspension of the environmental approval list had the negative impact on the bus industry.

The cost of the sales and the gross profits

The cost of the sales of the Company for the Six Months was RMB364,522,280. The unaudited gross profit margin of the Company was approximately 9.67%, about 2.94% lower than the unaudited gross profit margin of the Company of approximately 12.61% for the corresponding Half Yearly Period in 2002. The decrease mainly resulted from the decrease in demand of the buses due to the impact of SARS period in the first half year of 2003. In order to maintain the market share, the Company adopt the lower price strategy. At the same time, there is no change of the price of the raw material. This caused the decrease of the gross profit margin.

Other Operating Income

The other operating income of the Company during the quarterly period and the Half Yearly Period was about RMB1,348,076 and RMB2,580,179 respectively (2002: RMB494,110 and RMB544,110).

The other operating income is mainly comprised of sale of scrap materials.

Distribution expenses and general administrative expenses

The Company continues to expand its sales and marketing network. The Company had adopted a strict cost control policy (which was applied mainly to control the fixed costs of all the representative offices, including costs and expenses relating to salaries, administration, housing and communications) to have a control of the distribution expenses. As a result, distribution expenses for the Six Months was in the sum of RMB12,371,403, represents a decrease of approximately 0.28% as compared to the amount from RMB12,406,638 in the corresponding period in 2002.

The total general and administrative expenses for the Half Yearly Period was approximately RMB12,137,290, represents an increase of approximately 33.85% as compared to the amount of RMB9,067,601 in the corresponding six months period in 2002. The main reasons are the increase of the 3C authentication fee and the automobile testing fee for the approval from NDRC.

Financial resources and liquidity

The Company continues to be in a healthy financial position with shareholders equity amounted to RMB384,536,939 as at 30 June 2003 (31 December 2002: RMB375,549,489). Current assets amounted to RMB707,348,365 as at 30 June 2003 (31 December 2002: RMB564,739,422), of which RMB114,213,956 were cash and bank balances (31 December 2002: RMB92,594,293). As at 30 June 2003, the Company has a short-term bank loans and long-term bank loans of about RMB50,000,000 and RMB10,000,000 respectively (31 December 2002: RMB20,000,000) and RMB20,000,000). The short-term bank loans are repayable within one year and the long-term bank loans are repayable within two years. The Company has shifted the percentage of the product's mix from light-sized bus to medium and large-sized bus for the six months ended 30 June 2003. As the medium and large-sized buses production cost are comparative higher than the light-sized buses, the Company has increased the short-term bank loan for financing the production process.

Charges on assets

As at 30 June 2003, the short-term bank loans was unsecured (31 December 2002: unsecured) and long-term bank loans was secured by certain machineries with a net book value of RMB35,068,878 (31 December 2002: RMB37,027,056)

Gearing ratio

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 1.29 as at 30 June 2003 (31 December 2002: 0.98).

Capital Structure

During the six months ended 30 June 2003, there is no change in the Company's share capital. As at 30 June 2003, the Company's operations were financed mainly by shareholder's equity and internal resources. The Company will continue to adopt its treasury policy of placing the Company cash and cash equivalents in interest bearing deposits.

Material investments and capital assets

Other than those disclosed in the Company's prospectus dated 4 December 2001 under the section headed "Business Objectives" and the announcement of the Company dated 9 May 2003, the Company did not have any plan for material investments and acquisition of material capital assets for the six months ended 30 June 2003 and at present it does not have other future plans for material investments or capital assets.

Exposure in exchange rate fluctuations

Substantially all the Company's monetary assets, sales and raw materials purchases are denominated in RMB, the exchange rate risks of the Company is considered to be minimal.

Employee Information

As at 30 June 2003, the Company employed 2,188 employees (2002: 2,177). They were recruited in accordance with their expertise and market condition. Other benefits available for eligible employees include medical insurance and pensions fund. Staff cost was approximately RMB19,091,265 for the six months ended 30 June 2003 as compared with that of approximately RMB17,576,146 for the corresponding period in 2002.

