

SHENZHEN TELLUS HOLDING CO., LTD.

2002 Annual Report

Important Notes: Board of Directors of Shenzhen Tellus Holding Co., Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading. This report was prepared in both Chinese and English. Should there be any difference in interpretation between the two versions, the Chinese version shall prevail.

Chairman of the Board of the Company Song Renquan entrusted Director Zhang Ruili to preside over the Board meeting and exert the voting right on his behalf; Director Zhang Ruilong entrusted Director Guo Dongri to attend and vote on his behalf.

Chairman of the Board of the Company, General Manager, Chief Financial Supervisor and Manager of Financial Department hereby confirm that the Financial Report of the Annual Report is true and complete.

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. Company Profile

1. Name of the Company in Chinese: 深圳市特力（集团）股份有限公司
Name of the Company in English: Shenzhen Tellus Holding Co., Ltd.
2. Legal Representative: Song Renquan
3. Secretary of the Board of Directors: Li Chunxiu
Contact Tel: (86) 755-25536888-360
Fax: (86) 755-25536658
E-mail: lcx3333@163.net
Authorized Representative of the Securities Affairs: Li Mingjun
Contact Tel: (86)755-25536888-351
Fax: (86)755-25536658
E-mail: szlmj@163.net
4. Registered Address and Office Address: 3/F, Tellus Bldg., No. 56 of Shui Bei Er Road, Luohu District, Shenzhen
Post Code: 518020
E-mail: sztljtgf@public.szptt.net.cn
5. Newspapers for Disclosing the Information of the Company:
Securities Times (Shenzhen) and Ta Kung Pao (Hong Kong)
Internet Web Site for Publishing the Annual Report: <http://www.cninfo.com.cn>
The Place Where the Annual Report is Prepared and Placed: secretariat of the Board of Directors of Shenzhen Tellus Holdings Co., Ltd.
6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock and Stock Code: ST Tellus-A (000025)
ST Tellus-B (200025)
7. Other related information:
 - (1) Initial registration date: Nov. 10, 1986
Registration place: No. 104 Shui Bei Er Road, Luohu District, Shenzhen
Enterprise legal person's business license: 19219221-0
 - (2) Registered code of tax: SDS Zi 440303192192210
GS Zi 440301192192210
 - (3) Certified Public Accountants engaged by the Company:
Domestic: Shenzhen Nanfang Minhe Certified Public Accountants
Address: 8/F, Electronics Tech. Bldg., No. 2072, Shennan Middle Road, Shenzhen
International: Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants
Address: 8/F, Electronics Tech. Bldg., No. 2072, Shennan Middle Road, Shenzhen

. Financial highlight and business highlight

() Accounting data and financial indexes as of the year 2002

Unit: RMB

Items	Amount (in RMB)
Total profit	-34,302,617.24
Net profit	-40,980,896.04
Net profit after deducting non-recurring gains and losses	-35,020,226.61
Profit from core business	110,507,981.38
Profit from other business lines	4,220,139.73
Operating profit	-32,487,918.45
Investment income	-4,898,456.90
Subsidy income	52,368.00
Net income / expenditure from non-operating	3,031,390.11
Net cash flows arising from operating activities	120,412,420.24
Net increase in cash and cash equivalents	8,600,632.84
Note: Items of non-recurring gains and losses and the relevant amount	
1. Amortization of difference in equity investment	-4,776,048.13
2. Income from non-operating	10,314,975.60
3. Expenditure of non-operating	7,283,585.49
4. Subsidy income	52,368.00
5. Profit from disposal of subsidiaries	-4,268,379.41
6. Amounts of the above items:	-5,960,669.43

Note: The Company's net profit was RMB -40,980,896.04 audited by domestic certified public accountants and RMB -63,577,896.04 audited by international certified public accountants, which was RMB 22,597,000 less than the former figure. The reason is as follows: the long-term investment evaluation and amortization increased RMB 758,000, valuation with object investment decreased RMB 269,000, excess deficit of subsidiaries increased RMB 214,000, expenses for the use of funds due to associated related increased RMB 873,000, income from debts reorganization increased RMB 915,000, and retroactive guaranty losses RMB 25,088,000.

