



**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)*



Annual Report 2004

\* For identification only

## Characteristics of GEM of the Stock Exchange

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This report, for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company” or “Mudan”), collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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.

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## Corporate Information

### Executive Directors

SUN Min Biao (*Chairman*)  
YANG De Xiang  
XU Hong Bing  
HOU Cheng Bao

### Non-executive Directors

LU Guo Zhang  
ZHOU Pei Lin

### Independent non-executive Directors

JIANG Lei  
HUANG Zhen Hua  
XIAO Wei Hong

### Supervisors

ZHU Xia Zheng  
DING Shao Hua  
JIN Hong

### Members of the audit committee

JIANG Lei  
HUANG Zhen Hua  
XIAO Wei Hong

### Compliance officer

XU Hong Bing

### Authorized representatives

SUN Min Biao  
XU Hong Bing

### Authorized persons to accept service of process and notice

X. J. WANG & CO.  
19/F, 8 Queen's Road Central  
Hong Kong

### Auditors

CCIF CPA Limited  
Certified Public Accountants  
37th Floor, Hennessy Centre  
500 Hennessy Road  
Causeway Bay  
Hong Kong

### Principal bankers

Bank of China, Zhangjiagang Branch  
Agricultural Bank of China,  
Zhangjiagang Branch  
Construction Bank of China,  
Zhangjiagang Branch  
China Everbright Bank,  
Suzhou Branch

### Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor  
Services Limited  
Rooms 1901-5, 19th Floor  
Hopewell Centre  
183 Queen's Road East, Hong Kong

### Registered office

No. 30 Lehong Road  
Le Yu Town  
Zhangjiagang City  
Jiangsu Province  
PRC

### Website

[www.mudanauto.com](http://www.mudanauto.com)

### Principal place of business in Hong Kong

19/F,  
8 Queen's Road Central  
Hong Kong

### GEM stock code

8188

## Chairman's Statement



For and on behalf of the board of Directors (the "Board"), I am pleased to submit to the shareholders the annual report of Mudan for the year ended 31 December 2004.

### **Business review**

#### **1. Implement technical advancement, restructure the product series and raise the level of technical skills in chassis**

The Company has restructured over 300 models of traditional Mudan buses in 2004 to meet the current demands of the market and has systemized and standardized current products. Meanwhile, the Company has strengthened its research and development capability for new products following the trend of market needs.

The Company's technologies in chassis have traditionally not been a strength and to reduce the Company's reliance on classic suppliers the Company has established a chassis manufacturing department in 2004. This provides conditions for the research and development of new bus models for Mudan product series through actively co-operating and communicating with chassis expertise both inside and outside the PRC. This nurtured technical personnel for chassis technologies and strengthened the foundation for future production of Mudan buses.

#### **2. Strengthen sales management, adjust sales strategies and raise the quality of marketing**

Through extensive and detailed research of market trend, the Company resolved to restrict the sales of buses to and enhance the recovery of receivables from customers in 2004 and this improved the results of sales. The Company also adjusted the sales mechanism and enhance the incentive schemes provided to sales personnel as encouragement. In respect of after-sales services, the Company strove to provide better services and more advanced technologies and this raised the credibility of Mudan products among customers.

During this year, the 2004 National Bus Competition – Beijing International Commercial Vehicles (including special vehicles) and Spare Parts Exhibition was held in Beijing. Mudan bus model 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

## Chairman's Statement

Bus", and model MD6113 was awarded "Cuprum 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 held in Beijing. The new city bus model MD6120 developed by the Company was awarded the "Best City Public Bus" and "Sole Designated Bus for Reception during the Tenth National Games of the People's Republic of China" during the assessment of buses in the Shanghai's Welcoming of "Expo" Event.

The Company, relying on the high capabilities and price advantages of its products and more advanced technologies in production, has exported a total of 662 buses and recorded a revenue of US\$9,233,729 in 2004.

### **3. Focus on staff training and raise quality of management, technology and sales team**

In this year, the Company focused on the training of staff by way of exchange of personnel in different posts, use of ground level connections and appointment of management assistant. This provided not only a chance for the staff to explore their potentials but also a platform for them to fully utilize their abilities. The Company had taken a new initiative in promoting junior management personnel and after one year of training, they assisted the Company in raising the level of quality of management, sales and marketing and technologies.

### **4. Raise the quality of products and strengthen product quality control**

To cope with the need of professional management and to strengthen quality control, the Company established a product quality control department in 2004 and has clearly defined the division of labour between this department and other quality control units of different production lines. This proved to be effective in organizing the testing of accessories, production flow and final products and remedied the previous insufficient control in quality management while establishing a mechanism for quality pre-emptive warning. The Company had organized a total of 8 large scale seminars for specific items in quality control in 2004 whereby increasing the awareness of the importance of quality control among general staff. The activation of the new products testing line in early 2004 has guaranteed the quality of Mudan products. The effort of the Company in maintaining advanced quality of its products had received warm welcoming from its local and overseas customers.

## **Future Prospects**

### **1. To raise revenue by advancing marketing strategies, delivering new products, providing incentive scheme and strengthening market research**

In 2004, the Company delivered 57 new models of buses the length of which ranged from 6 to 12 metres and fully upgraded its products. The Company plans to strengthen the training provided to sales personnel on the specifications of new products in order to obtain an in-depth understanding of the technological characters of Mudan products and their advantages over similar products in the market so as to provide customers with Mudan products which meet their specific requirements.

The Company will further consider the use of incentive schemes to encourage the sales personnel in promoting and selling of Mudan products. The Company will also strengthen the effective and timely collection of market information and scientific analysis afterwards. This will form valuable data for improvement of products, research and development of new products, cost control and quality control and consequently establishing a swift reacting mechanism to changes in the market.

## Chairman's Statement

- 2. To improve management of technological development and regulate the research and development flow in new products, strengthen the enhancement in manufacturing technologies and raise the general management abilities in quality control**

The Company will strictly regulate the design taskforce report, testing of sample buses, drafting and reviewing of technological documents, appraisal of manufacturing disciplines and collection of data in the research and development of new products and feed back from such procedures. The guideline in flow of manufacturing will be strictly implemented. After new products are launched in the market, the Company will improve and advance the products according to feedbacks from customers and continuously raise the capabilities of new products to satisfy requirements of the customers.

- 3. To improve management in production and to strengthen the organization of manufacturing teams with practical management foundation and strive for high quality in products**

The manufacturing teams, being the core operation components of the Company, are an important part of the Company's management and most of the Company's works will be implemented in the manufacturing teams. In 2005, the Company will implement quality assessment activities for manufacturing teams and nurture elite manufacturing teams in accordance with the trend of the market.

- 4. To build up the brandname and to advance the image of Mudan products by locating opportunities of advertising in market promotion**

The Company will prepare for promotion activities of new products through efficient use of internet, television and magazines. With the opportunities provided by the 10th National Games of the PRC in 2005, the Company will promote the brandname of Mudan products through advertisement boards, multi-media commercials and physical show of buses to raise the awareness and influence of Mudan brandname.

**Mudan Automobile Shares Company Limited**  
**SUN Min Biao**  
*Chairman*

Zhangjiagang City, Jiangsu Province, the PRC

31 March 2005

## Management Discussion and Analysis

### Market overview

#### Major Factors Influencing the Bus Market in 2004

1. *Influence of Macro-Economic Adjustment Measures*

The PRC Government implemented the 5th Macro-Economic Adjustment Measures in 2004 and the control of capital flows in different sectors has presented obstacles against the purchase of buses among Mudan's customers and this has produced an obvious restricting effect in the credits given during the sales of buses. The restriction imposed on bank loans has greatly influenced the manufacturers itself and in the addition of new buses for transportation sector.

2. *Increase in price of raw materials*

It was reported that the combined price index of more than 10 kind of steels in the PRC has been staying high during 2004. The average price of steels has increased by 30% compared with last year and the price of aluminium has increased by RMB600 per ton. The prices of petroleum chemicals have continuously increased under the influence of the surge in oil price and it is expected that such price increase will continue in 2005.

Under the keen competitions in existing market, the selling price of buses is unable to increase despite the increase in the costs of bus manufacturing and such increase in costs have to be absorbed by the manufacturers.

3. *Excess productivity*

Because of improvement of speeds of railways and the large growth of demands of buses in previous years, excess productivity has been a controversial but common phenomenon in public transportation in the PRC and the revenue of the bus manufacturers cannot be raised.

4. *Increased environmental standard*

More intensive efforts are expected as environmental awareness is ever increasing. Both the State Administration of Environmental Protection and local environmental protection authorities are practicing product listing management and prohibit unlisted bus models from being sold and used in relevant regions. In particular, a system of restricting noise levels was introduced in the second half of 2004, followed by the appeal in Beijing, Shenzhen and Shanghai for adoption of the European III Emission Standard in imposing new requirements on bus manufacturers. Evidently, the environment standard has been increased.

#### Future Prospects in 2005

1. *New opportunities provided by new series of Mudan products*

The Company has successfully produced 57 new models of buses in 2004 which have received broad support of the customers. Through a whole-sale upgrade of the products, this will ensure the Company to keep its leading position in the keen competitive market.



## Management Discussion and Analysis

### 2. *Entry into peak stage of investment and construction of highways*

According to the National Highway Network Plan approved by the State Council, there will be 7 highway routes from Beijing, 9 highway routes between the Northern districts and the Southern districts and 18 highway routes from the Eastern districts to the Western districts of the PRC, namely the “7918 Network”. The scale of this network is about 85,000 kilometers. From now to 2010, the average annual investment will be between RMB140 to 150 billion and the average annual increase in highways will be about 3,000 kilometers. From 2010 to 2020, the average annual investment will be about RMB100 billion. Such construction of highways will not doubt increase the growth of tourism and use of long-distance buses.

### 3. *Entry into fast growing stage of city public buses*

The Ministry of Construction of the PRC issued document No.38 “Opinions about the priority in developing city public transportation” in 2004 which stated that the traffic of city will be subject to planning and the use of public transport as the major component in city traffic system. The growth of public transport buses will last between 3 to 5 years and year 2005 is the 2nd year of such growth. The city bus industry of the PRC is in a fast growth stage.

### 4. *Expansion of bus market in villages*

The “Village to Village” Project is an important project of the Ministry of Communications of the PRC. Buses for travel between villages are comparatively having less keen competition than highway, tourist and public transport buses. The village buses section is an area for further development and is a market in which every bus manufacturer will compete.

### 5. *Acceleration of overseas sales of buses*

The expectation in overseas sales of products has been great in the bus manufacturing industry and the results of the previous years have been outstanding. International manufacturers of buses have advantages in more advanced technologies compared with the manufacturers in the PRC. The market demands of the developing countries, however, are huge in the context of the global market and with more advanced technologies and competitive costs than the bus manufacturers of those developing countries, buses manufactured in the PRC still have conditions and advantages in such developing countries and the export of local buses will further increase in the future.

## Development of new products

To serve the customers’ needs, the Company had deployed substantial resources in developing and improving medium and large-sized buses. In 2004, new models were developed including: 10 models of the MD6601 series of light-sized buses, 1 model of the MD6701 series of light-sized buses and 12 models of the MD6701 series of medium-sized buses, 11 models of the MD6800 series of medium-sized buses, 3 models of the MD6901 series of medium-sized buses, 9 models of the MD6101 series of large-sized buses, 4 models of the MD6111 series of large-sized buses, 7 models of the MD6121 series of large-sized bus, totalling 57 products. All these products were approved by the respective governmental departments.

