



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 2004



*For identification only

Interim Report For the six months ended 30 June 2004

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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.

SUMMARY

- In the first half year of 2004, the State has adopted a more restrictive macro-control policy, the domestic banks and other financial institutions implemented a decrease in the scale of loan for automobile purchase, the competition became more fierce in the industry, and the State Environment Protection Department lifted the standard of vehicle emission. Due to the above mentioned reasons, the Company recorded turnover of RMB365,980,050 and a net profit of RMB5,262,666 for the six months ended 30 June 2004 ("Six Months" or "the Half Year Period") respectively and earnings per share is approximately RMB1.85 cents.
- During the Half Year Period, the Company recorded a rapidly growth in overseas market sales. The overseas sales revenue amounted to RMB42,034,993, which represent a growth of approximately 73% compared to those of the corresponding period in 2003.
- For the Half Year Period, approvals were granted by the National Development and Reform Commission (the "NDRC") 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.
- During the Half Year Period, the Company participated in the "1st China Bus Competition cum Beijing International Commercial Vehicles and Special Vehicles and Spare Parts Exhibition". Mudan Advanced Model MD6122 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 Mudan MD6113 city bus was awarded "Bronze Award of City Bus".
- During the Half Year Period, the Company was awarded the "1st brand chosen by the consumers" during the "2nd phase press conference of '1st product quality satisfaction survey of customers in China market' " which was hold in The People's Congress Hall in Beijing.

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 2004 together with comparative unaudited figures for the corresponding periods in 2003 are as follows:

UNAUDITED INCOME STATEMENT

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2004 RMB	2003 RMB	2004 RMB	2003 RMB
Revenue	2	195,945,063	192,691,690	365,980,050	403,586,161
Cost of sales		(168,471,234)	(177,581,445)	(322,638,802)	(364,522,280)
Gross Profit		27,473,829	15,110,245	43,341,248	39,063,881
Other income from operation		921,899	1,348,076	1,260,718	2,580,179
Distribution expenses		(8,633,855)	(5,782,244)	(17,505,893)	(12,371,403)
General and administration expenses		(5,733,228)	(3,776,931)	(12,293,066)	(12,137,290)
Other operating expenses		(229,000)	–	(428,430)	(201,476)
Profit from operations		13,799,645	6,899,146	14,374,577	16,933,891
Net finance costs		(3,865,594)	(925,407)	(6,519,852)	(1,991,102)
Profit before tax	5	9,934,051	5,973,739	7,854,725	14,942,789
Income tax expense	3	(3,278,237)	(1,971,333)	(2,592,059)	(4,931,120)
Profit attributable to shareholders		6,655,814	4,002,406	5,262,666	10,011,699
Earnings per share	4				
– Basic		2.34 cents	1.41 cents	1.85 cents	3.52 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 Half Year Period.

BALANCE SHEET

(in RMB)	Note	As at 30 June 2004 (Unaudited)	As at 31 December 2003 (Audited)
Non-current assets			
Property, plant and equipment	6	231,923,785	230,311,093
Construction in progress		6,596,237	3,930,699
Deferred tax assets		865,053	10,190,527
Total non-current assets		239,385,075	244,432,319
Current assets			
Inventories		110,527,654	120,220,687
Trade and other receivables	7	476,837,047	297,410,958
Amounts due from shareholder(s)		–	162,557
Amount due from a related company		–	5,123,067
Pledged deposits		286,986,871	292,994,100
Investments in unit trusts		500,000	597,500
Cash and cash equivalents		89,107,486	142,932,375
Total current assets		963,959,058	859,441,244
Current liabilities			
Short-term bank loans	8	178,000,000	75,000,000
Trade and other payables	9	649,671,679	664,975,674
Amounts due to shareholder(s)		–	5,718,170
Income tax payable		2,592,059	2,317,312
Total current liabilities		830,263,738	748,011,156
Net current assets		133,695,320	111,430,088
Total assets less current liabilities		373,080,395	355,862,407
Non-current liabilities			
Long-term bank loan	8	–	–
Total non-current liabilities		–	–
Net assets		373,080,395	355,862,407
Equity and liabilities			
Share capital	10	284,800,000	284,800,000
Statutory surplus reserve		16,221,463	15,165,846
Statutory public welfare fund		16,221,463	15,165,846
Retained earnings		55,837,469	40,730,715
Total capital and reserves		373,080,395	355,862,407