() Accounting data and financial indexes over the recent three years at the end of report period (Unit: RMB)

Items	2002	2001	2000
Income from core business	1,289,321,184.23	703,244,863.19	152,909,343.66
Net profit	-40,980,896.04	5,144,050.69	-72,536,653.23
Total assets	1,232,230,347.02	1,368,433,164.58	756,146,740.06
Shareholders' equity	203,523,567.11	241,238,794.25	52,262,067.20
Fully diluted earnings per share	-0.19	0.02	-0.33
Weighted average earnings per share	-0.19	0.02	-0.33
Fully diluted earnings per share deducting non-recurring gains and losses	-0.16	-0.04	-0.29
Weighted average earnings per share deducting non-recurring gains and losses	-0.16	-0.04	-0.29
Net assets per shareholder	0.92	1.10	0.24
Net assets per share after adjustment	0.04	0.17	0.01
Net cash flow per share arising from operating activities	0.55	0.26	0.001
Fully diluted return on equity (%)	-20.14	2.13	-138.79
Weighted average return on equity (%)	-18.56	9.38	-53.81
Fully diluted return on equity deducting non-recurring gains and losses (%)	-17.21	-4.01	-123.67
Weighted average return on equity deducting non-recurring gains and losses (%)	-15.86	-17.62	-47.95

() Supplementary statement of profit as reported

Return on equity and earnings per share are calculated according to Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) released by China Securities Regulatory Commission

Items	2002				2001			
	Return on equity (%)		Earnings per shares (RMB/share)		Return on equity (%)		Earnings per shares (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from core business	54.30	50.06	0.50	0.50	33.01	145.24	0.36	0.36
Operating profit	-15.96	-14.72	-0.15	-0.15	-3.83	-16.84	-0.04	-0.04
Net profit	-20.14	-18.56	-0.19	-0.19	2.13	9.38	0.02	0.02
Net profit after deducting non-recurring gains and losses	-17.21	-15.86	-0.16	-0.16	-4.01	-17.62	-0.04	-0.04

Note: Calculation formula for major financial indexes

Fully diluted earnings per share = Profit as of the report period / total shares of ordinary share at the end of the period

Weighted average earnings per share= $P / (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0)$

Among them: P stands for the profit at the report period; S_0 stands for the total shares at the period-begin; S_1 stands for the shares increased due to conversion of the public reserve into share capital or the bonus shares involved in the profit distribution in the report period; S_i stands for the number of shares increased due to issuance of new shares or debt-to-equity swap in the report period; S_j stands for the number of shares reduced due to buy-back or shrinkage of the shares; M_0 stands for the number of months in the report year; M_i stands for the number of months from the next month after the increase of shares to the end of the report period; M_j stands for the number of months from the next month after decrease of the shares to the end of the report period.

Return on equity = shareholders' equity as at the end of the report period / total shares of ordinary share at the end of the period

Return on equity after adjustment = (Shareholders' equity at the end of the report period – Net accounts receivable over more than 3 years – Expenses to be apportioned – Net losses from (current / fixed) assets in suspense – Organization expenses – Long-term expenses to be apportioned - Negative balance amount of house revolving fund) / Total number of shares at the end of the report period

Net cash flows per share arising from operating activities = Net cash flows arising from operating activities / total shares of ordinary share at the end of the report period

Fully diluted return on equity= Net profit / Shareholders' equity at the end of the report period $\times 100\%$

Weighted average return on equity = $P / [E_0 \times NP \div 2 + E_i \div M_0 - E_j \times M_j \div M_0]$

Among them: P stands for profit as of the report period; E_0 stands for net assets at the period-begin; NP stands for net profit as of the report period;; E_i stands for increased net assets due to issue of new share or debt-to-equity swap in the report period; E_j

stands for decreased net assets due to counter purchase or distribute of cash bonus in the report period; M_0 stands for number of months in the report period; M_i stands for number of months from the next month of increased assets to the end of the report period; M_j stands for number of months from the next month of decreased assets to the end of the report period.