## Management Discussion and Analysis

### Revenue

Total revenue for the fiscal year 2004 amounted to RMB638,563,780, representing approximately 29.8% decrease compared to that of RMB910,111,382 generated in 2003 in which for light, medium and large-sized series of buses amounted to RMB285,170,788, RMB278,259,380 and RMB75,133,612 (2003: RMB412,842,000, RMB317,311,000 and RMB179,958,000 respectively). Compared to 2003, revenue for light-sized, medium-sized and large-sized series of buses decreased by 31%, 12.3% and 58.3% respectively.

The Company recorded a profits before tax in the amount of RMB4,611,751 and had made a provision for operation expenses last year in the amount of RMB3,956,651. This adjustment was not verified by the auditor because of the change in auditor of the Company.

### Cost of sales and gross profit

Cost of sales decreased to RMB581,899,584 in 2004 from RMB830,658,384 in 2003. Gross margin of the Company's products increased to 8.9% in 2004 from 8.7% in 2003.

### Other operating income

Other operating income for the fiscal year 2004 amounted to RMB19,354,223 (2003: RMB2,438,717), which included the sale of scrap materials RMB2,055,667 (2003: RMB1,231,969).

### Distribution expenses and general and administrative expenses

The costs of business trips of external staff of sales department for the fiscal year 2004 was RMB21,118,731 (2003: RMB31,624,201). The distribution expenses for 2004 was RMB32,930,753 (2003: RMB46,975,611), representing an decrease of 30%.

The total general and administrative expenses for the fiscal year 2004 was RMB28,649,194, represents an increase of approximately of 2% as compared to the amount of RMB28,079,116 in 2003.

The Company's expenses on salaries, wages and bonus for the fiscal year 2004 amounted to RMB52,679,063 as compared to RMB70,468,817 in 2003, representing a decrease of RMB17,789,671.

Other operating expenses for the fiscal year 2004 totalled to RMB849,146, as compared to RMB27,545,960 in 2003, representing a decrease of RMB26,696,814, which mainly represents provisions provided for bad debts in relation to certain account receivables and the provision for the diminishing in the value of certain inventories.

In the financial year of 2004, the net finance costs of approximately RMB8,977,575 comprised interest on bank advances and other borrowings, bank charges and interest income, representing approximately 1.4% of turnover for the year 2004, as compared to approximately RMB2,200,106 in year of 2003, an increase of RMB6,777,469 which is due to increase the amount of the interest of bank borrowings.

### Material investments and capital assets

The Company did not have any plan for material investments and acquisition of material capital assets for the year of 2004 and at present it does not have other future plans for material investments or capital assets.

## Management Discussion and Analysis

### Exposure in exchange rate fluctuations

Please refer to Note 28(c) of the auditor report.

### Significant investments held

The Company has no significant investments held during the year of 2004.

### Financial resources and liquidity

The financial position of the Company comprised shareholders equity which amounted to RMB354,043,446 as at 31 December 2004 (2003: RMB355,862,407), current assets which amounted to RMB782,446,534 as at 31 December 2004 (2003: RMB859,441,244), of which RMB58,547,175 (2003: RMB142,932,375) were cash and bank balances. RMB263,286,176 (2003: RMB292,994,100) was placed as pledged deposits to secure certain banks in issuing bill payable of RMB320,501,232 as at 31 December 2004 (2003: RMB508,364,000). As at 31 December 2004, the Company had a short-term bank loans and long-term bank loans of about RMB166,850,000 (2003: RMB75,000,000) and Nil (2003: Nil) respectively, the short-term bank loans are repayable within one year.

### Contingent liabilities

As at 31 December 2004, the Directors were not aware of any material contingent liabilities.

### Charges on assets

As at 31 December 2004, the short-term bank loans of RMB138,850,000 was unsecured (2003: unsecured) and short-term bank loan of RMB9,000,000 was pledged over factory building with a net book values of RMB34,289,753 (2003: RMB35,612,824).

### Gearing ratio

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 1.9 (2003: 2.1) as at 31 December 2004.

### Capital structure

During the year, there has been no change in the Company's share capital. As at 31 December 2004, the Company's operations were financed mainly by shareholders' equity and internal resources. The Company will continue to adopt its treasury policy of placing the Company cash and cash equivalents in interest bearing deposits.

### Employee information

During the year, the average number of employees of the Company had 2,132 employees (2003: 2,122). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include medical insurance and pensions fund. The Company does not have share option scheme.

## Management Discussion and Analysis

### **Disclosure of trade receivable pursuant to rules 17.15 and 17.17 of the GEM Listing Rules**

As at 31 December 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\$0.42 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 23 December 2004 to 30 December 2004 (both days inclusive), being the five business days immediately preceding 31 March, 2004, the total market capitalization for the Company was approximately HK\$119,616,000 as at 31 December 2004.

As at 31 December 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\$21,933,020 (RMB23,249,001), representing approximately 18.3% of the Company's total market capitalization as at 31 December 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 is recorded as at 31 December 2004, this immediately gave rise to a disclosure obligation under rule 17.22 of the GEM Listing Rules, the Company therefore issues this announcement as it receives such verification so as to comply with the GEM Listing Rules.



### **Qualified opinion arising from limitation of audit scope**

Please refer to the auditors's report on page 25 and 26.

## Report of the Board of Directors

The board of Directors (“the Board”) submit herewith the report of the Board together with the audited financial statements of the Company for the year ended 31 December 2004.

### Principal activities

The principal activities of the Company are the manufacture and sale of light-sized, medium-sized and large-sized buses under the brandname of “ 牡丹” and trademark of “ 牡丹” in the PRC.

Revenue mainly comprises the sale of automobiles in the PRC. In the circumstances, the Directors consider that the Company operates within a single business and geographical segment.

### Major customers and suppliers

The Company’s sales to the five largest customers accounted for less than 30% of the Company’s turnover during the financial year (2003: less than 30%).

The information in respect of the Company’s purchases attributable to the major suppliers during the financial year are as follows:

	Percentage of the Company’s total purchases	
	2004	2003
The largest supplier	<b>33.8</b>	27%
Five largest suppliers in aggregate	<b>59.5</b>	52%

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company’s share capital) had any interest in these major customers and suppliers.

### Financial statements

The loss and cash flows of the Company for the year ended 31 December 2004 and the state of the Company’s affairs as at the date are set out in the financial statements on pages 27 to 56.

### Final dividend

The Directors does not recommend the payment of a final dividend in respect of the year ended 31 December 2004 (2003: Nil).

### Charitable donations

There was no charitable donations made by the Company during the year (2003: none).

### Property, plant and equipment

Details of the movements in property, plant and equipment of the Company during the year are set out in note 16 on the financial statements.

## Report of the Board of Directors

### Share capital

Details of the share capital during the year are set out in note 27(a) on the financial statement.

### Reserves

Details of movements in reserves of the Company during the year are set out in the statement of changes in equity on page 28 of the financial statements.

### 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 31 December 2004, none of the Directors, supervisors and chief executive of the Company had any interest and 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 Rules 5.46 of the GEM Listing Rules.

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

Save as disclosed below, as at 31 December 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 shares capital under the relevant classes of shares
Zhangjiagang Municipal Public Assets Management Co., Ltd. ("ZMPAM")	94,310,000	Beneficial Owner	33.11%
	100,340,000	Interest of a controlled corporation (Note 1)	35.23%
Jiangsu Mudan	100,340,000	Beneficial owner	35.23%
Zhangjiagang Municipal Leyu Town Assets Management Co., Ltd ("Leyu Town Assets Management")	100,340,000	Interest of a controlled corporation (Note 2)	35.23%

## Report of the Board of Directors

### 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 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 (domestic shares and H shares).
- 2 Leyu Town Assets Management has 37.2% 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 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 (domestic shares and H shares).

## Directors and supervisors

The Directors and supervisors of the Company during the financial year were:

### Executive Directors

SUN Min Biao (*Chairman*)  
SHI Jin Cheng (*Vice-Chairman*) (Resigned on 8 October 2004)  
YANG De Xiang  
HOU Cheng Bao  
XU Hong Bing  
JIANG Wei Sheng (Resigned on 8 October 2004)

### Non-executive Directors

YOU Lian Qun (Resigned on 8 October 2004)  
LU Kuo Zhang (Appointed on 8 October 2004)  
ZHOU Pei Lin (Appointed on 8 October 2004)

### Independent non-executive Directors

ZHANG Xiao Yu (Resigned on 30 June 2004)  
WU Chang Fa (Resigned on 30 June 2004)  
HUANG Zhen Hua (Appointed on 8 October 2004)  
JIANG Lei (Appointed on 8 October 2004)  
XIAO Wei Hong (Appointed on 8 October 2004)

### Supervisors

ZHU Xia Zheng  
DING Shao Hua  
JIN Hong

## Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and will continue thereafter subject at all times to termination by not less than three months' prior notice in writing by either party on the other.

Save as disclosed, none of the Directors have entered into any service contracts with the Company which is not determinable by the Company within one year without payment compensation, other than statutory compensation.

## Report of the Board of Directors

### Directors' Interests in Contracts

No contracts of significance in relation to the Company's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of year or at any time during the year.

### Directors' and supervisors' emoluments

Details of the Directors and supervisors' emoluments for the year are set out in note 14 on the financial statements.

### Independent non-executive Directors' confirmation of independence

Each independent non-executive Director of the Company had confirmed in writing to the Company of their independence in accordance with Rule 5.09 of the GEM Listing Rules.

### Connected transactions

During the year ended 31 December 2004, the Company entered into the following connected transactions:

- 1. Purchase of goods from Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan"), Zhangjiagang Mudan Automobile Accessories Co., Ltd. ("ZMAAC"), Zhangjiagang Mudan Bus Parts Co., Ltd. ("ZMBPC") and Zhangjiagang Automobile Accessories Factory ("ZAAF") (together the "Suppliers")**

Pursuant to a Raw Material Supply Agreement dated 22 October 2003 (the "Raw Material Supply Agreement") entered into between the Company and the Suppliers, the Suppliers agreed to supply steel, automobile parts and components to the Company at a price no higher than that of similar products sold to independent third parties. The Suppliers are all promoters of the Company and hence the transactions under the Raw Material Supply Agreement constituted continuing connected transactions of the Company under the GEM Listing Rules and the Company had obtained independent shareholders approval for a waiver from strict compliance with Rules 20.35 and 20.36 of the GEM Listing Rules at an Extraordinary General Meeting held on 29 December 2003 with an annual cap of RMB47,000,000, RMB56,000,000 and RMB62,000,000 respectively for the three financial years ending 31 December 2004, 2005 and 2006 for the transactions under the Raw Material Supply Agreement.

For the year ended 31 December 2004, the Company purchased goods, mainly steel, automobile parts and components, from ZMAAC, ZMBPC and ZAAF and the total purchases amounted to approximately RMB38,794,002.

Despite the fact that such amount was below the annual cap of RMB47,000,000 for the year ended 31 December 2004, qualified opinions had been expressed in the financial statements concerning transactions under the Raw Material Supply Agreement and the auditor of the Company was unable to confirm the matters as required under the relevant waiver. For details of the qualified opinions, please refer to pages 25 and 26 of the financial statements.



## Report of the Board of Directors

### 2. Financial Assistance to Jiangsu Mudan

#### a) *Transfer and issue bills*

For the year ended 31 December 2004, the Company utilized its bills facilities and instructed its bankers to issue certain bills to Jiangsu Mudan. In addition the Company transferred certain of its bills, which the Company received from its customers, to Jiangsu Mudan. The total value of bills issued/transferred to Jiangsu Mudan amounted to RMB395,080,685. On the other hand, the Company received certain bills from Jiangsu Mudan, totaling RMB242,799,800. As a result, the Company provided certain interest-free advances to Jiangsu Mudan during the year ended 31 December 2004 and the outstanding balance of such advances as at 31 December 2004 was RMB152,280,885. The Company and Jiangsu Mudan had not entered into any agreement for such issue/transfer of bills nor had the Company disclosed such issue/transfer of bills according to the GEM Listing Rules.

