



Mudan Automobile Shares Company Limited*
牡丹汽車股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)



1st Quarterly Report 2005

* For identification only

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2005

Characteristics of GEM (“GEM”) of the Stock Exchange (“Stock Exchange”)

Growth Enterprise Market has been established as a market designated to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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 requires, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

For the three months ended 31 March 2005, the Company recorded a turnover of RMB114,216,049, representing a decrease of 32.8% as compared with the corresponding period in 2004.

For the three months ended 31 March 2005, the Company recorded a net loss of RMB6,527,396 (2004: a net loss of RMB2,079,326).

For the three months ended 31 March 2005, loss per share was RMB0.023.

QUARTERLY OPERATING RESULTS (UNAUDITED)

The board of Directors of the Company (the “Board”) is pleased to announce the unaudited quarterly results for the three months ended 31 March 2005, together with the comparative unaudited figures of the corresponding period in 2004 as follows:

	Notes	For the three months ended 31 March 2005	For the three months ended 31 March 2004
		RMB	RMB
Revenue	2	114,216,049	170,034,987
Cost of sales		(107,632,367)	(154,167,568)
Gross profit		6,583,682	15,867,419
Other operating income		492,793	338,819
Distribution expenses		(4,966,989)	(8,872,038)
General and administrative expenses		(7,230,328)	(6,559,838)
Other operating expense		(61,923)	(199,430)
Profit/ (loss) from operations		(5,182,765)	574,932
Net finance costs		(1,344,631)	(2,654,258)
Profit/(loss) before tax		(6,527,396)	(2,079,326)
Income tax (loss)/expenses	3	(–)	–
Profit/(loss) attributable to shareholders		(6,527,396)	(2,079,326)
Profit/(loss) per share			
– basic (cents)	4	(2.3)	(0.73)

Notes:

1. Basis of preparation and accounting policies

The principal accounting policies adopted in preparing the unaudited quarterly results conform with the International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. These unaudited quarterly results for the three months ended 31 March 2005 also comply with the applicable disclosure provisions of the GEM Listing Rules.

The measurement basis used in the preparation of the quarterly operating results is historical cost convention except for unit trust investment which was booked by marking to the market.

The accounting policies have been consistently applied by the Company and are consistent with those used in the 2004 annual financial statements.

2. Revenue and distribution

The Company is primarily engaged in a single business of automobile manufacture and sales. Revenue represents income arising from the sales of automobiles net of sales tax and value added tax.

The Company's revenue from sales by geographical region is as follows:

	For the three months ended 31 March	
	2005	2004
	RMB	<i>RMB</i>
Sales of automobiles:		
The PRC	109,134,276	155,012,838
Overseas market	5,081,773	15,022,149
	<hr/>	<hr/>
Total	<u>114,216,049</u>	<u>170,034,987</u>

3. Income tax (loss)/expenses

Income tax represents the provision for PRC income tax. The provision for PRC income tax is calculated at the statutory tax rate of 33% (2004: 33%) of the estimated assessable income for the quarterly results as determined in accordance with the relevant income tax rules and regulations of the PRC.

4. Basic earnings (loss)/profit per share

For the three months ended 31 March 2005, the calculation of earnings per share is based on the unaudited loss attributable to shareholders of approximately RMB6,527,396 (2004: the unaudited net loss was RMB2,079,326) divided by the weighted average number of shares in issue of the Company during the period. For the three months ended 31 March 2005, the weighted average number of shares in issue is 284,800,000 (2004: 284,800,000). No diluted earnings per share is presented as there were no dilutive potential ordinary shares outstanding.

RESERVE

Other than the net loss for the three months ended 31 March 2005, there was no movement to or from reserves of the Company during the quarter (2004: none).

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2005 (2004: Nil).

BUSINESS REVIEW

1. *Operating performance*

Revenue for the quarter of the Company amounted to RMB114,216,049 (2004: RMB170,034,987), representing approximately a decrease of 32.8% as compared with the corresponding period in 2004. The net loss recorded RMB6,527,396 (2004: RMB2,079,326).

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

For the three months ended 31 March 2005, the sales of light-sized, medium-sized and large-sized buses amounted to RMB35,131,086, RMB59,581,491 and RMB19,503,472 respectively (2004: RMB70,363,173, RMB83,071,556 and RMB16,600,256).

3. *Overseas Sales*

The Company recorded a revenue of approximately RMB5,081,773 (2004: RMB15,022,149) from overseas sales in the quarter. Products were exported to North Africa, Carribean Sea, the Middle East and the Middle America, etc.

