



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 2004



*For identification only

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

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

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The Stock Exchange takes no responsibility for the contents of this 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 report.

This 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 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.

SUMMARY

- For the nine months ended 30 September 2004, the company recorded a turnover of RMB511,235,681, representing a decrease of 23% as compared with the corresponding period in 2003.
- For the nine months ended 30 September 2004, the company recorded a net loss of RMB2,005,762 (2003: net profit of RMB20,343,093) and loss per share is RMB0.70 cents.
- For the nine months ended 30 September 2004, the Company recorded a continued growth in overseas sales. The overseas sales revenue amounted to RMB59,586,365, which represents a growth of approximately 51% compared to those of the corresponding period in 2003.
- For the three months ended 30 September 2004, approvals were granted by the National Development and Reform Commission (the “NDRC”) of the People’s Republic of China (the “PRC”) for 7 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 2004, together with the comparative figures of the corresponding period of 2003 as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2004 RMB (Unaudited)	2003 RMB (Unaudited)	2004 RMB (Unaudited)	2003 RMB (Unaudited)
Revenue	2	145,255,631	260,274,767	511,235,681	663,860,928
Cost of sales		(137,843,998)	(232,590,602)	(460,482,800)	(597,112,882)
Gross profit		7,411,633	27,684,165	50,752,881	66,748,046
Other operating income		1,369,392	469,801	2,630,110	3,049,980
Distribution expenses		(9,748,318)	(8,363,788)	(27,254,211)	(20,735,191)
General and administrative expenses		(6,612,802)	(4,436,438)	(18,905,868)	(16,573,728)
Other operating expenses		124,932	–	(303,498)	(201,476)
Profit (Loss) from operations		(7,455,163)	15,353,740	6,919,414	32,287,631
Net finance costs		(2,405,324)	66,296	(8,925,176)	(1,924,806)
Profit (Loss) before tax		(9,860,487)	15,420,036	(2,005,762)	30,362,825
Income tax expenses	3	–	(5,088,612)	–	(10,019,732)
Profit (Loss) attributable to shareholders		(9,860,487)	10,331,424	(2,005,762)	20,343,093
Earnings (Losses) per share (cents)	4	(3.46)	3.62	(0.70)	7.14

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 (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. IFRS includes International Accounting Standards and interpretations. These unaudited quarterly results for the nine months ended 30 September 2004 also comply with the applicable disclosure provisions of the GEM Listing Rules.

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 2003 annual financial statements.

2. Revenue

The principal activities of the Company are the manufacture and sales of automobiles under the brandname “牡丹” and trademark of “” in the PRC and overseas. Revenue represents income arising from the sales of automobiles net of value added tax.

An analysis of the Company’s revenue from sales by geographical regions is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Sales of automobiles:				
The PRC	129,167,357	244,999,345	451,649,316	624,304,165
Overseas Market	16,088,274	15,275,422	59,586,365	39,556,763
Total	145,255,631	260,274,767	511,235,681	663,860,928

3. Income tax expenses

Income tax expenses represent 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 quarterly results as determined in accordance with the relevant income tax rules and regulations of the PRC.

4. Basic earnings (losses) per share

For the three months and the nine months ended 30 September 2004, the calculation of earnings per share is based on the unaudited loss attributable to shareholders about RMB9,860,487 and RMB2,005,762 respectively (2003: the unaudited net profits were RMB10,331,424 and RMB20,343,093 respectively) divided by the weighted average number of shares in issue of the Company during the respective periods. For the three months and the nine months ended 30 September 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.

RESERVES

Other than the net loss for the three months and nine months ended 30 September 2004, there was no movement to or from reserves of the Company during the quarter (2003: none).

DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2004 (2003: Nil).

BUSINESS REVIEW

1. *Results performance*

During the third quarter, as a result of the macro-economical control policy of the PRC Government, the decrease in scale of loans for automobile purchase implemented by banks and other financial institutions, the acute competition in the market and by adopting a more stringent policy in sales strategy, the Company experienced a decrease in revenue income compared with the corresponding period of last year. Revenue for the nine months ended 30 September 2004 amounted to RMB511,235,681 (2003: RMB663,860,928) representing a decrease of approximately 23% as compared to that of the corresponding period in 2003. The net loss reached RMB2,005,762 (2003: net profits of RMB20,343,093).

Revenue for the three months ended 30 September 2004 amounted to RMB145,255,631 (2003: RMB260,274,767) representing a decrease of approximately 44% as compared to that of the corresponding period in 2003. The net loss reached RMB9,860,487 (2003: net profits of RMB10,331,424).