Jiangsu Mudan is a controlling shareholder (as defined in the GEM Listing Rules) of the Company and transactions between the Company and Jiangsu Mudan constitutes connected transactions as defined in Chapter 20 of the GEM Listing Rules. For details of Jiangsu Mudan's shareholding interests in the Company, please refer to paragraphs under "Interests Discloseable under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")" in this Report.

For details of the transactions, please refer to Note 30 of the auditor reports.

#### b) *Payment of raw materials*

For the year ended 31 December 2004, the Company made payments on behalf of Jiangsu Mudan for its purchases of goods for a total amount of RMB11,571,005 while Jiangsu Mudan also made payments on behalf of the Company for its purchases of goods including chassis for a total amount of RMB34,321,299. As a result of such payments and as at 31 December 2004, the outstanding balance of amounts owed by the Company to Jiangsu Mudan amounted to RMB22,750,294. The Company and Jiangsu Mudan had not entered into any agreement for such payments nor had the Company disclosed such payments according to the GEM Listing Rules.

#### c) *Payment of expenses*

For the year ended 31 December 2004, the Company made payments on behalf of Jiangsu Mudan for its general operation expenses for a total amount of RMB1,292,123 while Jiangsu Mudan also made payments on behalf of the Company for its general operation expenses for a total amount of RMB13,267,067. As a result of such payments and as at 31 December 2004, the outstanding balance of amounts owed by the Company to Jiangsu Mudan amounted to RMB11,974,944. The Company and Jiangsu Mudan had not entered into any agreement for such payments nor had the Company disclosed such payments according to the GEM Listing Rules.

## Report of the Board of Directors

*d) Advances*

For the year ended 31 December 2004, the Company had advanced a total amount of RMB562,992,112 to Jiangsu Mudan as interest free and unsecured loans while Jiangsu Mudan had advanced a total amount of RMB550,458,853 to the Company as interest free and unsecured loans. The advances between the Company and Jiangsu Mudan were made continuously throughout the year. As a result of such advances and as at 31 December 2004, the outstanding balance owed by Jiangsu Mudan to the Company amounted to RMB12,533,259. The Company and Jiangsu Mudan had not entered into any agreement for such advances nor had the Company disclosed such advances according to the GEM Listing Rules.

*e) Receipts of sales receipts*

For the year ended 31 December 2004, the Company had received sales receipts on behalf of Jiangsu Mudan which amounted to RMB1,227,975 while Jiangsu Mudan had received sales receipts on behalf of the Company which amounted to RMB70,630,102. The receipts of sales receipts between the Company and Jiangsu Mudan were made continuously throughout the year. As a result of such receipts of sales receipts and as at 31 December 2004, the outstanding balance owed by Jiangsu Mudan to the Company amounted to RMB69,402,127. The Company and Jiangsu Mudan had not entered into any agreement for such receipts of sales receipts nor had the Company disclosed such receipts of sales receipts according to the GEM Listing Rules.

*f) Purchase of fixed assets*

During the year ended 31 December 2004, Jiangsu Mudan purchased some chassis from an independent third party (the "Chassis Supplier") and re-sold the chassis to the Company. Some of the chassis were later sold to the Company's customers while 34 chassis were found to have been defective. The Chassis Supplier and Jiangsu Mudan agreed that the 34 chassis should be returned to the Chassis Supplier which would repay the purchase price to Jiangsu Mudan. The Company returned the 34 chassis to Jiangsu Mudan which should pay the Company RMB4,773,600 as the original purchase price of the chassis. As at 31 December 2004, Jiangsu Mudan had still not repaid the said amount of RMB4,773,600. The Company and Jiangsu Mudan had not entered into any agreement for such purchase or return of chassis nor had the Company disclosed such purchase or return of chassis according to the GEM Listing Rules.

*g) Miscellaneous payments and purchases*

For the year ended 31 December 2004, Jiangsu Mudan had made payments on behalf of the Company for general and miscellaneous expenses during its operation and the amount as at 31 December 2004 was RMB1,088,495. The Company and Jiangsu Mudan had not entered into any agreement for such payments nor had the Company disclosed such payments according to the GEM Listing Rules.

As a result of the transactions described in paragraphs (a) to (g) above, the Company had in effect provided financial assistance to Jiangsu Mudan which amounted to RMB1,046,339,627 during the year and Jiangsu Mudan had in effect provided financial assistance to the Company which amounted to RMB843,163,489 during the year. The net outstanding balance owed by Jiangsu Mudan to the Company as at 31 December 2004 was RMB203,176,037 which was interest free, without fixed terms of repayment and unsecured.

## Report of the Board of Directors

### **3. Purchase of raw materials from Zhangjiagang Jishun Transportation Industrial Co., Ltd. (“ZJTI”)**

For the year ended 31 December 2004, the Company purchased raw materials from ZJTI which amounted to RMB16,540,245. Such purchases were made continuously throughout the year.

Jiangsu Mudan owned 33% interests in the registered capital of ZJTI and as a result ZJTI is an associate of Jiangsu Mudan. Accordingly, transactions between the Company and ZJTI constituted connected transactions under the GEM Listing Rules. The Company had not entered into any agreement for such purchases nor had the Company disclose such purchases according to the GEM Listing Rules.

### **4. Sales of steel to ZJTI**

For the year ended 31 December 2004, the Company sold steel to ZJTI which amounted to RMB13,437,900. Such sales were made continuously throughout the year. The transactions were conducted pursuant to an agreement executed between the Company and ZJTI which became effective on 1 July 2002. The agreement did not specify exact amount of steel to be provided by the Company but provided for a fixed price for each tonne of steel.

According to paragraph 3 above, such transactions constituted connected transactions of the Company under the GEM Listing Rules. The Company had not disclosed such sales of steel according to the GEM Listing Rules.

### **5. Sales of scrap materials to ZMBPC**

For the year ended 31 December 2004, the Company sold scrap materials to ZMBPC which amounted to RMB1,525,673. Such sales were made continuously throughout the year. These transactions were conducted pursuant to agreements executed between the Company and ZMBPC in every quarter of the year. The agreements did not specify exact amount of scrap materials to be sold but provided for a fixed price for each tonne of such scrap materials for each quarter. The Company obtained such agreements through public tendering and the price was determined with reference to the market rate.

According to paragraph 1 above, ZMBPC is a promoter of the Company and such transactions constituted connected transactions of the Company under the GEM Listing Rules. The Company had not disclosed such sales of scrap materials according to the GEM Listing Rules.

## **Competing interests**

None of the Directors, supervisors, management shareholders or substantial 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 year ended 31 December 2004.

## **Purchase, sale or redemption of the listed shares of the Company**

During the year, the Company has not purchased, sold or redeemed any of its listed securities.

## **Management contracts**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## Report of the Board of Directors

### Audit committee

An audit committee of the Company was established with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Company. As at the date of this report, the audit committee of the Company comprises three independent non-executive directors, namely Mr. HUANG Zhen Hua, Mr. JIANG Lei and Ms. XIAO Wei Hong. The Company's financial statements for the year ended 31 December 2004 have been reviewed by the audit committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made. The audit committee held three meetings for the year ended 31 December 2004.

### Closure of H share register

The H Share register of the Company is closed from 29 May 2005 to 27 June 2005, (both days inclusive), during which no transfers of H Shares are to be effected.

### Bank loans

Particulars of bank loans as at 31 December 2004 are set out in notes 25 on the financial statements.

### Retirement scheme

Particulars of the retirement scheme of the Company are set out in note 8 on the financial statements.

### Financial summary

A summary of the results and of the assets and liabilities of the Company for the last five financial years is set out on page 58.

### 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 year ended 31 December 2004.

### Auditors

After the terms ended in 2004, KPMG resigned and presented its resignation letter to the Company and the Company made announcement of their resignation on 7 March 2005. The Board recommends the appointment of CCIF CPA Limited as the new auditor of the Company and the Company shall propose resolution to be passed in the coming Extraordinary General Meeting to appoint CCIF CPA Limited as the auditor of the Company.

By order of the Board

**Mudan Automobile Shares Company Limited**

**SUN Min Biao**

*Chairman*

Zhangjiagang, Jiangsu Province, the PRC

31 March 2005

## Report of the Supervisory Committee

To: All Shareholders

The supervisory committee (the "Committee") of Mudan Automobile Shares Company Limited (the "Company"), in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association") during the year ended 31 December 2004, have exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, following the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year the Committee provided reasonable suggestions and advice on the operations and development plans to the Directors and have strictly and effectively monitored whether the policies and decisions made by the management of the Company had conformed with the state laws and regulations and the Articles of Association and have safeguarded the interests of the shareholders.

After investigation, the Committee considers that the financial statements of the Company for year 2004, audited by CCIF CPA Limited, truly and sufficiently reflects the operating results and asset positions of the Company. The Committee also reviewed the Report of the Board of Directors and the profit distribution proposal and considers that the above report and proposal meet the requirements of the relevant regulations and Articles of Association. Members of the Committee have attended the meeting of the Board.

The Committee considers that the members of the Board, the general manager and other senior management officers have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors, general manager and the senior management officers have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved as well as the cost-effectiveness gained in 2004 and are confident about the prospects of future development of the Company.

By order of the Supervisory Committee  
**Mudan Automobile Shares Company Limited**  
**ZHU Xia Zheng**  
*Chairman of the Supervisory Committee*

Zhangjiagang City, Jiangsu Province, the PRC

31 March 2005

## Profiles of Directors, Supervisors and Senior Management

### Executive Directors

**Mr. SUN Min Biao (孫敏彪)**, aged 42, is an executive Director, chairman of the board of directors and chief executive officer of the Company. Mr. SUN holds the title of senior engineer. Mr. SUN was formerly deputy general manager and chief economist of Jiangsu Mudan for the period from April 1995 to August 1998. He is now responsible for the overall business development, sales and marketing, financial planning, administration and human resources management of the Company. Mr. SUN has over 12 years of experience in business management. He graduated from Southeast University formerly known as Nanjing Industrial College with a bachelor degree in Automatic Control in 1982. He finished the postgraduate courses of economy management research in Southeast University in 1999. He has been conferred the titles of Excellent Entrepreneur of Suzhou City (蘇州市優秀廠級領導幹部) in 1998; Top Ten Outstanding Youth in Zhangjiagang City (張家港市十大傑出青年) in 1999; and First Senior Talents in the 21st Century of Suzhou City (蘇州市首批跨世紀高級人才培養對象) in the same year. In the year of 2001 and 2002, Mr SUN has also been awarded the title of Advanced Entrepreneur (優秀企業家) by Zhangjiagang people' government. He joined the Company in September 1998.

**Mr. YANG De Xiang (楊德祥)**, aged 51, is an executive Director, deputy general manager of the Company and general manager of sales company. Mr. YANG hold the title of engineer. He is responsible for the sales and marketing business of the Company. He was formerly the deputy general manager of Jiangsu Mudan. He finished the senior courses of automobile engineering in Jiangsu Technical University in 1997. Mr. YANG was awarded the title of Labor model of Zhangjiagang city (張家港市勞動模範). He has over 27 years of experience in the automobile production management. He joined the Company in 1998.