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Statutory surplus reserve fund (unaudited) RMB'000	Statutory public welfare fund (unaudited) RMB'000	Tax reserve (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Foreign currency translation difference (unaudited) RMB'000	Total (unaudited) RMB'000
Balances as of 1 January 2003	284,800	-	15,166	15,166	-	60,418	-	375,550
Net profit for the six months ended 30 June 2003	-	-	-	-	-	4,002	-	4,002
Dividends	-	-	-	-	-	-	-	-
Appropriation from retained profits	-	-	-	-	-	-	-	-
Balanced as of 30 June 2003	284,800	-	15,166	15,166	-	64,420	-	379,552
Balances as of 1 January 2004	284,800	-	15,166	15,166	-	40,730	-	355,862
Net profit for the six months ended 30 June 2004	-	-	-	-	-	5,263	-	5,263
Dividends	-	-	-	-	-	-	-	-
Foreign currency translation difference	-	-	-	-	-	-	-	-
Appropriation from retained profits	-	-	-	-	-	-	-	-
Balanced as of 30 June 2004	284,800	-	15,166	15,166	-	45,993	-	361,125

UNAUDITED CASH FLOW STATEMENT

	For the six months ended 30 June 2004 RMB Unaudited	For the six months ended 30 June 2003 RMB Unaudited
Net cash flow from operating activities	(113,275,257)	108,869,281
Investing activities:–		
Acquisition of property, plant and equipment	(4,756,571)	(1,324,963)
Interest received	3,735,304	484,487
Net cash outflow from investing activities	(1,021,267)	(840,476)
Net cash inflow before financing activities	(114,296,524)	108,028,805
Financing activities:–		
Decrease/(increase) in pledged deposits	(3,777,900)	(106,409,142)
Proceeds from bank loans	92,967,954	20,000,000
Net cash inflow from financing activities	89,190,054	(86,409,142)
Net increase in cash and cash equivalents	(25,106,470)	21,619,663
Cash and cash equivalents at beginning of the year	114,213,956	92,594,293
Cash and cash equivalents at end of the period	89,107,486	114,213,956

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 GEM Listing Rules.

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 2003 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.

The Directors consider the Company operates within a single line of business.

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	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB
Sales of automobiles:				
The PRC	168,932,219	191,359,646	323,945,057	379,304,820
Overseas market	27,012,844	1,332,044	42,034,993	24,281,341
Total:	195,945,063	192,691,690	365,980,050	403,586,161

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% (2003: 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 2004 is based on the unaudited profit attributable to shareholders of about RMB6,655,814 and RMB5,262,666 respectively (2003: RMB4,002,406 and RMB10,011,699) 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 2004, the weighted average number of shares in issue is 284,800,000 and 284,800,000 respectively (2003: 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	
	2004 RMB Unaudited	2003 RMB Unaudited	2004 RMB Unaudited	2003 RMB Unaudited

(a) Net finance costs

Interest on bank advances and other borrowings repayable within five years	5,016,616	880,275	8,898,586	1,378,925
Bank charges	85,800	68,929	156,000	127,690
Interest Income	(1,236,822)	(23,797)	(2,534,734)	(484,487)

(b) Other items

Depreciation	4,671,473	3,387,242	9,298,655	6,723,823
Operating lease rentals in respect of land and properties	0	162,400	0	324,800
Research and development expenses	357,159	1,048,360	489,020	1,466,410

6. Property, plant and equipment

During the Half Year Period, the Company had additions to property, plant and equipment in the amount of RMB8,300,562 (2003: RMB1,324,963).

7. Trade and other receivables

Trade and other receivables comprise:

	As at 30 June 2004 RMB Unaudited	As at 31 December 2003 RMB Audited
Bills receivable	5,745,809	2,904,194
Advance deposits to suppliers	13,463,990	45,944,903
Trade debtors and other debtors	457,627,248	248,561,861
	476,837,047	297,410,958

An ageing analysis of trade and other receivables (net of provisions for bad and doubtful debts) is as follows:

	As at 30 June 2004 RMB Unaudited	As at 31 December 2003 RMB Audited
Within 3 months	180,338,556	99,425,174
Over 3 months but less than 6 months	132,284,865	74,046,817
Over 6 months but less than 1 year	90,143,150	29,826,517
Over 1 year but less than 2 years	54,860,677	35,893,717
Over 2 years	-	9,369,636
	457,627,248	248,561,861

Customers are normally granted credit terms of 3 months to 12 months (31 December 2003: 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 18 months (31 December 2003: 18 months).