() Changes in shareholders' equity in the report year

Items	Share capital	Capital public reserve	Statutory Surplus public reserve	Statutory welfare funds	Retained profit	Retained profit	Shareholders' equity
At the period-begin	220,281,600	167,516,183.22	54,295,698.45	3,210,576.83	-200,441,865.22	241,238,794.25	220,281,600
Increase in the report period		3,051,937.57				3,051,937.57	
Decrease in the report period					40,980,896.04	40,767,164.71	
At the period-end	220,281,600	170,568,120.79	54,295,698.45	3,210,576.83	-241,422,761.26	203,523,567.11	220,281,600

Reason of change:

Reason for increase of capital public reserve:

1. Deferred tax of Huatong Auto Company increased due to evaluation. In 2002, the said taxation switched back was transferred into capital public reserve;
2. The Company received expenses for the use of funds. According to No. [2001] 64 document released by Ministry of Finance, interest rate of fixed deposit over one year was transferred into capital public reserve;
3. Income of debt reorganization made between the Company and Everbright Bank.

Reason for change of Retained profit: losses due to operation

. Changes in Share Capital and Particulars About Shareholders

() Changes in share capital

1. Statement of changes in share capital (In Shares)

Type of shares	Before the change	Increase/decrease in this time (+, -)						After the change
		Allotment of share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Sub-total	
I. Unlisted Shares								
1. Promoters' shares	159,558,000	0	0	0	0	0	0	159,558,000
Including:								
State-owned share	159,558,000	0	0	0	0	0	0	159,558,000
Domestic legal person's shares	159,558,000	0	0	0	0	0	0	159,558,000
Foreign legal person's shares	0	0	0	0	0	0	0	
Others	0	0	0	0	0	0	0	
2. Raised legal person's shares	0	0		0	0	0	0	
3. Employees' shares	8,550	0	0	0	0	0	0	8,550
4. Preference shares or others	0	0	0	0	0	0	0	
Total unlisted shares	159,596,550	0	0	0	0	0	0	159,596,550
II. Listed Shares								
1. RMB ordinary shares	34,285,050	0	0	0	0	0	0	34,285,050
2.Domestically listed	26,400,000	0	0	0	0	0	0	26,400,000

foreign shares

3. Overseas listed

foreign shares	0	0	0	0	0	0	0	
Total listed shares	60,685,050	0	0	0	0	0	0	60,685,050
III. Total shares	220,281,600	0	0	0	0	0	0	220,281,600

2. Issuance and listing of shares

(1) Initial Issuing and Listing

Promoter: Shenzhen Investment Holding Corporation converted its net assets into 120.9 million shares.

Method of issuance: public raising

Issuance Time: Shen Tellus A, March 5 to 11, 1993

Shen Tellus B, March 11 to 18, 1993

Par value : RMB 1.00 per share

Issuance price: Shen Tellus A: RMB 4.18/share

Shen Tellus B: RMB 4.28/share (HK\$4.03/shares after conversion)

Issuance quantity: Shen Tellus A of 25.98 million shares

Including: 4.18 million employees' shares; 21.8 million public shares

Shen Tellus B of 20 million shares

Listing time : June 21, 1993

Circulating shares at the listing time: 41.8 million shares (including: 21.8 million A shares and 20 million B shares)

Listed with: Shenzhen Stock Exchange

Shares and derivatives listed in the recent three years:

From the initial issuing to the end of the report period, the Company had issued neither additional shares nor derivative securities.

(2) In the report period, the Company had never been involved in any events which may cause change of the total shares and the stock structure such as distributing bonus shares, share capital converted or added, share allotment, absorption and combination, converting convertible company bonds into shares, listing the employees' shares, etc.

(3) About employees' shares

Issuance date: March 5 to 11, 1993

Issuance price: RMB 4.18/share

Issuance quantity: 4.18 million shares

Custody date: March 12, 1993

Custodian: Shenzhen Securities Registration and Clearing Co., Ltd.