**Mr. XU Hong Bing (徐宏兵)**, aged 34, is an executive Director, head of the general manager's office and head of human resources department of the Company. He holds the title of economist. He is now responsible for the administration management and corporation relations to foreign countries. Mr. Xu graduated from Jiangsu Technical University with a bachelor degree in mechanical engineering in 1995. He is currently studying for a master degree in mechanical engineering in Jiangsu Technical University. He is now studying for the EMBA degree in Hong Kong University and Fudan University. He has been awarded as "advanced individual in human resources job in Zhangjiagang City" (張家港市人事工作先進個人), "Top Hundred Suzhou civilization employees" (蘇州市百佳文明職工). He is also a member of Youth League of Zhangjiagang. Prior to joining the Company, he was the section head of the staff training department, vice director of the administration office, vice director of the capital management office in Jiangsu Mudan. He joined the Company in September 1998.

**Mr. HOU Cheng Bao (侯成保)**, aged 52, is an executive Director of the Company. Mr. HOU holds the title of engineer. He was formerly the head of general manager's office of Jiangsu Mudan for the period from January 1996 to August 1998. He graduated from Zhenjiang Agricultural Machinery College in machinery production and engineering in 1978. He joined the Company in September 1998.

### Non-executive Directors

**Mr. Lu Guo Zhang (陸國章)**, aged 50, is a non-executive Director. He worked in Sazhou Agricultural Machinery Factory from 1969 to 1970 and served the military between 1971 and 1977 during which he was appointed a sergeant in a garrison. From 1977 to 1997, he was appointed the secretary of the Associated Working Commission and the deputy head of Human Resources Section of Zhangjiagang Municipal Resources Bureau and the secretary of Branch of Chinese Communist Party of Zhangjiagang Fuels Company. Between 1997 and 2002, he was appointed the head of Chinese Communist Work Office of Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan"), the controlling shareholder (as defined under the GEM Listing Rules) of the Company and currently is the head of Chinese Communist Administrative Department of Jiangsu Mudan. He is a graduate of Jiangsu Chinese Communist Party College. He joined the Group in October 2004.

## Profiles of Directors, Supervisors and Senior Management

**Mr. Zhou Pei Lin (周培林)**, aged 43, is a non-executive Director. He is an accountant in the PRC and he holds the title of a senior accountant. From 1981 to 1994, he was appointed the deputy head of finance section, head of factory office and head of audit section of Zhangjiagang Municipal Textile Factory and the head of finance department of Zhangjiagang Sales Division of Jiangsu Securities Company (now renamed Huatai Securities Co., Ltd.). Between 1995 and 2002, he was appointed accountant, deputy head of finance department, deputy head of capital settlement centre and deputy chief accountant of Jiangsu Mudan. Currently, he is the chief accountant of Jiangsu Mudan. He is a graduate of Chinese Communist Party Central Party College and holds a Bachelor Degree in Economics Management. He joined the Company in October 2004.

### Independent non-executive Directors

**Mr. Jiang Lei (蔣雷)**, aged 49, is an independent non-executive Director. He holds the title of a senior engineer of professor grade. He had worked in China Agricultural Machinery Research Institute. Between 1983 and 1994, he was appointed the deputy head and head of Administrative Office of Machinery and Industry Bureau. From 1994 to 1998, he was appointed the deputy chief of Automobile Division of the Machinery and Industry Bureau and was mainly responsible for management of the automobile industry by monitoring the strategy in development of automobile industry, formulating plan for and designing of industrial policy and mid to long term development, investigation and review of key infra-structural projects, advancement in technology and foreign investment projects of the automobile industry, management and monitoring of automobile products and economic operation of the automobile industry. From 1998 to present, he is the secretary general and executive deputy chief commissioner of China Automobile Industry Association and the chief of Automobile Industry Branch of State Economic and Trade Commission. He is a graduate of Jilin Industrial University and holds a Bachelor Degree in Automobile. He joined the Company in October 2004.

**Mr. Huang Zhen Hua (黃振華)**, aged 66, is an independent non-executive Director. He holds the title of a senior engineer. He had been the deputy chief engineer of Dan Dong Automobile Factory (now renamed Huanghai Automobile (Group) Company Limited), deputy chief and chief of Dan Dong Bus Research Institute established by China Automobile Company, chief designer of Joint Design Team of Large-Sized Bus Chassis of China Automobile Company through which he led the design team formed by key enterprises and research institutes in the China automobile industry and completed development and design of large-sized bus chassis. He was also the technology chief co-organizer of China Automobile Company's Key Technology Break-Through Project for Buses during the eighth Five-year State Plans and the chief engineer of the China Bus Export Federation formed by previous five (5) bureau of the State, including Machinery Bureau, Transportation Bureau and City Construction Bureau. Between 1987 and 1997, he was awarded the "Third Grade Award of Technology Advancement of Liaoning Province", "Second Grade Award of Technology Advancement of Machinery Bureau", "Second Grade Award of Technology Advancement of China Automobile Industry" and "Third Grade Award of Technology Advancement of State". He is a graduate of Jilin Industrial University and holds a Bachelor Degree in Automobile. He joined the Company in October 2004.

**Ms. Xiao Wei Hong (肖維紅)**, aged 39, is an independent non-executive Director. She is a PRC registered accountant, PRC registered asset valuer and auditor. Between 1989 and 1993, she worked in the Audit Bureau of Zhangjiagang Municipal and Zhangjiagang Audit Company. From April 1993 to 1999, she was appointed the head of Zhangjiagang Office of Jiangsu Xinglian Account Company, deputy chief and chief of Zhangjiagang Audit Company. From 2000 to present, she is the director and chief accountant of Zhangjiagang Huajin Accountant Company. She is a graduate of Soochow University and holds a Bachelor Degree in Accounts. She joined the Company in October 2004.



## Profiles of Directors, Supervisors and Senior Management

### Supervisors

**Mr. ZHU Xia Zheng (朱俠征)**, aged 53, is the chairman of supervision Committee of the Company. He graduated from Nanjing University in History in 1977. He was formerly the deputy secretary of the Commission of Communist Party of Jiangsu Mudan. He joined the Company in September 1998.

**Mr. DING Shao Hua (丁少華)**, aged 46, is the supervisor of the Company. He graduated from Shanxi Broadcasting and Television University in 1987. He was formerly the vice-chairman of the Union and a committee member of Political Consultant Committee of Zhangjiagang City. He joined the Company in September 1998.

**Mr. JIN Hong (金洪)**, aged 44, is the supervisor of the Company. He joined the Company in September 1998. He graduated from Le Yu Middle School in Zhangjiagang City in 1977. He was formerly the section head of the servicing department of Jiangsu Mudan for the period from January 1996 to August 1998.

### Senior management

**Mr. KUO Zhi Yung (郭志榮)**, aged 30, is the executive deputy general manager of the Company. He is a registered accountant and lawyer of the PRC. He is currently in charge of assisting the general manager in corporate management work of the Company. He graduated from the Investment and Finance Faculty of Jiangxi Finance University in 1997. He was the head of Finance Bureau of Zhangjiagang City, head of Office of Corporate Listing of Zhangjiagang City, assistant of president of Jiangsu Sagang Group Company Limited, vice chairman of Leyu Town Assets Management and deputy secretary of Leyu Town Party Committee. He joined the Company in March 2004.

**Mr. FAN Hong Xing (樊紅星)**, aged 37, is assistant of general manager and the head of manufacturing supply department of the Company. He has obtained professional qualification of an economist. He is currently in charge of manufacturing planning and organization and raw materials purchase of the Company. He majored in Enterprise Management and graduated from Shazhou Technical College in 1988. Prior to joining to the Company, he was the deputy head of factory No. 1 of Jiangsu Mudan, head of enterprise management department, deputy manager of sales and marketing department, deputy head of factory No. 2, head of factory No.3 and head of manufacturing department III of the Company. He was awarded "Labor model of Zhangjiagang City" (張家港市勞動模範) and "Zhangjiagang Advanced Technology Operator" (張家港市先進科技工作者). In 2002, he was awarded "Third prize of Technology Development in Zhangjiagang City" (張家港市科學技術進步三等獎). He joined the Company in September 1998.

**Mr. SHI You Liang (施友良)**, aged 47, is assistant of general manager and manager of sales unit of the Company. He now is in charge of the marketing and sales of the Company. Prior to joining to the Company, he was the head of factory No. 7 of Jiangsu Mudan, head of factory No.2 and head of manufacture department I of the Company. He joined the Company in September 1998.

**Mr. LI Jing Shan (李京山)**, aged 33, is the head of the enterprise management department of the Company. He has obtained professional qualification of an economist. He graduated from Huaiyin Industrial Professional Training School, with a diploma in mechanical engineering in 1993. Mr. Li has over 10 years' experience in enterprise management. He was formerly the member of the staff disciplinary committee, section head of audit ministry, deputy director of enterprise management office of Jiangsu Mudan. He joined the Company in September 1998.



## Profiles of Directors, Supervisors and Senior Management

**Mr. TANG Wei Dong (唐衛東)**, aged 36, is the head of finance department of the Company. He has obtained professional qualification of a statistician. He graduated from Jiangsu Broadcasting and Television University, with a diploma in finance and accounting in 1995. Prior to joining the Company in September 1998, he was the head of finance section and chief of human resources section of Factory No.7 of Jiangsu Mudan from January 1996 to August 1998.

**Mr. LIU Jian Zhong (劉建忠)**, aged 39, is the head of automobile research institute of the Company. He has obtained professional qualification of senior engineer. He graduated from Jiangsu Technical University in 1987 and was the chief of the products office of the automobile research institute of the Company. He was awarded as “Third Prize of Technology Development in Zhangjiagang” (張家港市科學技術進步三等獎), “Top Ten Technology Model in Zhangjiagang City” (張家港市十佳青年科技標兵), “Zhangjiagang Excellence Youth Technician” (張家港市優秀中青年專業技術人員), “Specialist of Suzhou Automobile Engineer Association” (蘇州市汽車工程學會專家).

**Mr. CHEN Yong Xiang (陳永祥)**, aged 43, is the head of quality control department. He graduated from Jiangsu Broadcasting and Television University in 1983. Prior to joining the Company in September 1998, he was the deputy head of factory No. 3 of Jiangsu Mudan from January 1996 to August 1998.

**Mr. WANG Yi Ping (王一平)**, aged 44, is the head of manufacturing department I. Prior to joining the Company in September 1998, he was the head of factory No.1 of Jiangsu Mudan and head of ZMAAC. He was awarded “Staff of Ten Credits (十佳幹部)” and “Staff of Special Credits (特佳幹部)”.

**Mr. CHEN Jiang Ming (陳建明)**, aged 41, is the head of production department II. He has obtained professional qualification of an engineer. Prior to joining the Company in September 1998, he was the deputy chief of the financial office and head of corporate management office of Jiangsu Mudan, head of factory No. 2 and deputy manager of sales and marketing department of the Company.

**Mr. LIU Tsin (劉青)**, aged 51, is the head of manufacturing department II. He has obtained professional qualification of an engineer. Prior to joining the Company in September 1998, he was the head of factory No.2 and deputy head of factory No.1 of Jiangsu Mudan.

### Qualified accountant and company secretary

The last qualified accountant and company secretary of the Company resigned on 3 July 2004 and the Company had announced the same on 5 July 2004. As at the date of this report, the appointments of qualified accountant and company secretary of the Company are still outstanding.

### Compliance officer

**Mr. XU Hong Bing (徐宏兵)**. For details, please refer to the paragraph headed “Executive Directors” above. Mr. XU will provide advise and assistance to the Board in implementing procedures to ensure that the Company complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and responds promptly and efficiently to all enquires raised by the Stock Exchange.