8. Bank Loans

Short-term bank loan

Details of the short-term bank loans as at 30 June 2004 are as follows:

Principal	Interest rate	Loan period
3,000,000	5.04%	From 25 January 2004 to 24 July 2004
10,000,000	5.04%	From 31 May 2004 to 30 November 2004
40,000,000	4.54%	From 18 January 2004 to 17 July 2004
15,000,000	4.54%	From 25 March 2004 to 24 September 2004
20,000,000	4.54%	From 8 April 2004 to 7 October 2004
10,000,000	4.54%	From 22 June 2004 to 21 December 2004
25,000,000	4.54%	From 11 January 2004 to 10 July 2004
25,000,000	4.54%	From 20 January 2004 to 19 July 2004
20,000,000	4.54%	From 4 June 2004 to 3 June 2005
10,000,000	4.54%	From 16 June 2004 to 15 June 2005
<u>178,000,000</u>		

The short-term bank loans as at 30 June 2004 RMB168,000,000 was unsecured (2003: unsecured). The short-term bank loans of RMB10,000,000 was secured by pledge over plant and building.

Long-term bank loan (secured)

The long-term bank loans as at 30 June 2004: Nil.

9. Trade and other payables

Trade and other payables comprise:

	As at 30 June 2004 RMB Unaudited	As at 31 December 2003 RMB Audited
Trade creditors	115,677,732	79,739,523
Bills payable	476,660,000	508,364,000
Accrued salaries, bonus and welfare fund	18,250,177	26,075,373
Other payables	39,083,770	50,796,778
	649,671,679	664,975,674

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

	As at 30 June 2004 RMB Unaudited	As at 31 December 2003 RMB Audited
Due within 3 months	364,866,230	445,739,523
Over 3 months but less than 6 months	211,394,457	142,364,000
Over 6 months but less than 1 year	14,271,843	-
Over 1 year	1,805,202	-
	592,337,732	588,103,523

10. Share Capital

	As at 30 June 2004		As at 31 December 2003	
	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	100%	284,800,000	100%

11. Reserves

Other than the net profit for the six months ended 30 June 2004, there were no movement to or from reserves of the Company during the Half Year Period (2003: Nil).

BUSINESS REVIEW

Results performance

In the first half year of 2004, the State has adopted a more restrictive macro-control policy, the domestic banks and other financial institutions implemented a decrease in the scale of loan for automobile purchase, the competition became more fierce in the industry, and the State Environment Protection Department lifted the standard of vehicle emission. Due to the above mentioned reasons, the Company recorded turnover of RMB365,980,050 and a net profit of RMB5,262,666 for the six months ended 30 June 2004 respectively, representing a decrease of approximately 9% and 47% as compared to those of the Company for the corresponding period in 2003.

During the said period, earnings per share are approximately RMB1.85 cents.

The unaudited revenue and net profit of the Company for the three months ended 30 June 2004 (the "Quarterly Period") was RMB195,945,063 and RMB6,655,814 respectively, representing a decrease of approximately 1.7% and 66.3% as compared to those of the corresponding period in 2003.

Sales of buses

Under the new market conditions, the Company adopted efficient strategy and developed lots of improved sales strategy to attract more customers in domestic and overseas market. Due to the influence from the market and the reduction of the selling price of certain products, the revenue of the light-sized series of buses decreased to RMB157,433,290 (2003: RMB180,274,982) for the Half Year Period. The revenue of medium-sized and large-sized series of buses amounted to RMB150,763,160 and RMB57,783,600 respectively for the Half Year Period (2003: RMB150,912,632 and RMB72,398,547). Compared to the corresponding period in 2003, revenue for light-sized and large-sized series of buses decreased by 12.67% and 20.19% respectively while that of medium-sized series of buses is basically the same with the same corresponding period of last year.

During the Quarterly Period, revenue of light-sized, medium-sized and large-sized series of buses amounted to RMB87,070,116, RMB67,691,603 and RMB41,183,344 respectively (2003: RMB80,043,400, RMB82,643,675, RMB30,004,615). Compared to the corresponding period in 2003, revenue for light-sized and large-sized series of buses increased by 8.8% and 37.3% respectively while that of the medium-sized series of buses decreased by 18%.