2. *New products approved by the NDRC*

For the three months ended 30 September 2004, there were 7 new products of the Company approved and announced by the NDRC, including 2 models of the MD6601 series light-sized buses, 1 models of the MD6701 series medium-sized buses, 2 models of the MD6800 series medium-sized buses and 2 models of the MD6110 series large-sized buses.

3. *Overseas sales*

With better performance, more competitive prices and good brand reputation, the Company's products achieved remarkable results in overseas markets. For the nine months ended 30 September 2004, the revenue of overseas sales amounted to RMB59,586,365 (2003: RMB39,556,763). The major overseas markets cover the areas of North Africa, Middle East, Middle and South America, South East Asia, Middle Asia and other areas.

The Company adopted a strategy of actively merging into the international bus market and expanding the overseas market businesses. As a result, the Company has established a good and cooperative relationship with the overseas customers and further strengthened and enlarged the basis of shares in the international market.

4. Cooperation in technology

In September 2004, the Company entered into an agreement of technical cooperation with Anhui Jianghuai Automobile Co., Ltd. Both parties agreed to work towards effective cost deduction, enhancing the competitiveness of the products in the market, cooperation in developing bus chassis, expanding market share and generally improving the performance of the products of the Company.

FUTURE PROSPECTS

The Company will capitalize on the anticipated increase in demand for buses inside and outside PRC by expansion in the sales and marketing activities, enhancement in cost control and improvement of research and development capabilities, details of which are summarized as follows:

1. Business development and market activities

The Company planned to expand the sales and marketing activities to increase the sales for both the domestic and overseas markets, including (a) strengthening its established sales network throughout the PRC and extending its geographical exposure in the overseas markets in Middle Asia, South East Asia and Central and South America etc.; (b) participating in major sales exhibitions and trade fairs 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-sales, mid-sales and post-sales services to customers and provide assistance to settle all kinds of problems of customers.

2. Enhance cost control

The preliminary enhancement process of the Company's products has been completed and the next phase will be departmental adjustments. During such enhancement of products, the Company will improve the cost control in the production process and control the cost more stringently 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.

3. To strengthen research and development capability

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 caliber research personnel and equipping more advanced and comprehensive facilities so as to strengthen the research and development capabilities. In order to promote the technology of buses manufactured by the Company, the Company planned to strengthen the research and development of the bus chassis technology.

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 2004, none of the Directors, supervisors and chief executive of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any 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 required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

Save as disclosed below, as at 30 September 2004, the Directors are not aware of any other interests and short positions of any substantial shareholders (as defined in the GEM Listing Rules) of the Company and other persons (other than a Director or chief executive of the Company) in the shares or underlying shares of the Company, 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
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	94,310,000 100,340,000	Beneficial Owner Interest of a controlled corporation (<i>Note 1</i>)	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 (<i>Note 2</i>)	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 of the 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 INTERESTS

Save as disclosed in the half yearly report of 2004, none of the Directors, supervisors, management shareholders or substantial shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in any businesses which directly or indirectly compete or may compete with the business of the Company for the period ended 30 September 2004.

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

During the nine months ended 30 September 2004, the Company has not purchased, sold or redeemed any of its listed securities.

AUDIT COMMITTEE

An audit committee of the Company had been established with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants (previously “Hong Kong Society of Accountants”). The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Company. The Company’s unaudited quarterly results for the nine months ended 30 September 2004 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

As at the date of this report, the Audit Committee comprises three independent non-executive Directors namely Mr. Huang Zhen Hua, Mr. Jiang Lei and Ms. Xiao Wei Hong.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors considered that the Company has complied with the requirements of Board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules throughout the nine months ended 30 September 2004.

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

As at 30 September 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\$0.46 per H share as stated in the Stock Exchange’s daily quotation sheets for the trading days from 22 September to 28 September 2004 (both days inclusive), being the five business days immediately preceding 30 September 2004, the total market capitalization for the Company was approximately HK\$131,008,000 as at 30 September 2004.

As at 30 September 2004, trade receivables from Guangzhou Baiyun Hua Gang Automobile Trade Centre, a customer of the Company, amounted to about HK\$38,344,644 (RMB40,722,012), representing approximately 29.3% of the Company's total market capitalization as at 30 September 2004. The above mentioned customer is independent of, and not connected with, the Company, the Directors, supervisors, chief executive, substantial shareholders or management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules). As at 30 September 2004, the repayment terms and schedules have not been determined yet.

The captioned 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 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 customer will verify and confirm the amount of the trade receivable. As the captioned trade receivable was recorded during the period of nine months ended 30 September 2004, this gave rise to a disclosure obligation under Rule 17.22 of the GEM Listing Rules.

By order of the Board

Mudan Automobile Shares Company Limited

SUN Min Biao

Chairman

5 November, 2004

Zhangjiagang, Jiangsu Province, the PRC