## Auditors' Report

We have audited the financial statements on pages 27 to 56 which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

### Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However the evidence available to us was limited by the matters referred to (1) to (4) below:

- (1) Included in the company's balance sheet as at 31 December 2004 are amounts due from certain trade debtors of RMB31,888,033 net of provisions of RMB9,579,248. In arriving at the aforesaid provisions, the company has written back provisions for doubtful debts made in prior period amounting to RMB12,109,902 during the current year, and reversed deferred tax asset of RMB4,465,642 recognised previously in respect of the above. Due to the lack of adequate financial information in respect of these trade debtors, we were unable to carry out auditing procedures necessary to satisfy ourselves as to whether this provision was appropriate and adequate. Any adjustment to the figure may have a consequential effect on the loss for the year and the net assets at 31 December 2004.
- (2) As shown in note 19 to the financial statements, a provision of RMB8,147,484 has been effected to write down certain of the company's inventories of RMB36,866,708 to their net realisable value. In arriving at the aforesaid provision, the company has written back inventory provisions made in prior period amounting to RMB2,877,980 during the current year, and reversed deferred tax asset of RMB949,733 recognised previously in respect of the above. Due to the lack of adequate financial information in respect of estimated net realisable value, we were unable to carry out auditing procedures necessary to satisfy ourselves as to whether this provision was appropriate and adequate. Any adjustment to the figure may have a consequential effect on the loss for the year and the net assets at 31 December 2004.

## Auditors' Report

- (3) As shown in note 21 to the financial statements, the company has a balance due from its shareholder, Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan"), amounting to RMB203,176,037. Due to the lack of detailed analysis and adequate financial information in respect of Jiangsu Mudan, we were unable to carry out auditing procedures necessary to obtain adequate assurance as to the recoverability of this amount. Any adjustment to the figure may have a consequential effect on the loss for the year and the net assets at 31 December 2004.
- (4) Note 30 to the financial statements disclosed certain related party transactions of the company. Due to the lack of adequate documentary evidence, we were unable to carry out auditing procedures necessary to satisfy ourselves as to the accuracy of the disclosure in respect of items (i), (vi) to (ix) and (xi) to (xv) in that note. In addition, we were unable to carry out auditing procedures necessary to satisfy ourselves that the disclosure in note 30 to the financial statements is complete. As a consequence, we were also unable to carry out auditing procedures necessary to satisfy ourselves as to whether the cash flows in connection with related party transactions as presented in the company's cash flow statement were fairly stated.

### Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(b) to the financial statements which explains that the company relies on bills financing arrangements at the backing of Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan") to finance its working capital requirement. The financial statements have been prepared on a going concern basis, the validity of which depends on the continuing availability of the financing arrangements; guarantee from Jiangsu Mudan; and on the company's ability to repay its financial obligations when they fall due. The financial statements do not include any adjustments that would be necessary if this basis was no longer to be appropriate. Details of the circumstances relating to this fundamental uncertainty are described in note 2(b) to the financial statements. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

### Qualified opinion arising from limitation of audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning (1) to (4) above, in our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

#### **CCIF CPA LIMITED**

*Certified Public Accountants*

#### **Chan Wai Dune, Charles**

*Practising Certificate Number P00712*

Hong Kong, 31 March 2005

## Income Statement

for the year ended 31 December 2004

(Expressed In Renminbi Yuan)

	Note	2004	2003
Revenue	3	<b>638,563,780</b>	910,111,382
Cost of sales	4	<b>(581,899,584)</b>	(830,658,384)
<b>Gross profit</b>		<b>56,664,196</b>	79,452,998
Other operating income	5	<b>19,354,223</b>	2,438,717
Distribution expenses	6	<b>(32,930,753)</b>	(46,975,611)
General and administrative expenses		<b>(28,649,194)</b>	(28,079,116)
Other operating expenses	7	<b>(849,146)</b>	(27,545,960)
<b>Profit/(loss) from operations</b>		<b>13,589,326</b>	(20,708,972)
Net finance costs	9(a)	<b>(8,977,575)</b>	(2,200,106)
<b>Profit/(loss) before tax</b>	9	<b>4,611,751</b>	(22,909,078)
Income tax (expense)/benefit	10(a)	<b>(6,430,712)</b>	7,493,996
<b>Loss attributable to shareholders</b>	11	<b>(1,818,961)</b>	(15,415,082)
<b>Dividends attributable to the year:</b>	12		
Final dividend proposed after the balance sheet date		-	-
Loss per share			
- basic	13	<b>(0.01)</b>	(0.05)

The notes on pages 32 to 56 form part of these financial statements.

## Statement of Changes in Equity

for the year ended 31 December 2004

(Expressed in Renminbi Yuan)

	Note	Share capital (Note 27(a))	Statutory surplus reserve (Note 27(b))	Statutory public welfare fund (Note 27(c))	Retained earnings	Total capital and reserves
Balance at 1 January 2003		284,800,000	15,165,846	15,165,846	60,417,797	375,549,489
Dividends approved in respect of previous year	12	–	–	–	(4,272,000)	(4,272,000)
Net loss for the year		–	–	–	(15,415,082)	(15,415,082)
Balance at 31 December 2003		284,800,000	15,165,846	15,165,846	40,730,715	355,862,407
Balance at 1 January 2004		284,800,000	15,165,846	15,165,846	40,730,715	355,862,407
Net loss for the year		–	–	–	(1,818,961)	(1,818,961)
Transfer to/(from) reserve		–	255,795	255,795	(511,590)	–
Balance at 31 December 2004		284,800,000	15,421,641	15,421,641	38,400,164	354,043,446

The notes on pages 32 to 56 form part of these financial statements.

## Balance Sheet

at 31 December 2004

(Expressed in Renminbi Yuan)

	Note	2004	2003
<b>Non-current assets</b>			
Property, plant and equipment	16	226,331,755	230,311,093
Construction in progress	17	60,000	3,930,699
Net deferred tax assets	18	3,759,815	10,190,527
<b>Total non-current assets</b>		<b>230,151,570</b>	244,432,319
<b>Current assets</b>			
Inventories	19	87,388,888	120,220,687
Trade and other receivables	20	166,635,340	297,410,958
Amounts due from a shareholder	21	203,176,037	162,557
Amount due from a related company	21	3,412,918	5,123,067
Pledged deposits	22	263,286,176	292,994,100
Investments in unit trusts	23	–	597,500
Cash and cash equivalents	24(a)	58,547,175	142,932,375
<b>Total current assets</b>		<b>782,446,534</b>	859,441,244
<b>Current liabilities</b>			
Short-term bank loans	25	166,850,000	75,000,000
Trade and other payables	26	482,294,242	664,975,674
Amounts due to shareholders	21	7,093,104	5,718,170
Income tax payable		2,317,312	2,317,312
<b>Total current liabilities</b>		<b>658,554,658</b>	748,011,156
<b>Net current assets</b>		<b>123,891,876</b>	111,430,088
<b>Net assets</b>		<b>354,043,446</b>	355,862,407

## Balance Sheet

at 31 December 2004

(Expressed in Renminbi Yuan)

	Note	2004	2003
<b>Shareholders' funds</b>			
Share capital	27(a)	<b>284,800,000</b>	284,800,000
Statutory surplus reserve	27(b)	<b>15,421,641</b>	15,165,846
Statutory public welfare fund	27(c)	<b>15,421,641</b>	15,165,846
Retained earnings	27(d)	<b>30,400,164</b>	40,730,715
		<b>354,043,446</b>	355,862,407

Approved and authorised for issue by the board of directors on 28 March 2005

	)	
SUN Min Biao	)	
	)	Directors
YANG De Xiang	)	
	)	

The notes on pages 32 to 56 form part of these financial statements.

## Cash Flow Statement

for the year ended 31 December 2004

(Expressed in Renminbi Yuan)

	Note	2004	2003
<b>Operating activities</b>			
Profit/(loss) before tax		4,611,751	(22,909,078)
(Recovery of )/provision for bad and doubtful debts		(12,109,902)	15,627,297
(Recovery of)/provision for diminution in value of inventories		(2,877,980)	11,025,464
Depreciation		17,826,289	17,094,102
Unrealised gain on investments in unit trusts		–	(106,000)
Interest expense (net)		8,353,568	1,853,166
Decrease in inventories		35,709,779	34,090,917
Decrease/(increase) in trade and other receivables		142,885,520	(76,132,119)
(Increase)/decrease in amounts due from/(to) shareholders		(214,171,805)	11,344,396
Decrease/(increase) in amount due from a related company		1,710,149	(5,123,067)
Increase in trade and other payables		5,057,536	68,096,619
Interest paid		(15,881,857)	(6,835,944)
Income tax paid		–	(6,945,379)
Loss on disposal of fixed asset		336,154	–
<b>Cash flows (used in)/generated from operating activities</b>		<b>(28,550,798)</b>	41,080,374
<b>Investing activities</b>			
Acquisition of property, plant and equipment		(3,714,946)	(70,072,482)
Disposal of property, plant and equipment		230,500	–
Increase in construction in progress		(6,827,960)	(3,502,699)
Disposal of investments in unit trusts		597,500	–
Interest received		7,652,089	6,225,618
Decrease/(increase) in pledged deposits		29,707,924	(233,563,020)
<b>Cash flows generated from/(used in) investing activities</b>		<b>27,645,107</b>	(300,912,583)
<b>Financing activities</b>			
Advances from Jiangsu Mudan		805,791,912	756,252,625
Repayment of advances from/advances to Jiangsu Mudan		(945,539,538)	(555,192,000)
Proceeds from discounting of bills received from Jiangsu Mudan		207,217,917	417,114,923
Repayment to banks in respect of bills issued to Jiangsu Mudan		(242,799,800)	(338,733,257)
Proceeds from bank loans		166,850,000	75,000,000
Repayment of bank loans		(75,000,000)	(40,000,000)
Dividends paid		–	(4,272,000)
<b>Cash flows (used in)/generated from financing activities</b>		<b>(83,479,509)</b>	310,170,291
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(84,385,200)</b>	50,338,082
<b>Cash and cash equivalents at beginning of year</b>		<b>142,932,375</b>	92,594,293
Cash and cash equivalents at end of year	24(a)	58,547,175	142,932,375

The notes on pages 32 to 56 form part of these financial statements.



## Notes to the financial statements

*(Expressed in Renminbi Yuan)*

### 1. Background of the company

The company was established in The People's Republic of China (the "PRC") on 18 September 1998 as a joint stock company with limited liability. The company's principal activities are the manufacture and sales of automobiles.

### 2. Significant accounting policies

#### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). IFRSs includes International Financial Reporting Standards and interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the company's results and the shareholders' funds under IFRSs and the PRC Accounting Rules and Regulations is presented on page 57.

IASB has issued a number of new and revised IFRSs which are effective for accounting periods beginning on or after 1 January 2005. The company has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a significant impact on its results of operations and financial position.

A summary of the significant accounting policies adopted by the company is set out below.

#### (b) Going concern

During the year ended 31 December 2004, the company and one of its shareholders, Jiangsu Mudan Automobile Group Company Limited ("Jiangsu Mudan") entered into certain bills financing arrangements whereby certain bank acceptance drafts were issued by the company and discounted with banks at the backing of guarantees issued by Jiangsu Mudan as disclosed in note 26 to the financial statements. The company has relied on these financing arrangements for its working capital requirement.

The directors consider that in preparing the financial statements of the company they have given careful consideration to the impact of the above bills financing arrangements on the future liquidity of the company and have taken into consideration all information that could reasonably be expected to be available. On this basis, the directors consider that it is appropriate to prepare the financial statements of the company on a going concern basis. This assumes inter alia that the banks will continue to provide the financing arrangements; Jiangsu Mudan will continue to guarantee the bills payables of the company; and the company will be able to meet in full its financial obligations as the bills fall due. The financial statements do not include any adjustments that would be necessary if the assumptions are no longer appropriate.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 2. Significant accounting policies (continued)

#### (c) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of investments in unit trusts as explained in the accounting policy set out below.

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year.