Overseas market

The Company endeavoured to explore overseas markets and during the Half Year Period, the overseas revenue increased steadily. The overseas markets cover North Africa, Middle East, Central and South America, Southeast Asia and Central Asia etc. The overseas sales revenue amounted to RMB42,034,993 (2003:RMB:24,281,341), which represent a growth of approximately 73% as compared to those of the corresponding period in 2003.

New products

During the Half Year Period, there were 19 new products of the Company approved and announced by the NDRC, including 4 models of the MD6601 series light-sized buses, 4 models of the MD6701 series medium-sized buses, 4 models of the MD6800 series medium-sized buses, 1 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.

Market promotion

During the Half Year Period, the Company participated in the “1st China Bus Competition cum Beijing International Commercial Vehicles and Special Vehicles and Spare Parts Exhibition” which was hold in March at the Beijing International Convention and Exhibition Centre. Mudan Advanced Model MD6122 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 Mudan MD6113 city bus was awarded “Bronze Award of City Bus”. In April, the Company was awarded the “No. 1 Brand Chosen by the Consumers” during the “2nd phase press conference of ‘1st Product Quality Satisfaction Survey of Customers in China Market’ “ which was hold in The People’s Congress Hall in Beijing. The Company also participated in the brand promotion of the 28th World Heritage Conference.

To promote the quality testing and management capability

1. Quality control department was set up

The Company continuously makes progress in the quality of its products and the advancement of its brand. In order to further promote its quality control on bus products, the Company set up a quality control department responsible to manage the production processing test, out-sourced and purchased components test and finished vehicle test. The department was also responsible for drafting quality control targets, plans and implementations.

2. New quality testing center started operation

During the Half Year Period, the new quality testing center of the Company (the “Testing Line”) was launched into operation. The testing performance indicators and technical efficiency of the testing line met or exceeded the latest standard requirements of the PRC and was regarded as of first grade. The equipments of the Testing Line were advance in level in the bus industry in the PRC. The Testing Line is highly automatic and the software of the system has a high applicability whereby greatly enhancing the standard of testing and quality of the brand of the Company’s vehicle products.

FUTURE PROSPECTS

For the second half year of 2004, the Company anticipates the market will see an increase led by the advancement in the standard of city transportation and the development in public road and transportation. The Company will capitalise on the anticipated increase in demand for buses in the PRC by enhancing the structure of its products, implementation of cost control, promotion 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 products

The Company plans to implement changes and improvements in the categorization of the existing products and to reduce the existing 300 product models to less than 200 models. By analysing the market state and trend of development, the Company will endeavour systemization of its products and general application of spare parts for efficiency and lower costs. The Company will also capitalize on its own strength to promote products of increased stability and technical efficiency to its customers. This will raise the profits of its customers and in return provide a concrete base for the Company products in the market.

Expansion in the sales and marketing activities

The Company plans to expand the sales and marketing activities to increase the sales for both the domestic and overseas markets. The sales and marketing activities of the Company will include: (a) extending its geographical exposure and expanding its sales network throughout the PRC and the overseas markets in Central Asia, South East Asia and Central America etc; (b) participating in major sales exhibitions and trade shows to enhance the awareness of the Company's brand and products; (c) taking advantages of launching new products to hold large new products promotion meeting and customer talk-fests in some major markets, and (d) providing high quality pre-sale, mid-sale and post-sale services to customers and help them to settle all kinds of problems.

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.

Enhance the cost control

Coupled with the improvements in the products, the Company will enhance the cost control in the product processing and control the cost more strictly to decrease the production cost. Meanwhile, the Company will strengthen the control of expenses and fees in budget and related works through improved management system over expenses control to efficiently reduce costs and raise operating efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS***The cost of sales and the gross profits***

The cost of sales of the Company for the Six Months was RMB322,638,802. The unaudited gross profit margin of the Company was approximately 11.84%, about 2.17% higher than the unaudited gross profit margin of the Company of approximately 9.67% for the corresponding period in 2003. The increase mainly resulted from the high gross profit margin of overseas market during the Half Year Period.

Other Operating Income

The other operating income of the Company during the Quarter Period and the Half Year Period was about RMB921,899 and RMB1,260,718 respectively (2003: RMB1,348,076 and RMB2,580,179).

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 has adopted a strict cost control policy to control the distribution expenses. Distribution expenses for the Six Months was in the sum of RMB17,505,893 (2003: RMB12,371,403), representing an increase of approximately 41.5% as compared to the corresponding period in 2003. The reason for the increase was mainly the change in the system for the sales cost, increased sales commission and goods freight expenses for overseas market.