FUTURE PROSPECT

The Company will remain striving to strengthen sales management, intensify costs management as well as enhancing research and development capability so as to consolidate and increase the market share of Mudan model buses. A summary of the plan is as follows:

1. *To change sales strategy and achieve sales breakthrough*

Based on the product mix upgrade last year, the Company will strive to implement three changes with respect to sales: main products will gradually shift to high-end from low-end; sales regions will move from counties to cities and the mode of sales will evolve from traditional to the modern ones.

2. *To intensify cost management and reduce cost*

To further increase the market competitiveness of Mudan products, the Company will strengthen internal control and significantly lower production cost through various measures which include purchasing component and parts through tenders and launching programmes to reduce costs and expenses and to implement changes at separate items. The purpose is to relieve cost pressure attributable to the rise in raw material prices.

3. *To strengthen technical management and increase research and development capability*

To maintain the designing edge of the Mudan model, the Company endeavors to recruit more outstanding research personnel and install more sophisticated equipment in order to strengthen its research and development ability. It will embark on developing new product while enhancing the performance of Mudan products to further satisfy the customers.

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

Directors, supervisors and chief executive of the Company

As at 31 March 2005, none of the Directors, supervisors or chief executive of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules.

Substantial shareholders of the Company and other persons

Save as disclosed below, as at 31 March 2005, the Directors are not aware of any other interests and short positions of any substantial shareholders (as defined in the GEM Listing Rules) of the Company and other persons (other than a Director or chief executive of the Company) in the shares or underlying shares of the Company, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Long positions in the shares

Name of shareholder	Number of shares (domestic shares)	Capacity	Approximate percentage of the issued share capital
Zhangjiagang Municipal Public Assets Management Co., Ltd ("ZMPAM")	95,310,000	Beneficial owner	33.47%
	100,340,000	Interest of a controlled corporation (<i>Note 1</i>)	35.23%
Jiangsu Mudan Automobile Group Co., Ltd ("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 (<i>Note 2</i>)	35.23%

Notes:

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

COMPETING INTERESTS

None of the Directors, supervisors, management shareholders or substantial shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in any businesses which directly or indirectly compete with the business of the Company for the period ended 31 March 2005.

AUDIT COMMITTEE

The Company's unaudited quarterly results for the three months ended 31 March 2005 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and statutory requirements of the Stock Exchange, and that adequate disclosures had been made.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors considered that the Company has complied with the requirements of Board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules throughout the three months ended 31 March 2005.

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

During the three months ended 31 March 2005, the Company has not purchased, sold or redeemed any of its listed securities.

DISCLOSURE OF TRADE RECEIVABLE PURSUANT TO RULES 17.15 AND 17.22 OF THE GEM LISTING RULES

As at 31 March 2005, there were 284,800,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.338 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 21 March 2005 to 29 March 2005 (both days inclusive), being the five business days immediately preceding 31 March, 2005 during which the Company's shares have been traded, the total market capitalization for the Company was approximately HK\$96,262,400 as at 31 March 2005.

As at 31 March 2005, the Company has recorded trade receivables from a total of three customers which are discloseable pursuant to Rules 17.15 and 17.22 of the GEM Listing Rules. Trade receivable from Guangzhou Baiyun Huagang Automobile Trade Center (廣州白雲華港汽貿中心) amounted to approximately HK\$21,018,030 (RMB22,279,112), representing approximately 21.8% of the Company's total market capitalization as at 31 March 2005; trade receivable from Tianjin Hao Tin Hong Yun Automobile Sales Company Limited (天津昊天宏運汽車銷售有限公司) amounted to approximately HK\$7,796,462 (RMB8,264,250), representing approximately 8.1% of the Company's total market capitalization as at 31 March 2005; trade receivable from Shanghai Ba Shi Yong Da Automobile Sales Company Limited (上海巴士永達汽車銷售有限公司) amounted to approximately HK\$7,924,528 (RMB8,400,000), representing approximately 8.2% of the Company's total market capitalization as at 31 March 2005. The three customers are 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). The repayment terms and schedule of the above three customers have not been determined yet.

The trade receivables from the above three customers were resulted from sales to the customers by the Company in its ordinary course of business and on normal commercial terms. They are 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 receivables were recorded as at 31 March 2005, they shall be disclosed under Rule 17.22 of the GEM Listing Rules.

By order of the board

Mudan Automobile Shares Company Limited

SUN Min Biao

Chairman of the board

Zhangjiagang City, Jiangsu Province, China

30 April 2005