#### (d) Property, plant and equipment

##### (i) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2(j)).

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

##### (ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

##### (iii) Depreciation

Depreciation is calculated to write off the cost on a straight-line basis over the estimated useful lives of items of property, plant and equipment, as follows:

Buildings	35 years
Machinery and equipment	12 years
Motor vehicles	8 years
Other equipment	8 years

##### (iv) Disposals

Gains or losses arising from the retirement or disposal of a property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

## Notes to the financial statements

*(Expressed in Renminbi Yuan)*

### 2. Significant accounting policies (continued)

#### (e) Construction in progress

Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost less impairment losses (note 2(j)). Cost comprises direct costs of construction.

Capitalisation of these costs ceased and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

#### (f) Investments in unit trusts

Unit trusts held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

The fair value of unit trusts is their bid price quoted by the investment managers at the balance sheet date.

Unit trusts held for trading are recognised/derecognised by the company on the date it commits to purchase/sell the investments.

#### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is calculated based on the weighted-average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### (h) Trade and other receivables

Trade and other receivables are stated at their cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date. If the effect is material, receivables are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the asset.

## Notes to the financial statements

*(Expressed in Renminbi Yuan)*

### **2. Significant accounting policies (continued)**

#### **(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of cash flow statement.

#### **(j) Impairment**

The carrying amounts of the company's assets, other than investments in unit trusts (note 2(f)), inventories (note 2(g)), trade and other receivables (note 2(h)) and deferred tax assets (note 2(o)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

##### **(i) Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

##### **(ii) Reversals of impairment**

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **(k) Provisions**

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 2. Significant accounting policies (continued)

#### (l) Revenue recognition

##### (i) Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

In respect of instalment sales, under which the consideration is receivable in instalments, revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as interest income as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

##### (ii) Service income/management fees

Service income/management fees are recognised when the relevant services are provided.

#### (m) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred.

#### (n) Expenses

##### (i) Retirement benefits

Obligations for contributions to defined contribution retirement benefit scheme are recognised as an expense in the income statement as and when incurred.

##### (ii) Net finance costs

Net finance costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, bank charges and foreign exchange gains and losses that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, taking into account the effect yield on the asset.

##### (iii) Warranty costs

Warranty costs are charged to the income statement as and when incurred.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 2. Significant accounting policies (continued)

#### (n) Expenses (continued)

##### (iv) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the company's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

##### (v) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the respective leases. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

#### (o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (p) Foreign currencies transactions

Transactions in foreign currency are translated to Renminbi at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

#### (q) Dividends

Dividends are recognised as a liability in the period in which they are declared.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 2. Significant accounting policies (continued)

#### (r) Segment reporting

A segment is a distinguishable component of the company that is engaged either in providing products (business segment), or providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

#### (s) Related parties

For the purposes of these financial statements, parties are considered to be related to the company if the company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### 3. Revenue and segmental information

Revenue represents income arising from the sales of automobiles net of value added tax.

The company operates principally as a single business segment for the production and sale of automobiles. Segment revenue based on the geographical location of customers are as follows:

	<b>2004</b>	2003
Revenue		
PRC	<b>562,293,179</b>	862,368,956
Other countries	<b>76,270,601</b>	47,742,426
	<b>638,563,780</b>	910,111,382

All of the company's assets are situated and capital expenditures incurred in the PRC.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 4. Cost of Sales

	2004	2003
Materials costs	<b>529,558,704</b>	734,526,206
Direct labour	<b>24,465,074</b>	32,232,111
Factory overheads	<b>23,245,526</b>	28,603,164
Subcontracting fee	<b>4,630,280</b>	35,296,903
	<b>581,899,584</b>	830,658,384

### 5. Other operating income

	2004	2003
Recovery of provision for bad and doubtful debts	<b>12,109,902</b>	–
Recovery of provision for diminution in value of inventories	<b>2,877,980</b>	–
Compensation received from suppliers	<b>1,649,573</b>	–
Sale of scrap materials	<b>2,055,667</b>	1,231,969
Service fee	<b>609,378</b>	479,193
Management fee	–	50,000
Other income	<b>51,723</b>	677,555
	<b>19,354,223</b>	2,438,717



## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 6. Distribution expenses

	2004	2003
Staff costs	21,118,731	31,624,201
Traveling and transportation expenses	4,491,289	4,986,925
Advertising and promotion expenses	3,556,354	3,863,799
Entertainment expenses	1,893,701	1,668,858
Distribution fee paid	–	3,218,950
Others	1,870,678	1,612,878
	<b>32,930,753</b>	46,975,611

### 7. Other operating expenses

	2004	2003
Provision for bad and doubtful debts	–	15,627,297
Provision for diminution in value of inventories	–	11,025,464
Others	849,146	893,199
	<b>849,146</b>	27,545,960

### 8. Personnel expenses

	2004	2003
Salaries, wages and bonus	52,679,063	70,468,817
Staff welfare	5,210,292	8,239,457
Contributions to retirement benefit scheme	4,447,537	3,977,446
	<b>62,336,892</b>	82,685,720
Average number of employees during the year	<b>2,272</b>	2,122

Pursuant to the relevant labour regulations of the PRC, the company participates in a defined contribution retirement plan organised by the municipal government for its employees. The company is required to make contributions to the retirement plan at 18% (2003: 18%) of the deemed salary rates stipulated by the municipal government. Retired employees are entitled to a pension equal to a fixed proportion of the salary prevailing at the retirement date payable by the Zhangjiagang Society Protection Management Department. The company has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 9. Profit/(loss) before tax

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

	2004	2003
(a) Net finance costs:		
Interest on bank advances and other borrowings repayable within five years	<b>8,223,454</b>	3,313,793
Interest on discounting of bills receivable	<b>7,782,203</b>	4,965,710
Bank charges	<b>624,007</b>	346,940
Interest income from bank deposits	<b>(5,516,089)</b>	(4,532,622)
Interest income from instalment sales	<b>(2,136,000)</b>	(1,893,715)
	<b>8,977,575</b>	2,200,106
(b) Other items:		
Auditors' remuneration	<b>650,000</b>	1,066,809
Depreciation	<b>17,826,289</b>	17,094,102
Loss on disposal of fixed assets	<b>336,154</b>	-
Operating lease rentals in respect of land use rights, properties and equipment	<b>1,105,500</b>	1,728,168
Research and development costs	<b>2,218,776</b>	4,849,764
Quality compensation expenses	-	800,000
Unrealised gain on investments in unit trust	-	(106,000)

### 10. Income tax expense/(benefit)

(a) Income tax expense/(benefit) represents:

	2004	2003
Current tax expense	-	2,555,755
Deferred tax (note 18)	<b>6,430,712</b>	(10,049,751)
Income tax expense/(benefit)	<b>6,430,712</b>	(7,493,996)

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.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 10. Income tax expense/(benefit) (continued)

- (b) The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expense/(benefit):

	2004	2003
Accounting profit/(loss) before tax	4,611,751	(22,909,078)
Income tax expense/(benefit) computed by applying tax rate of 33%	1,521,877	(7,559,996)
Non-deductible expenses	4,908,835	66,000
Income tax expense/(benefit)	6,430,712	(7,493,996)

### 11. Loss attributable to shareholders

The loss attributable to shareholders in the amount of RMB1,818,961 (2003: RMB15,415,082) has all been dealt with in the financial statements of the company.

### 12. Dividends

- (a) Dividends attributable to the year

	2004	2003
Final dividend proposed after the balance sheet date of RMB Nil per share (2003: RMB Nil)	-	-

There was no final dividend proposed after the balance sheet date.

- (b) Dividends attributable to the previous financial year, approved and paid during the year

	2004	2003
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB Nil per share (2003: RMB0.015 per share)	-	4,272,000

### 13. Basic earnings/(loss) per share

The calculation of basic loss per share is based on the loss attributable to shareholders of RMB1,818,961 (2003: loss attributable to shareholders of RMB15,415,082) divided by the weighted average number of shares in issue during the year of 284,800,000 (2003: 284,800,000).

The amount of diluted loss per share is not presented as there were no dilutive potential ordinary shares in existence for either years.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 14. Directors' and supervisors' emoluments

Details of directors' and supervisors' emoluments are as follows:

	2004	2003
Fees	–	140,000
Basic salaries, allowances and other benefits	<b>529,000</b>	255,000
Discretionary bonuses	<b>732,666</b>	640,100
Contributions to retirement benefit scheme	<b>102,461</b>	59,040
	<b>1,364,127</b>	1,094,140
Number of directors and supervisors	<b>17</b>	13

An analysis of directors' and supervisors' emoluments by the number of directors and supervisors and emolument range is as follows:

	2004	2003
RMB Nil – RMB1,000,000	<b>17</b>	13

The executive directors, non-executive directors and supervisors received individual emoluments of approximately RMB214,421 (2003: RMB185,522), RMB35,275 (2003: RMB149,861), RMB Nil (2003: RMB83,482), RMB133,285 (2003: RMB68,462), RMB76,094 (2003: RMB104,064), RMB183,285 (2003: RMB64,025), RMB96,094 (2003: RMB48,340), RMB 61,285 (2003: RMB Nil), RMB 61,285 (2003: RMB Nil), RMB Nil(2003: RMB Nil), RMB122,189 (2003: RMB128,049), RMB86,094 (2003: RMB65,199), RMB51,820 (2003: RMB57,136).

The independent non-executive directors received individual emoluments of approximately RMB120,000 (2003: RMB Nil), RMB15,000 (2003: RMB Nil), RMB8,000 (2003: RMB Nil), RMB 20,000(2003: RMB20,000) and RMB80,000 (2003: RMB120,000), respectively.

There were no amounts paid during the years ended 31 December 2003 and 2004 to directors and supervisors in connection with their retirement from employment with the company, or inducement to join. There was no waiver of any emoluments by the directors or supervisors during the years ended 31 December 2003 and 2004.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 15. Senior management's emoluments

Of the five individuals with the highest emoluments, none of them (2003: Nil) are directors whose emoluments are disclosed in note 14 above. The emoluments in respect of the five (2003: five) individuals are as follows:

	2004	2003
Basic salaries, allowances and other benefits	269,179	1,722,829
Discretionary bonuses	634,000	–
Contributions to retirement benefit scheme	–	11,521
	<b>903,179</b>	<b>1,734,350</b>

The emolument of the five (2003: five) individuals with the highest emoluments is within the following band:

	2004	2003
RMB Nil – RMB1,000,000	5	5

There were no amounts (2003: RMB Nil) paid during the year to the five (2003: five) individuals with the highest emoluments in connection with their retirement from employment with the company, or inducement to join.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 16. Property, plant and equipment

	Buildings	Machinery and equipment	Motor vehicles	Other equipment	Total
<b>Cost:</b>					
Balance at 1 January 2004	130,918,327	176,166,991	2,014,999	1,416,149	310,516,466
Additions	100,060	1,674,582	1,122,123	818,181	3,714,946
Transfer from construction in progress	9,232,559	480,000	–	986,100	10,698,659
Disposals	–	(888,056)	(147,500)	–	(1,035,556)
Balance at 31 December 2004	140,250,946	177,433,517	2,989,622	3,220,430	323,894,515
<b>Depreciation and impairment losses:</b>					
Balance at 1 January 2004	20,381,409	58,391,183	969,164	463,617	80,205,373
Charge for the year	4,307,205	12,805,663	265,082	448,339	17,826,289
Disposals	–	(354,467)	(114,435)	–	(468,902)
Balance at 31 December 2004	24,688,614	70,842,379	1,119,811	911,956	97,562,760
<b>Carrying amount:</b>					
At 31 December 2004	115,562,332	106,591,138	1,869,811	2,308,474	226,331,755
At 31 December 2003	110,536,918	117,775,808	1,045,835	952,532	230,311,093

Upon establishment, all items of property, plant and equipment of the company were revalued by Nanjin Yong Hua, an independent PRC valuer registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment has been determined at RMB 163 million. This revaluation was to establish the deemed cost of the property, plant and equipment at the time of the company's establishment.