Issuance date: August 5, 1994

Quantity in stock: 8550 shares

() About shareholders

Total shareholders at the end of report year	17120 shareholders (including 13568 shareholder of A-share, 3552 shareholder of B-share)					
Particulars about shares held by the top ten shareholders						
Full name of Shareholder	Increase / decrease in the report year (share)	Holding shares at the year-end (share)	Proportion (%)	Type of shares	Number of share pledged or frozen	Nature of shareholders

Shenzhen Special Economic Zone Development (Group) Company	0	159588000	72.45	Non-circulation	159588000	State-owned shareholder
Shandong Kangtong Electrical Equipment Co., Ltd.	1108360	1108360	0.50	Circulation	Unknown	Social public share
WEN CAN RONG (Foreign shareholder)	931785	602015	0.27	Circulation	Unknown	Social public share
WEN HAI GEN (Foreign shareholder)	504424	474376	0.22	Circulation	Unknown	Social public share
Changjiang Securities Co., Ltd.	397948	397948	0.18	Circulation	Unknown	Social public share
CHEN JIAN (Foreign shareholder)	255600	255600	0.12	Circulation	Unknown	Social public share
WAN SHI GUI (Foreign shareholder)	254000	254000	0.12	Circulation	Unknown	Social public share
ZHOUTAIPING (Foreign shareholder)	236900	236900	0.11	Circulation	Unknown	Social public share
YI ZHENG YAO (Foreign shareholder)	231200	231200	0.10	Circulation	Unknown	Social public share
ZHOU ZHONG	208000	208000	0.09	Circulation	Unknown	Social public share
Explanation on associated relationship among the top ten shareholders or consistent action	Note: Among the top ten shareholders as listed above, there exists no associated relationship between Shenzhen Special Economic Zone Development (Group) Company and the other shareholders, and it does not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Company with the other shareholders. For the shareholders of circulation share, the Company is unknown whether there exists associated relationship, or whether the rest shareholders belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Company.					

() About the controlling shareholder

(1) Name of the controlling shareholder: Shenzhen Special Economic Zone Development (Group) Company (state owned shareholder)

Legal representative: Zheng Hongjie

Date of establishment: October 1981

Registered capital: RMB 104.85 million

Company type: state-owned enterprise of Shenzhen City

Business scope: Principal businesses: industry, traffic and transportation, land development, real estate, tourism, finance and trust, issuing securities, information consulting, textile, textile products, general merchandize, grains and oil, other products, hardware, traffic electrical appliances, chemicals. Minor businesses: cultural and office equipment, computer and components, feeds, general parts, steel materials, pig iron, non-ferrous metal, building materials, mineral products, import of raw and auxiliary materials and equipment for self-use, local and animal by-products and fire extinguishing equipment and materials.

Equity structure: ended December 31, 2002, Shenzhen Investment Holding Corporation held 100% equity of Shenzhen Special Economic Zone Development (Group) Company.

(2) About the actual controller shareholders or the controlling shareholder of the Company's controlling shareholder:

Shareholder name: Shenzhen Investment Holding Corporation

Legal representative: Li Heihu

Date of establishment: Feb. 10, 1988

Registered capital: RMB 2 billion

Company type: state-owned sole corporation

Principal businesses and products: Management and supervision of enterprise's state assets, financing and property right; to share all kinds of enterprise and turn over

investment, to offer credit and assurance; to impose profit after taxation and occupying expenses of assets of state enterprise and the other business authorized by municipal government.

