



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)



3rd Quarterly Report 2003

* For identification purpose only

Third Quarterly Report for the nine months ended 30 September 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 Quarterly 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 Quarterly Report.

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

- The Company recorded a lower turnover of RMB663,860,928 and a net profit of RMB20,343,093 for the nine months ended 30 September 2003 respectively as compared to those of the corresponding period in 2002. For the nine months period ended 30 September 2003, earnings per share is approximately RMB7.14 cents.
- For the nine months ended 30 September 2003, the Company has a continued growth in overseas market sales. The sales amounted to RMB39,556,763 which represent a growth of approximately 373% as compared to those of the corresponding period in 2002.
- For the nine months ended 30 September 2003, approval was granted by the National Development and Reform Commission (the “NDRC”) of the People’s Republic of China (the “PRC”) for 18 new products including light-sized buses, medium-sized buses and large-sized buses developed by the Company.

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 2003, together with the comparative figures of the corresponding period of 2002 as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2003 RMB (Unaudited)	2002 RMB (Unaudited)	2003 RMB (Unaudited)	2002 RMB (Unaudited)
Revenue	2	260,274,767	261,966,624	663,860,928	686,963,716
Cost of sales		(232,590,602)	(235,345,801)	(597,112,882)	(606,738,095)
Gross profit		27,684,165	26,620,823	66,748,046	80,225,621
Other operating Income		469,801	506,379	3,049,980	1,050,489
Distribution expenses		(8,363,788)	(6,991,717)	(20,735,191)	(19,398,355)
General and administrative expenses		(4,436,438)	(1,647,635)	(16,573,728)	(10,715,236)
Other operating expenses		–	–	(201,476)	(406,832)
Profit from operations		15,353,740	18,487,850	32,287,631	50,755,687
Net finance costs		66,296	(827,250)	(1,924,806)	(1,414,812)
Profit before tax		15,420,036	17,660,600	30,362,825	49,340,875
Income tax expense	3	(5,088,612)	(5,827,998)	(10,019,732)	(16,282,489)
Profit attributable to shareholders		10,331,424	11,832,602	20,343,093	33,058,386
Basic earnings per share	4	3.62 cents	4.15 cents	7.14 cents	11.6 cents

Notes:

1. Basis of preparation and accounting policies

The principal accounting policies adopted in preparing the unaudited quarterly results conform with the International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. These unaudited quarterly results for the nine months ended 30 September 2003 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 quarterly 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 that 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 September		For the nine months ended 30 September	
	2003 RMB	2002 RMB	2003 RMB	2002 RMB
Sales of automobiles:				
The PRC	244,999,345	256,636,261	624,304,165	678,602,128
Overseas market	15,275,422	5,330,363	39,556,763	8,361,588
	<u>260,274,767</u>	<u>261,966,624</u>	<u>663,860,928</u>	<u>686,963,716</u>

3. Income tax expense

Income tax expense represents the provision for PRC income tax. The provision for PRC income tax is calculated at a unified tax rate of 33% (2002: 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. Basic earnings per share

For the three months and the nine months ended 30 September 2003, the calculation of earnings per share is based on the unaudited profit attributable to shareholders about RMB10,331,424 and RMB20,343,093 respectively (2002 : RMB11,832,602 and RMB33,058,386 respectively) divided by the weighted average number of shares in issue of the Company during the respective period. For the three months and the nine months ended 30 September 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 respectively). No diluted earnings per share is 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 2003, there were no movements to or from reserves of the Company during the quarter (2002: none).

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2003 (2002: Nil).

BUSINESS REVIEW

Results performance

Revenue for the three months ended 30 September 2003 amounted to RMB260,274,767 (2002: RMB261,966,624) representing a decrease of approximately 0.6% as compared to that of the corresponding period in 2002. The net profit reached RMB10,331,424 (2002: RMB11,832,602) representing a decrease of approximately 12.7% as compared to that of the corresponding period in 2002.

Revenue for the nine months ended 30 September 2003 amounted to RMB663,860,928 (2002: RMB686,963,716) representing a decrease of approximately 3.4% as compared to that of the corresponding period in 2002. The net profit reached RMB20,343,093 (2002: RMB33,058,386) representing a decrease of approximately 38.5% as compared to that of the corresponding period in 2002.