All of the company's buildings are located in the PRC.

As at 31 December 2004, a factory building at net book value totalling RMB33,891,945 (2003: RMB35,612,824) was pledged to secure a short-term bank loan (note 25) (2003: a short-term bank loan (note 25).)

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 17. Construction in progress

	2004	2003
Balance at 1 January	3,930,699	428,000
Additions	6,827,960	3,502,699
Transferred to property, plant and equipment	(10,698,659)	–
Balance at 31 December	<b>60,000</b>	3,930,699

### 18. Net deferred tax assets

	2004	2003
<i>Deferred tax assets and liabilities are attributable to the following:</i>		
Accounting depreciation in excess of tax depreciation	142,695	488,131
Provision for bad and doubtful debts	691,366	5,157,008
Provision for diminution in value of inventories	2,688,670	3,638,403
Unrecognised interest in respect of receivables from instalment sales	237,084	941,965
Unrealised gain on investment in unit trusts	–	(34,980)
Net deferred tax assets	<b>3,759,815</b>	10,190,527
<i>Movements in net deferred tax assets:</i>		
Balance at 1 January	10,190,527	1,611,772
Transferred (to)/from income statement (note 10)	(6,430,712)	10,049,751
Transferred to retained earnings	–	(1,470,996)
Balance at 31 December	<b>3,759,815</b>	10,190,527

### 19. Inventories

Inventories represent:

	2004	2003
Raw materials	28,732,759	36,727,124
Work in progress	21,110,761	30,568,214
Finished goods	37,545,368	52,925,349
	<b>87,388,888</b>	120,220,687
Inventories stated at net realisable value	<b>28,719,224</b>	23,239,319

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 20. Trade and other receivables

Trade and other receivables comprise:

	2004	2003
Trade debtors and bills receivable	<b>132,773,821</b>	250,444,946
Advance deposits to suppliers	<b>28,009,880</b>	45,944,903
Other debtors	<b>5,851,639</b>	1,021,109
	<b>166,635,340</b>	297,410,958

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

	2004	2003
Within 3 months	<b>28,330,003</b>	101,308,259
Over 3 months but less than 6 months	<b>15,582,428</b>	74,046,817
Over 6 months but less than 1 year	<b>42,816,207</b>	29,826,517
Over 1 year but less than 2 years	<b>40,360,276</b>	35,893,717
Over 2 years	<b>5,684,907</b>	9,369,636
	<b>132,773,821</b>	250,444,946

Customers are normally granted credit terms of 3 months to 12 months (2003: 3 months to 12 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 24 months (2003: not more than 24 months).

The amount of trade and other receivables expected to be recovered after more than one year is RMB442,728 (2003: RMB13,564,040). All other trade and other receivables are expected to be settled within one year.

### 21. Amounts due from/to shareholders/a related company

Amounts due from/to shareholders/a related company are interest free and with no fixed terms of repayment. The balances arose from the related party transactions are disclosed in note 30.

### 22. Pledged deposits

The deposits are pledged with banks for certain bills facilities granted to the company.



## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 23. Investments in unit trusts

	2004	2003
Unit trusts held for trading, at investment manager's valuation	-	597,500

### 24. Cash and cash equivalents

(a) Analysis of the balances of cash and cash equivalents is set out below:

	2004	2003
Deposits with banks	3,300,000	65,757,200
Cash at bank and in hand	55,247,175	77,175,175
	<b>58,547,175</b>	142,932,375

(b) Non-cash transactions

- (i) During the year ended 31 December 2004, the company utilised its bills facilities and instructed its bankers to issue certain bills to Jiangsu Mudan. In addition, the company transferred certain of its bills, which the company received from its customers, to Jiangsu Mudan. The total value of bills issued/transferred to Jiangsu Mudan amounted to RMB395,080,685 (2003: RMB617,733,258). On the other hand, the company received certain bank acceptance drafts from Jiangsu Mudan, totalling RMB242,799,800 (2003: RMB418,739,808). The bank acceptance drafts issued/received in this respect were recorded through the current account with Jiangsu Mudan without cash payment/receipt.
- (ii) Historically, income tax liabilities of the company and its shareholder, Jiangsu Mudan were assessed by the Zhangjiagang Municipal Tax Bureau on a combined basis. According to a tax notice issued by the Zhangjiagang Municipal Tax Bureau during the years ended 31 December 2002, income tax liabilities of the company in respect of the years ended 31 December 1999 and before totalling RMB19,123,708, had been paid by Jiangsu Mudan. In addition, Jiangsu Mudan has also utilised certain deferred tax assets of the company which amounted to RMB2,105,120. The related income tax liabilities and deferred tax assets were settled through the current account with Jiangsu Mudan without cash payment/receipt.

### 25. Short-term bank loans

	2004	2003
Secured bank loans	28,000,000	10,000,000
Unsecured bank loans	138,850,000	65,000,000
	<b>166,850,000</b>	75,000,000

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 25. Short-term bank loans (continued)

Details of the short-term bank loans as at 31 December 2004 are as follows:

Principal (In RMB)	Interest rate	Loan period	Security/Guarantee
4,000,000	5.22% p.a.	22 December 2004 to 8 January 2005	Nil
4,850,000	5.22% p.a.	27 December 2004 to 27 January 2005	Nil
9,000,000	6.782% p.a.	30 November 2004 to 26 May 2005	Pledged over factory building (note 16)
20,000,000	5.04% p.a.	9 July 2004 to 18 January 2005	Nil
7,000,000	5.04% p.a.	13 August 2004 to 12 February 2005	Pledged over bank deposit (note 22)
10,000,000	5.04% p.a.	17 September 2004 to 16 March 2005	Pledged over bank deposit (note 22)
15,000,000	5.544% p.a.	27 September 2004 to 26 March 2005	Nil
10,000,000	5.544% p.a.	30 September 2004 to 29 March 2005	Nil
2,000,000	5.544% p.a.	9 October 2004 to 8 April 2005	Pledged over bank deposit (note 22)
5,000,000	5.544% p.a.	12 October 2004 to 11 April 2005	Nil
25,000,000	5.0445% p.a.	20 July 2004 to 20 January 2005	Guaranteed by Jiangsu Mudan
20,000,000	5.0445% p.a.	4 June 2004 to 3 June 2005	Guaranteed by Jiangsu Mudan
10,000,000	5.0445% p.a.	16 June 2004 to 15 June 2005	Guaranteed by Jiangsu Mudan
25,000,000	5.0445% p.a.	12 July 2004 to 11 July 2005	Guaranteed by Jiangsu Mudan
<u>166,850,000</u>			

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 26. Trade and other payables

Trade and other payables comprise:

	2004	2003
Trade creditors	104,749,511	79,739,523
Bills payable	320,501,232	508,364,000
Accrued salaries, bonus and welfare fund	22,174,416	26,075,373
Other payables	34,869,083	50,796,778
	482,294,242	664,975,674

Certain bills payable of RMB89,000,000 as at 31 December 2004 (2003: RMB416,364,000) were guaranteed by Jiangsu Mudan.

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

	2004	2003
Due within 3 months	320,542,307	445,739,523
Due after 3 months within 6 months	104,708,436	142,364,000
	425,250,743	588,103,523

### 27. Capital and reserves

#### (a) Share capital

	2004	2003
Registered, issued and fully paid:		
196,250,000 (2003: 196,250,000) domestic shares of RMB1.00 each	196,250,000	196,250,000
88,550,000 (2003: 88,550,000) H shares of RMB1.00 each	88,550,000	88,550,000
	284,800,000	284,800,000

All the domestic shares and H shares rank pari passu in all material respects.

#### (b) Statutory surplus reserve

According to the company's articles of association, the company is required to transfer 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

## Notes to the financial statements

*(Expressed in Renminbi Yuan)*

### **27. Capital and reserves (continued)**

#### **(b) Statutory surplus reserve (continued)**

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Transfer of RMB255,795 was made to the statutory surplus reserve in 2004 (2003: RMB Nil) as there was net profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

#### **(c) Statutory public welfare fund**

According to the company's articles of association, the company is required to transfer 10% of its net profits, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

Transfer of RMB255,795 was made to the statutory public welfare fund in 2004 (2003: RMB Nil) as there was net profit available for appropriation as determined in accordance with the PRC accounting rules and regulations.

#### **(d) Distributable reserve**

Pursuant to the company's articles of association, the net profit of the company for the purpose of profit distribution to shareholders will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations; and (ii) the net profit determined in accordance with IFRSs.

Under the PRC Company Law and the company's articles of association, net profit after taxation can be distributed as dividends after allowance has been made for:

- (i) making up cumulative prior years' losses, if any;
- (ii) allocations of 10% after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the company's statutory surplus reserve until the fund aggregates to 50% of the company's registered capital;
- (iii) allocation of 10% of after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the company's statutory public welfare fund; and
- (iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

The distributable reserve of the company as at 31 December 2004 amounted to RMB33,535,246 (2003: RMB31,488,885). After the balance sheet date the directors had not recommended the payment of a final dividend in respect of the year ended 31 December 2004 (2003: Nil).

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 28. Financial Instruments

Financial assets of the company include cash and cash equivalents, pledged deposits, trade and other receivables, investments in unit trusts and amounts due from shareholders and a related company. Financial liabilities of the company include bank loans, trade and other payables and amounts due to shareholders. The company does not hold or issue financial instruments for trading purposes. The company had no positions in derivatives contracts at 31 December 2003 and 2004. Exposure to credit, interest rate and currency risk arises in the normal course of the company's business.

#### (a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The company does not require collateral in respect of financial assets.

At the balance sheet date the company had no significant concentrations of credit risk except for a trade receivable from one of its customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Amounts due from customers (net of provision for bad and doubtful debts) which represented more than 10% of the outstanding receivables at each balance sheet date are as follows:

	2004	2003
Guangzhou Bai Yun Hua Gang Automobile Company	<b>23,249,001</b>	57,732,572

#### (b) Interest rate risk

The interest rates and terms of repayment of the bank loans of the company are disclosed in note 25.

#### (c) Foreign currency risk

Substantially all the revenue-generating operations of the company are transacted in Renminbi, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

## Notes to the financial statements

*(Expressed in Renminbi Yuan)*

### **28. Financial Instruments (continued)**

#### **(d) Fair value**

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2003 and 2004.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

- (i) Cash and cash equivalents, pledged deposits, trade and other receivables, trade and other payables, amounts due from/to shareholders and a related company.

The carrying values approximate their respective fair values due to the nature or short term maturity of these instruments.

- (ii) Investments in unit trusts

The carrying value of investments in unit trusts approximately its fair value as the unit trusts are stated at bid price quoted by the investment managers at the balance sheet date.

- (iii) Bank loans

The carrying amount of bank loans approximates its fair value based on the borrowing rates currently available for bank loans with similar terms and maturity.

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 29. Commitments

- (a) Capital commitments outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	2004	2003
Contracted for	–	119,301

- (b) At 31 December 2004, the total commitments under non-cancellable operating leases are as follows:

	2004	2003
Less than one year	1,105,500	1,005,500
Between one and five years	4,422,000	4,022,000
More than five years	13,881,520	13,487,020
	<b>19,409,020</b>	18,514,520

The company leases rights to use one (2003: Nil) production line, three (2003: four) pieces of land and a property (2003: one) in the PRC under operating leases. The leases run for an initial period of twenty years, with an option to renew the lease after that date. Lease payments are fixed for the initial five years of the term and thereafter be renegotiated every five years to reflect market rentals. None of the leases includes contingent rentals.