. Particulars about directors, supervisors, senior executives and employees

() Directors, supervisors and senior executives

1. Basis information

Name	Gender	Age	Title	Office term	Number of holding shares (share)	
					At the year-begin	At the year-end
Song Renquan	Male	52	Director, Chairman of the Board	Nov. 15, 2000 – June 29, 2002	0	0
Zhang Ruilong	Male	38	Director, General Manager	June 29, 1999 – June 29, 2002	0	0
Guo Dongri	Male	37	Director, Deputy General Manager	Nov. 15, 2000 – June 29, 2002	0	0
Ren Yongjian	Male	39	Director, Chief Financial Supervisor	Aug. 8, 2001 – June 29, 2002	0	0
Zhang Ruili	Male	39	Director	Nov. 15, 2000 – June 29, 2002	0	0
Yang Feng	Male	48	Director	Nov. 15, 2000 – June 29, 2002	0	0
Huang Shilin	Male	48	Director	June 29, 1999 – June 29, 2002	0	0
Zhou Chengxin	Male	48	Independent Director	Nov. 28, 2002-	0	0
Shi Weihong	Female	35	Independent Director	Nov. 28, 2002-	0	0
Liu Xingzhong	Male	61	Supervisor, Chairman of the Supervisory Committee	July 9, 2001 – June 29, 2002	0	0
Chen Shuipu	Male	46	Supervisor	Nov. 15, 2000 – June 29, 2002	0	0
Luo Tao	Male	41	Supervisor	June 29, 1999 – June 29, 2002	0	0
Chen Aimin	Male	50	Supervisor	June 29, 1999 – June 29, 2002	0	0
Ruan Honglai	Male	36	Supervisor	Nov. 15, 2000 – June 29, 2002	0	0
Li Chunxiu	Female	37	Secretary of the Board of Directors	Dec. 29, 2001 – June 29, 2002	0	0

2. Particulars about directors and supervisors holding the post in Shareholding Company

Name	Name of Shareholding Company	Title in Shareholding Company	Drawing the payment from the Shareholding Company (Yes / No)
Zhang Ruili	Shenzhen Special Economic Zone Development (Group) Company	manager of Assets Management Dept.	Yes
Yang Feng	Shenzhen Special Economic Zone Development (Group) Company	manager of human resource Dept.	Yes
Chen Shuipu	Shenzhen Special Economic Zone Development (Group) Company	manager of Auditing Dept.	Yes
Luo Tao	Shenzhen Special Economic Zone Development (Group) Company	manager of Investment Dept.	Yes

() Particulars about the annual recompense of directors, supervisors and senior executives in office at present

Directors and supervisors taking the position of the Company drew their recompense based on their position in the Company. Directors and supervisors taking the position of Shareholding Company received no pay from the Company, but drew their annual recompense from Shareholding Company.

There are 15 directors, supervisors and senior executives in office at present, and 9 persons draw their salary from the Company. The total annual remuneration received from the Company was RMB 825,212.50. The total amount of annual remuneration of the top three directors drawing the highest payment was RMB 430,380; the total amount of annual remuneration of the top three senior executives drawing the highest payment was RMB 430,380.

Of them, five enjoy the annual remuneration between RMB 100,000 to RMB 150,000 respectively; two enjoy their annual salary from RMB 70,000 to 100,000 respectively.

During the report year, reward and welfare of directors, supervisors and senior executives are determined based on the standing distribution system, welfare system of the state and the Company and their position. Directors and supervisors receiving no pay from the Company draw their annual salary from Shareholding Company.

As studied and decided by 2002 Extraordinary Shareholders' General Meeting, the annual allowances of the two independent directors was RMB 30,000 respectively.

() Directors, supervisors and senior executives leaving the office and the reason in the report year

1. Supervisor Mr.Ruan Honglai submitted an application to resign from the post of supervisor due to work busyness in March 2002. The 1st Shareholders' General Meeting of 2002 approved the said proposal.
2. On Nov. 28, 2002, the 1st Shareholders' General Meeting of 2002 approved the proposal on engaging Zhou Chengxin and Shi Weihong as independent director of the Company.

() About employees

By the end of the year 2002, the Company had totally 1209 on-the-job employees, including 86 financial personnel, 219 administration personnel; the Company has 16 master, 121 bachelor, 171 graduated from 3-years regular college and 901 graduated from senior higher or lower. The Company needs bear the expenses of 78 retirees.

. Administrative Structure

() The Company's Administrative Structure

In 2002, the Company set up modern enterprise system strivingly and held amplify legal person administrative structure according to the relevant demand of modern enterprise system. In the report period, the Company carried out self-scrutiny on the establishment of modern enterprise system for listed company in accordance with the demand of Company Law, Securities Law, CSRC and State Economic and Trade Commission; the Company received the scrutiny on establishment of modern

enterprise system in Listed Company implemented by Shenzhen Securities Regulatory Office, performed the rectification and reform according to the scrutiny and demands.