Contingent Liabilities

As at 30 June 2003, the Directors were not aware of any material contingent liabilities.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months and six months ended 30 June 2003 (2002: Nil).

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) (THE "SFO")

1. Directors, supervisors and chief executive of the Company

As at 30 June 2003, none of the Directors, supervisors and chief executive of the Company had any interest and short position in shares, debentures or underlying shares of the Company and its associated corporation (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules.

2. Substantial shareholders of the Company and other persons

Save as disclosed below, as at 30 June 2003, the Directors are not aware of any other interests and short positions in shares and underlying shares of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Long positions in the shares

Name of shareholder	Number of shares (domestic shares)	Capacity	Approximate percentage of the issued share capital under the relevant classes of shares
ZMPAM	94,310,000	Beneficial Owner	48.06%
	100,940,000	Interest of a controlled corporation (Notes 1, 4, 5 & 6)	51.43%
Jiangsu Mudan	100,340,000	Beneficial Owner	51.13%
	600,000	Interest of a controlled corporation (Notes 2, 5 & 6)	0.31%
Zhangjiagang Municipal Leyu Town Assets Management Co. Ltd. ("Leyu Town Assets Management")	100,940,000	Interest of a controlled corporation (Notes 3, 4, 5 & 6)	51.43%

Notes:

- ZMPAM has beneficial interests in Jiangsu Mudan, Zhangjiagang Mudan Bus Parts Co., Ltd. ("ZMBPC") and Zhangjiagang Mudan Automobile Accessories Co., Ltd. ("ZMAAC") which beneficially owns 100,340,000, 300,000 and 300,000 domestic shares, respectively, in the Company. Therefore, ZMPAM is deemed to be interested in 100,940,000 domestic shares, representing 51.43% of the issued domestic share of the Company under the SFO.
- Jiangsu Mudan has beneficial interests in ZMBPC and ZMAAC which beneficially owns 300,000 and 300,000 domestic shares, respectively, in the Company. Therefore, Jiangsu Mudan is deemed to be interested in 600,000 domestic shares, representing 0.31% of the issued domestic share of the Company under the SFO.
- Leyu Town Assets Management has beneficial interests in Jiangsu Mudan, ZMBPC and ZMAAC which beneficially owns 100,340,000, 300,000 and 300,000 domestic shares, respectively, in the Company. Therefore, Leyu Town Assets Management is deemed to be interested in 100,940,000 domestic shares, representing 51.43% of the issued domestic share of the Company under the SFO.
- Jiangsu Mudan is beneficially owned as to 33.4% by ZMPAM and 37.2% by Leyu Town Assets Management respectively.
- ZMBPC is beneficially owned as to 61.9% by Jiangsu Mudan.
- ZMAAC is beneficially owned as to 82.1% by Jiangsu Mudan.

COMPETING INTEREST

On 29 November 1999, Jiangsu Mudan, a substantial shareholder for the Company, together with our 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 productions 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 business which directly or indirectly compete with business of the Company for the six months ended 30 June 2003

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

During the six months ended 30 June 2003, the Company has not purchased, sold or redeemed any of its listed securities.

AUDIT COMMITTEE

The Company set up an audited 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 comprised two independent non-executive directors, Mr. ZHANG Xiao Yu and Mr. WU Chang Fa. The Company’s financial statements for the six months ended 30 June 2003 have been reviewed by the Committee, who were of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made. The Committee held two meetings for the six months ended 30 June 2003.

INTERESTS OF 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 interests in the share capital of the Company as at 30 June 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 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 30 June 2003.

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 six months ended 30 June 2003.

By order of the Board
Mudan Automobile Shares Company Limited
SUN Min Biao
Chairman

30 July 2003
Zhangjiagang City, Jiangsu Province, the PRC