The total general and administrative expenses for the Half Year Period was approximately RMB12,293,066, representing an increase of approximately 1% as compared to the amount of RMB12,137,290 in the corresponding six months period in 2003. Other than the increased employees' social insurance fees and housing accumulation funds as a result of governmental policy reasons, the management payout fees amounted to about RMB8,931,876, representing a decrease of 6.6% as compared to the amount of RMB9,563,910 in the corresponding six months period in 2003. This was mainly a result of the efficiency control of the management payout fees.

Financial resources and liquidity

As at 30 June 2004, the shareholders equity amounted to RMB373,080,395 (31 December 2003: RMB355,862,407); total current assets amounted to RMB963,959,058 (31 December 2003: RMB859,441,244) among which RMB89,107,486 were cash and bank balances (31 December 2003: RMB142,932,375). As at 30 June 2004, the Company has a short-term bank loans of about RMB178,000,000 (31 December 2003: RMB75,000,000) . The short-term bank loans are repayable within one year.

Charges on assets

As at 30 June 2004, the short-term bank loans of RMB10,000,000 was secured by plants and buildings (31 December 2003: the short-term bank loans of RMB10,000,000 was secured by plants and buildings).

Gearing ratio

The Company's gearing ratio, based on total liabilities to total net assets, was 2.23 as at 30 June 2004 (31 December 2003: 2.1).

Capital Structure

During the six months ended 30 June 2004, there is no change in the Company's share capital. As at 30 June 2004, 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 as 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 2004 and at present it does not have other future plans for material investments or capital assets.

Exposure in exchange rate fluctuations

During the Half Year Period, substantially all the Company's products and raw materials were sold and purchased in the PRC and denominated in RMB. Accordingly, the Directors regard the exchange rate risks of the Company to be minimal.

Employee Information

As at 30 June 2004, the Company employed 2,158 employees (2003: 2,188). They were recruited in accordance with their expertise and the market condition. Staff cost was approximately RMB22,149,122 (2003: RMB19,091,265) for the six months ended 30 June 2004, representing an increase of 16% as compared with that of the corresponding period in 2003. The increase was mainly because the amount of advance payments of salary for management staff who received annual salary in corresponding period of last year was low and much of the salary was paid at year end while for the Half Year Period, the amount of advance payments of salary increased, leading to the increase in staff costs as compared with that of the corresponding period in 2003.

Contingent Liabilities

As at 30 June 2004, the Directors were not aware of any material contingent liabilities.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the three months and six months ended 30 June 2004 (2003: 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 2004, none of the Directors, supervisors or chief executive of the Company had any interest or 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 Division 7 and 8 of 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 5.46 to 5.68 of the GEM Listing Rules.

2. Substantial shareholders of the Company and other persons

Save as disclosed below, as at 30 June 2004, the Directors are not aware of any other interests and short positions in shares or underlying shares of the substantial shareholders (see definition of the GEM Listing Rules) of the Company and other persons (not being a Director or chief executive of the Company), which will have to be notified to the Company and the Stock Exchange pursuant to the Division 2 and 3 of 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
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	94,310,000 100,340,000	Beneficial Owner Interest of a controlled corporation (Note 1)	33.11% 35.23%
Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan")	100,340,000	Beneficial Owner	35.23%
Zhangjiagang Municipal Leyu Town Assets Management Company ("Leyu Town Assets Management")	100,340,000	Interest of a controlled corporation (Notes 2)	35.23%

Notes:

1. ZMPAM has 33.4% equity interests in Jiangsu Mudan. Accordingly, ZMPAM is entitled to exercise or control the exercise of one-third or more voting rights in general meeting of Jiangsu Mudan. Under the SFO, ZMPAM is deemed to be interested in 100,340,000 domestic shares held by Jiangsu Mudan, representing 35.23% of the issued share capital of the Company.
2. Leyu Town Assets Management has 37.2% equity interests in Jiangsu Mudan. Accordingly, Leyu Town Assets Management is entitled to exercise or control the exercise of one-third or more of the voting rights in general meeting of Jiangsu Mudan. Under the SFO, Leyu Town Assets Management is deemed to be interested in 100,340,000 domestic shares held by Jiangsu Mudan, representing 35.23% of the issued share capital of the Company.