During the quarterly period, the Company was still in the recovery period of the Severe Acute Respiratory Syndrome impact. The demand of buses for the passenger transportation and the tourism has not yet been all recovered. As a result, the performance of the Company for the nine months ended 30 September 2003 experienced no growth when compared to the respective period of last year.

New products development

During the third quarter of this year, 18 new products of the Company were approved and published by the NDRC, including 3 models of the MD6601 series light-sized buses, 1 model of the MD6701 series medium-sized buses, 6 models of the MD6800 series medium-sized buses, 2 models of the MD6900 series medium-sized buses, 4 models of the MD6100 series large-sized buses and 2 models of the MD6110 series large-sized buses.

Products exported for overseas market

For the nine months ended 30 September 2003, the Company continued to export some of its products to the overseas markets with sales amounting to RMB39,556,763 (2002: RMB8,361,588). The overseas markets cover the areas of South America, North America, North Africa, Mediterranean Sea, South Asia, Middle East etc.

Staff Training

21 technical staff completed and obtained the bachelor's degree in "Mechanical and Electrical Engineering" organised by the Company together with University of Jiangu.

Cooperation in technology

In September 2003, the Company entered into an agreement of technical cooperation with University of Jiangu. The cooperation covers the area of the research of the chassis of the medium and large sized buses, professional training, quality control and sharing of industrial information etc.

FUTURE PROSPECTS

During the third quarter, the market sentiment is recovering. The Company will, as in the past, capitalize on the anticipated increase in demand for buses in overseas and the PRC market 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:

Promotion Campaign

The Company plans to organize a conference in Harbin, a famous city in Northeast China, namely "Promotion of Mudan New Model Buses and Cooperation Meeting 2004" in the fourth quarter of the year 2003.

Business development and market activities

The Company has planned to carry out market activities to enhance products recognition so as to increase the sales in foreign and domestic markets: (a) to extend the market and sale network to the entire PRC in respect of domestic market and South Africa, Asia and Central America in respect of overseas markets etc.; (b) continue to participate in major exhibition and trade fair to raise the public awareness of the Company's products and (c) continue to carry out advertising campaign to promote the Company's products. Also, the Company is going to produce the film and the book of corporate's image as well as the product's pictures for advertisement.

To strengthen the research and development capability

In order to maintain its leading position and the competitive advantage in the bus market, the Company intends to recruit more qualified research staff and the additions of more advanced and comprehensive facilities. Under such circumstances, the Company can enhance the ability to develop new model of buses and to be approved by the State. These ensure that the Company's product can bring along with economic benefits and to satisfy the customers' needs.

Implementation of electronic trade business platform

Most of the overseas sales were concluded through the usage of the electronic trade business platform. Firstly, the Company propagandize the products on its website. Secondly, the Company pursuits business and sales its products by using email, telephone, fax and internet business message.

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 September 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 would have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

2. Substantial shareholders of the Company and other persons

Save as disclosed below, as at 30 September 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 Issue share capital under the relevant classes of shares
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	94,310,000 100,340,000	Beneficial Owner Interest of a controlled corporation (Note 1)	48.06% 51.13%
Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan")	100,340,000	Beneficial Owner	51.13%
Zhangjiagang Municipal Leyu Town Assets Management Co. Ltd ("Leyu Town Assets Management")	100,340,000	Interest of a controlled corporation (Note 2)	51.13%

Notes:

- ZMPAM has 33.4% interests in Jiangsu Mudan which beneficially owns 100,340,000 domestic shares in the Company. Therefore, ZMPAM is deemed to be interested in 100,340,000 domestic shares, representing 51.13% of the issued domestic share of the Company under the SFO.
- Leyu Town Assets Management has 37.2% interests in Jiangsu Mudan, which beneficially owns 100,340,000 domestic shares in the Company. Therefore, Leyu Town Assets Management is deemed to be interested in 100,340,000 domestic shares, representing 51.13% of the issued domestic share of the Company under the SFO.

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 30 September 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 30 September 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 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 30 September 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 nine months ended 30 September 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 nine months period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 30 September 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 October 2003
Zhangjiagang, Jiangsu Province, the PRC