



**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 2004



\*For identification only

## FIRST QUARTERLY RESULTS REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2004

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

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*This report, for which the directors (“Directors”) of Mudan Automobile Shares Company Limited (“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 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 report misleading; and (3) all opinions expressed in this 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 three months ended 31 March 2004, the Company recorded a decrease of 19.4% in revenue as compared with the corresponding period in 2003.
- For the three months ended 31 March 2004, the Company recorded a net loss of RMB2,079,326 (2003: profit of RMB 6,009,263).
- For the three months ended 31 March 2004, loss per share is RMB0.73 cents.
- For the three months ended 31 March 2004, approval was granted by the National Development and Reform Commission (“NDRC”) of the People’s Republic of China (“PRC”) for 14 new products including light-sized buses, medium-sized buses and large-sized buses developed by the Company.
- On 9 March 2004, 1st ‘2004 National Bus Competition – Beijing international commercial vehicles (including special vehicles) and spare parts exhibition was held in Beijing International Exhibition Center. Mudan bus model of MD6122GDU was awarded “The Best Appearance of Highway Transportation Bus”, “The Best Appearance of Touring Bus”, “Silver Award of Highway Transportation Bus” and “Silver Award of Touring Bus”, and model of MD6113 was awarded “Cuprum Award of City bus”.
- During the first quarter of this year, the Company adjusted the organization structure. The new organization consists of the following 14 departments: examination office, corporation general office, human resources department, enterprise administration department, finance management department, manufacturing & supply department, quality control department, research and development department, office of general engineer, marketing & sales department, overseas sales department, manufacturing department I, manufacturing department II and manufacturing department III.

## UNAUDITED QUARTERLY RESULTS

The board of Director (“Board”) is pleased to announce the unaudited quarterly results of the Company for the three months ended 31 March 2004, together with the comparative figures of the corresponding period of 2003 as follows:

	Note	<b>For the three months ended 31 March 2004</b> RMB	For the three months ended 31 March 2003 RMB
Revenue	2	<b>170,034,987</b>	210,894,471
Cost of sales		<b>154,167,568</b>	(186,940,835)
Gross profit		<b>15,867,419</b>	23,953,636
Other operating income		<b>338,819</b>	1,232,103
Distribution expenses		<b>(8,872,038)</b>	(6,589,159)
General and administrative expenses		<b>(6,559,838)</b>	(8,360,359)
Other operating expenses		<b>(199,430)</b>	(201,476)
<b>Profit from operations</b>		<b>574,932</b>	10,034,745
Net finance costs		<b>(2,654,258)</b>	(1,065,695)
<b>(Loss)/profit before tax</b>		<b>(2,079,326)</b>	8,969,050
Income tax expense	3	–	(2,959,787)
<b>(Loss)/profit attributable to shareholders</b>		<b>(2,079,326)</b>	6,009,263
(Loss)/earnings per share			
– basic (cents)	4	<b>(0.73)</b>	2.11

*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") and the disclosure requirements of the Hong Kong Companies Ordinance. These unaudited quarterly results for the three months ended 31 March 2004 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 2003 annual financial statements.

**2. Revenue**

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, in the circumstances, the Directors consider that the Company operates within a single business and geographical segment.

**3. Income tax expense**

The charge for PRC income tax is calculated at the unified tax rate of 33% (2003: 33%) of the estimated assessable income for the year as determined in accordance with the relevant income tax rules and regulations of the PRC applicable to items that are charged or credited to the income statement in the same or different periods.

**4. Basic (loss)/earnings per share**

The calculation of basic (loss)/earning per share is based on the unaudited loss attributable to shareholders of RMB2,079,326 (2003: profit attributable to shareholders of RMB6,009,263) divided by the weighted average number of shares in issue of the Company during the quarter, for the three months ended 31 March 2004, the weighted average number of shares in issue is 284,800,000 (2003: 284,800,000). No diluted (loss)/earnings per share was presented as there were no dilutive potential ordinary shares outstanding.

## RESERVES

Other than the net loss for the three months ended 31 March 2004, there were no movement to or from reserve of the Company (2003: none).

## DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: nil).

## BUSINESS REVIEW

### 1. *Operation results*

Revenue for the first quarter amounted to RMB170,034,987 (2003: RMB210,894,471) representing a 19.4% decrease as compared to that of previous period in 2003. The net loss recorded of RMB2,079,326 (2003: profit of RMB6,009,263).

## **2. Sales of light, medium and large-sized buses**

The sales of light, medium and large-sized buses for the three months ended 31 March 2004 were RMB70,363,173 (2003: RMB100,232,000), RMB83,071,556 (2003: RMB68,269,000) and RMB16,600,256 (2003: RMB42,394,000) respectively.