COMPETING INTEREST

On 29 November 1999, Jiangsu Mudan, a substantial shareholder for the Company, together with four independent third parties, submitted a tender to the government of South Africa for a contract of the supply of new buses of 5.98 meter or above in length to replace 127,000 obsolete buses currently used in South Africa.

Whereas the time involved in the said tender has been too long and in view of the limited information of market in South Africa, on 18 April 2004, Jiangsu Mudan notified the other parties to the tender (independent third parties) and stated that Jiangsu Mudan will only act as a high quality bus body supplier instead of an investor to this project.

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 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 under the tender to the Company, 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 of the Undertaking Party, such undertaking shall remain in force so long as (1) the 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 2004

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

During the six months ended 30 June 2004, 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 5.28 and 5.29 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. For the six months ended on 30 June 2004, the Committee comprised two independent non-executive Directors, namely Mr. Zhang Xiao Yu and Mr. Wu Chang Fa.

The captioned independent non-executive Directors resigned on 30 June 2004, and the Company has announced on the same day.

According to Rule 5.33 of the GEM Listing Rules and the Company's announcement dated 30 June 2004, the Company shall appoint sufficient number of independent non-executive Directors within 3 months from 30 June 2004 to form the Committee.

Additionally, according to Rule 18.55 Note (2) of the GEM Listing Rules, this interim report should be reviewed by the Committee and because of the reasons stated above, this interim report was not reviewed by the Committee.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors consider 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 six months ended 30 June 2004.

RULES OF DIRECTORS' DEALING WITH THE SECURITIES

The Directors have complied with the standard requirement of Rules 5.48 to 5.67 of the GEM Listing Rules in relation to their dealings (if any) with the securities of the Company throughout the six months ended 30 June 2004.

For the six months ended at 30 June 2004, upon specific enquiry by the Company, every Director has complied with Rules 5.48 to 5.67 of the GEM Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

There were two independent non-executive Directors of the Company during the six months ended at 30 June 2004, namely Mr. Zhang Xiao Yu and Mr. Wu Chang Fa. The two independent non-executive Directors have resigned on 30 June 2004, and the Company has made an announcement on the same day.

According to the Rule 5.05 of the GEM Listing Rules, the Company must appoint 3 independent non-executive Directors with at least one of them having accountant qualification or finance experience.

According to Rules 5.06 and 5.08 of the GEM Listing Rules and the announcement dated 30 June 2004, the Company will appoint sufficient number of independent non-executive Directors with the necessary experience within three months after 30 June 2004.

DISCLOSURE OF TRADE RECEIVABLES PURSUANT TO RULES 17.15 AND 17.17 OF THE GEM LISTING RULES

As at 30 June 2004, there were 284,800,000 shares of the Company in issue. Based on the average closing price of the Company's H shares of HK\$ 0.576 per H share as stated in the Stock Exchange's daily quotation sheets for the trading days from 23 June to 29 June 2004 (both days inclusive), being the five business days immediately preceding 30 June, 2004, the total market capitalization for the Company was approximately HK\$164,044,800 as at 30 June 2004.

As at 30 June 2004, trade receivables from Guangzhou Baiyun Hua Gang Automobile Trade Centre, a customer of the Company, amounted to about HK\$42,671,426 (RMB45,231,712), representing approximately 26% of the Company's total market capitalization as at 30 June 2004. On the other hand, the trade receivable from Tianjin Wu Tian Hong Yun Automobile Sales Co., Ltd., another customer of the Company, amounted to about HK\$13,522,877 (RMB14,334,250), representing 8.24% of the Company's total market capitalization as at 30 June 2004. The above mentioned two customers are independent of, and not connected with, the Company, the Directors, supervisors, chief executive, substantial shareholders or initial management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules). As at 30 June 2004, the repayment terms and schedules have not been determined yet.

The captioned trade receivables were resulted from sales to the customers by the Company in its ordinary course of business and on normal commercial terms. It is unsecured and interest free, and includes normal terms of settlement. Due to the nature of the transactions and business practice, the amount of trade receivables can only be finalized at month end. Pursuant to the normal trading practices in respect of such trade receivables and the relevant commercial terms, the customers will verify and confirm the amount of the trade receivables. As the captioned trade receivables were recorded during the period of six months ended 30 June 2004, this gave rise to a disclosure obligation under Rule 17.22 of the GEM Listing Rules and the Company makes the captioned disclosure to comply with the GEM Listing Rules.

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

9 August 2004
Zhangjiagang City, Jiangsu Province, the PRC