### 30. Material related party transactions

Particulars of material transactions between the company and certain related parties in which a director or a shareholder of the company is in a position to exercise significant influence are as follows:

	Note	2004	2003
Purchases from shareholders/a related company	(i)	55,334,245	67,015,391
Rent paid for land use rights	(ii)	905,500	786,833
Rent paid for property	(iii)	100,000	100,000
Rent paid for a production line	(iv)	100,000	–
Management fee received	(v)	–	50,000
Acquisition of fixed assets	(vi)	609,162	68,080,923
Subcontracting fee paid	(vii)	–	9,892,723
Sales of scrap materials	(viii)	1,525,928	827,402

## Notes to the financial statements

(Expressed in Renminbi Yuan)

### 30. Material related party transactions (continued)

Notes:

- (i) This represents purchases of raw materials from the shareholders/a related company (Zhangjiagang Mudan Bus Parts Co., Ltd, Zhangjiagang Automobile Accessories Factory and Zhangjiagang Jishun Transportation Industrial Co., Ltd.) during the year.
- (ii) The company has entered into lease agreements with Jiangsu Mudan whereby the company is granted rights to use three (2003: four) pieces of land in the PRC on which its buildings are erected for a term of 20 years. The annual fixed rental payment is RMB905,500 (2003: RMB905,500).
- (iii) The company has entered into a lease agreement with Jiangsu Mudan whereby the company is granted rights to use a property in the PRC for a term of 20 years. The annual fixed rental payment is RMB100,000.
- (iv) The company has entered into a lease agreement with Jiangsu Mudan whereby the company is granted rights to use a production line in the PRC for a term of 20 years. The annual fixed rental payment is RMB100,000.
- (v) In October 2001, the company entered into a custodian agreement with Jiangsu Mudan for an indefinite period whereby the management of Factory No. 1 and Factory No. 7 and certain production facilities of Jiangsu Mudan ("the business") are rested with the company. In return, the company receives a management fee of RMB200,000 per annum. Assets and liabilities arising from the business are held for the benefit of Jiangsu Mudan and are not assumed by the company. In addition, the company is not liable, whether severally or jointly and severally, for debts and obligations incurred by the business. The custodian agreement with Jiangsu Mudan was terminated in April 2003.
- (vi) During the year, the company acquired two motor vehicles and one production line from Jiangsu Mudan at an amount of RMB100,000 (2003: RMBNil) and RMB509,162 (2003: RMB68,080,923).
- (vii) During the year, no subcontracting fees was paid from the company to Jiangsu Mudan (2003: RMB 9,892,723).
- (viii) During the year, the company sold certain scrap materials to the shareholders (Zhangjiagang Mudan Bus Parts Co., Ltd. and Zhangjiagang Mudan Automobile Accessories Co., Ltd.) which amounted to RMB1,525,928 (2003: RMB 827,402).
- (ix) During the year ended 31 December 2004, the company utilised its bills facilities and instructed its bankers to issue certain bills to Jiangsu Mudan. In addition, the company transferred certain of its bills, which the company received from its customers, to Jiangsu Mudan. The total value of bills issued/transferred to Jiangsu Mudan amounted to RMB395,080,685 (2003: RMB 617,733,258). On the other hand, the company received certain bills from Jiangsu Mudan, totalling RMB242,799,800 (2003: RMB 418,739,808). The bank acceptance drafts issued/received in this respect were recorded through the current amount with Jiangsu Mudan without cash payment/receipt. In consequence, the company provided certain interest-free advances to Jiangsu Mudan during the year ended 31 December 2004. The maximum outstanding balance of the advances to Jiangsu Mudan was RMB177,782,985 during the year ended 31 December 2004 (2003: RMB148,769,216) and the outstanding balance of the advances was RMB152,280,885 at 31 December 2004 (2003: RMB Nil).
- (x) During the years ended 31 December 2003 and 2004, Jiangsu Mudan allowed the company to use the trademark of "Mudan", certain of its sales offices, office equipment and public facilities at nil consideration.
- (xi) Jiangsu Mudan received sales receipts on behalf of the company which amounted to RMB70,630,102 (2003: RMB1,645,000) during the year ended 31 December 2004.
- (xii) The company received sales receipts on behalf of Jiangsu Mudan which amounted to RMB1,227,975 during the year ended 31 December 2004. There were no sales receipts by the company on behalf of Jiangsu Mudan for the year ended 31 December 2003.
- (xiii) During the year ended 31 December 2003, the company acted as the agent of Jiangsu Mudan and purchased certain raw materials, totalling RMB4,355,974, on its behalf. On the other hand, Jiangsu Mudan acted as the agent of the company and purchased certain raw materials, totalling RMB3,133,037, on behalf of the company. No service fee was received/paid by the company in this respect. During the year ended 31 December 2004, the company ceased to be the agent of Jiangsu Mudan in connection with the purchase of certain raw material.



## Notes to the financial statements

*(Expressed in Renminbi Yuan)*

### 30. Material related party transactions (continued)

Notes: (continued)

- (xiv) During the year ended 31 December 2003, Jiangsu Mudan acted as the agent of the company in connection with certain export sales, totalling RMB40,193,903. No service fee was paid by the company in this respect. During the year ended 31 December 2004, Jiangsu Mudan ceased to be the agent of the company in connection with certain export sales.
- (xv) Jiangsu Mudan made payments for certain expenses on behalf of the company which amounted to RMB13,267,067 (2003: RMB3,689,020) during the year ended 31 December 2004.
- (xvi) As at 31 December 2004, certain bank loans of the company totalling RMB80,000,000 (2003: RMB 40,000,000) were guaranteed by Jiangsu Mudan (note 25).
- (xvii) As at 31 December 2004, certain bills payables of the company totalling RMB89,000,000 (2003: RMB416,364,000) were guaranteed by Jiangsu Mudan (note 26).

The directors of the company are of the opinion that the above transactions (excluding notes (ix) to (xvii)) with related parties were entered into:

- in the ordinary and usual course of its business;
- either (a) on normal commercial terms; or (b) on terms no less favourable than those available from/to independent third parties; or where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the company are concerned; and
- either in accordance with the terms of the agreement governing each such transaction or where there is no such agreement, on terms no less favourable than terms available from/to third parties

and these have been confirmed by the independent non-executive directors.

### 31. Ultimate holding company

The directors consider the ultimate holding company at 31 December 2004 to be Zhangjiagang Municipal Public Assets Management Co., Ltd, which is a state-owned enterprise established in the PRC.

## Reconciliation of Net Profit/(Loss) and Net Assets under International Financial Reporting Standards (“IFRSs”) and PRC Accounting Rules and Regulations

(Expressed in Renminbi Yuan)

	Note	2004		2003	
		Profit/(Loss) attributable to shareholders for the year	Net assets as at 31 December	Loss attributable to shareholders for the year	Net assets as at 31 December
As determined pursuant to PRC accounting rules and regulations		<b>2,557,951</b>	<b>351,002,070</b>	(25,689,461)	348,433,819
Adjustments:					
Restatement of costs of issuing shares	(i)	-	-	4,457,563	-
Recognition of net deferred tax assets	(ii)	<b>(6,430,712)</b>	<b>3,759,815</b>	10,049,751	10,190,527
Restatement of instalment receivables	(iii)	<b>2,136,000</b>	<b>(718,439)</b>	(2,854,439)	(2,854,439)
Restatement of investments in unit trusts	(iv)	<b>(92,500)</b>	-	92,500	92,500
Restatement of capital reserve	(v)	<b>10,300</b>	-	-	-
Restatement of current tax effect of the costs of issuing shares	(vi)	-	-	(1,470,996)	-
As determined pursuant to IFRS		<b>(1,818,961)</b>	<b>354,043,446</b>	(15,415,082)	355,862,407

Notes:

- (i) The amount represents the different treatment on the costs of issuing shares between the IFRS and PRC financial statements. Under the PRC accounting rules and regulations, costs of issuing shares (in excess of the share premium arising from the issue) are recognised as an asset and amortised over 2 years. Pursuant to IFRSs, the costs of issuing shares are accounted for as part of the equity transaction to which they relate and are reported as a movement in equity.
- (ii) This represents the recognition of deferred tax assets in respect of the IFRSs adjustments, certain accounting depreciation in excess of tax depreciation and certain provision for accounting purposes for the year ended 31 December 2004.
- (iii) Under the PRC accounting rules and regulations, instalment receivables are stated at their cost less allowance for doubtful accounts. Pursuant to IFRSs, instalment receivables are determined by discounting the expected future cash flows at an imputed rate of interest. The interest element is recognised as interest income as it is earned on a time proportion basis that takes into account the imputed rate of interest.
- (iv) Under the PRC accounting rules and regulations, investments in unit trusts are stated at lower of cost or fair value. Pursuant to IFRSs, investments in unit trusts are stated at fair value. The investment was disposed during the year ended 31 December 2004.
- (v) The amount represents the different accounting treatment on receipt of gift by the company between the IFRS and PRC financial statements. Under the PRC accounting rules and regulations, the receipt of gift is accounted for in the capital reserve account. Pursuant to IFRS, the gift received by the company is accounted for in the income statement.
- (vi) The amount represents the different treatment on the current tax effect of the costs of issuing shares as noted in note (i). Under the PRC accounting rules and regulations, the current tax effect of the costs of issuing shares are recognised as current tax charge as the costs of issuing shares are recognised as an asset and amortised to the income statement over 2 years. Pursuant to IFRSs, the current tax effect of the costs of issuing shares are accounted for as part of the equity transaction as the costs of issuing shares are accounted for as part of the equity transaction.

## Five Year Summary

(Expressed in Renminbi Yuan)

	2004	Year ended 31 December			2000
		2003	2002	2001	
<b>Results</b>					
Revenue	<b>638,563,780</b>	910,111,382	888,526,140	857,038,069	775,719,118
<b>Profit/(loss) from operations</b>	<b>13,589,326</b>	(20,708,972)	70,080,883	77,671,765	48,808,986
Net finance costs	<b>(8,977,575)</b>	(2,200,106)	(1,498,461)	(4,539,496)	(7,819,607)
<b>Profit/(loss) before tax</b>	<b>4,611,751</b>	(22,909,078)	68,582,422	73,132,269	40,989,379
Income tax (expense)/benefit	<b>(6,430,712)</b>	7,493,996	(20,909,723)	(23,702,448)	(13,711,295)
<b>(Loss)/profit attributable to shareholders</b>	<b>(1,818,961)</b>	(15,415,082)	47,672,699	49,429,821	27,278,084
<b>Assets and liabilities</b>					
Property, plant and equipment	<b>226,331,755</b>	230,311,093	177,332,713	177,719,337	188,288,577
Construction in progress	<b>60,000</b>	3,930,699	428,000	–	–
Net deferred tax assets	<b>3,759,815</b>	10,190,527	1,611,772	5,047,112	2,105,120
Total current assets	<b>782,446,534</b>	859,441,244	564,739,422	415,351,153	312,360,640
Total current liabilities	<b>(658,554,658)</b>	(748,011,156)	(348,562,418)	(240,225,816)	(240,013,956)
Total assets less current liabilities	<b>354,043,446</b>	355,862,407	395,549,489	357,891,786	262,740,381
Non-current liabilities	<b>–</b>	–	(20,000,000)	(20,000,000)	–
	<b>354,043,446</b>	355,862,407	375,549,489	337,891,786	262,740,381
Share capital	<b>284,800,000</b>	284,800,000	284,800,000	284,800,000	204,300,000
Reserves	<b>69,243,446</b>	71,062,407	90,749,489	53,091,786	58,440,381
	<b>354,043,446</b>	355,862,407	375,549,489	337,891,786	262,740,381