## **3. Overseas sales**

During the period, the revenue of overseas market amounted to about RMB15,022,149 (2003: RMB22,949,297). The main overseas markets were North Africa, Caribbean, Middle East, Middle America and other areas.

## **4. Achievement on new product**

During the first quarter of this year, there are 14 models approved and announced by the NDRC, including 1 model of MD6600 series light-sized buses, 4 models of MD6700 series of medium-sized buses, 3 models of MD6800 series of medium-sized buses and 1 model of MD6900 series of medium-sized buses, 2 models of MD6100 series of large-sized buses, 1 model of MD6111 series of large-sized buses, and 2 models of MD6122 series of large-sized buses.

On 9 March 2004, 1st '2004 National Bus Competition – Beijing international commercial vehicles (including special vehicles) and spare parts exhibition was held in Beijing International Exhibition Center. Mudan bus model of MD6122GDU was awarded “The Best Appearance of Highway Transportation Bus”, “The Best Appearance of Touring Bus”, “Silver Award of Highway Transportation Bus” and “Silver Award of Touring Bus”, and model of MD6113 was awarded “Cuprum Award of City bus”.

## **5. *Reorganization of the organization structure***

During the first quarter of this year, the Company adjusted the organization structure, new offices and departments have been increased, such as examination office, office of general engineer, overseas marketing department and quality control department. The Company's former general management office has been changed into corporation general office and former financial investment department has been changed into finance management department. The new organization consists of the following 14 departments: examination office, corporation general office, human resources department, enterprise administration department, finance management department, manufacturing & supply department, quality control department, research and development department, office of general engineer, marketing & sales department, overseas sales department, manufacturing department I, manufacturing department II and manufacturing department III.

## **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 further continuing expansion of 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.

## **INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) (“SFO”)**

### **1. *Directors, supervisors and chief executive of the Company***

As at 31 March 2004, 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 the Rule 5.46 to 5.67 of the GEM Listing Rules.

## 2. **Substantial shareholders of the Company and other persons**

Save as disclosed below, as at 31 March 2004, 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 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 shares capital under the relevant classes of shares
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	94,310,000	Beneficial Owner	48.06%
	100,340,000	Interest of a controlled corporation ( <i>Note 1</i> )	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 ( <i>Note 2</i> )	51.13%

*Notes:*

- 1 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.
- 2 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.

## **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 2004.

## **AUDIT COMMITTEE**

The Company set up an audit committee (“Committee”) on September 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.33 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 2004 have been reviewed by the Committee, who was of the opinion that such statements complied with the applicable accounting standards, the GEM Listing Rules 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 5.34 to 5.45 of the GEM Listing Rules throughout the period.

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

For the three months ended 31 March 2004, the Company has not purchased, sold or redeemed any of its listed securities.

## **DISCLOSURE OF TRADE RECEIVABLE PURSUANT TO RULES 17.15 AND 17.17 OF THE GEM LISTING RULES**

As at 31 March 2004, there were 284,800,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.986 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 24 March 2004 to 30 March 2004 (both days inclusive), being the five business days immediately preceding 31 March, 2004, the total market capitalization for the Company was approximately HK\$281 million as at 31 March 2004.

As at 31 March 2004, trade receivable from a customer of the Company (the "Trade Receivable"), 廣州白雲華港汽貿中心 (Guangzhou Baiyun Huagang Automobile Trade Center, the "Customer"), a company which is independent of, and not connected with, the Company, the Directors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules), amounted to approximately HK\$70 million (RMB74,322,222), representing approximately 24.9% of the Company's total market capitalization as at 31 March 2004. The Customer was previously allowed to settle the Trade Receivables by instalments over a period of not more than 18 months. Some of these Trade Receivables due from the Customers were overdue. The Company has been negotiating with the Customer with respect to new arrangements for the repayment of the outstanding Trade Receivables. The repayment terms and schedule have not been determined yet.

The Trade Receivable was resulted from sales to the Customer by the Company in its ordinary course of business and on normal commercial terms. It is unsecured and interest free, and has normal terms of settlement. Due to the nature of the transactions and business practice, trade receivables can only be finalized after month end, which also need to be verified and confirmed by customers pursuant to the normal trading practices in respect of such receivables and the relevant trade terms. As the balance of the Trade Receivable as at 31 March 2004 is verified and confirmed by the Customer on 16 April 2004, this immediately gave rise to a disclosure obligation under Rule 17.15 of the GEM Listing Rules.

By order of the Board

**Mudan Automobile Shares Company Limited**

**SUN Min Biao**

*Chairman*

18 June 2004

Zhangjiagang, Jiangsu Province, the PRC