1. Shareholders and the Shareholders' General Meeting: The Company's administrative structure could insure equal station of all shareholders especially those medium and small shareholders, and ensure the shareholders fully exerted their legal rights; in the report period, the Company held shareholders' general meeting twice, and convene, holding procedure and participator and voting procedures were in compliance with the relevant regulation of Company Law, Standardized Opinion of Shareholders' General Meeting for Listed Company and Articles of Association of the Company.

2. Controlling shareholder and the public Company: The controlling shareholder attached importance to listed company, and gave energetic support to listed company. The controlling shareholder performed their duties in a standardized way and did not overstep the Shareholders' General Meeting to interfere in the Company's decision-making and operation directly or indirectly; The Company pursued the "five separation" from its controlling shareholder in terms of business, personnel, assets, organization and finance, and the Company independently worked out, assumed the duties and risks; the Board of Directors, the Supervisory Committee and internal organizations could function independently.

3. Directors and the Board of Directors: The Company elected directors strictly according to the election and engaging procedures stipulated in the Articles of Association, and adopted accumulative voting system for the election of director; All directors exerted their duties verily, faithfully and diligently. The Company set up the Independent Director System according the demand of CSRC and Shenzhen Securities Management Office, and elected two independent directors in the 1st extraordinary shareholders' general meeting dated Nov. 28, 2002.

4. Supervisors and the Supervisory Committee: Election of the Company's shareholder supervisor and employee supervisor was compliance with the relevant law, regulation and Articles of Association of the Company, The number and formation of members of the Supervisory Committee could ensure the Supervisory Committee to effectively perform supervision function.

5. Performance Evaluation, Encouragement and Binding Mechanism: The Company set up a department of human resource, which was in charge of the job of human resource. The Company is positively preparing for establishing an fair and transparent performance evaluation, encouragement and binding mechanism for directors, supervisors and managers. Engagement of managers was in line with the relevant law, regulations and Articles of Association.

6. Relevant Beneficiaries: The Company could fully respect and safeguard the rights of banks, other creditors, employees, consumers, supplier and community, and cooperated each other actively to promote the Company's development in a sustained and healthy way.

7. Disclosing of Information and its Transparency: The Company could disclose

information in a real, accurate, complete and timely manner strictly according to the laws, regulations and the Articles of Association, and ensured equal opportunity of obtaining information for all shareholders; the Company set up secretariat of the Board of Directors, which was responsible for disclosing of informations of the Company under the the leadership of the Board of Directors.

() Performance of Independent Directors:

The Company engaged two professional majoring in accounting and law as independent directors of the Company in the 1st extraordinary shareholders' general meeting held on Nov. 28, 2002. Engement of independent director was beneficial to perfect administrative structure of legal person, improve the structure of the Board of Directors, enhance the decision-making level of the Board of Director and ensure the benefit of medium and small shareholders.

() Separation from Controlling Shareholder in Business, Personnel, Assets, Organization and Finance

1. Separation in Business: The Company was an independent a corporate body. The Company was absolutely independent from its controlling shareholder in business, and had an independent and complete business system and independent management capability. The Company has independent production, sales and service system and own leading industry. There exists no competition in the same line among the Company, controlling shareholders and related parties.

2. Separation in Personnel: The Company was absolutely independent in management of labor, human affairs, and salaries, enacted a independent administration systems. All the senior executives of the Company receive emoluments from the Company and have taken no office concurrently in the Shareholder Company.

3. Separation in Assets: The Company was strictly separated from its controlling shareholder, and they conducted completely independent management. The Company has complete and independent purchase system, production system, marketing system and the relevant service systems. The Company exclusively owns such intangible assets as industrial property rights, trademarks and non-patent technologies.

4. Separation in Finance: The Company set up an independent financial accounting department, and established a complete set of accounting systems and financial administration systems. The controlling shareholder has never interfered the Company in fund operation; The Company has opened independent bank account and has never been involved in such activities as depositing funds in the accounts of the financial company or the clearing center controlled by any of the principal shareholders or other related parties. The Company independently pays taxes according to the law.

5. Separation in Organization: The Board of Directors and the Supervisory Committee and the other inner organization operate independently. The Organization of the Company was set up according to the standardized requirements of listed company and actual business features, and took office independently.

VI. Shareholders' General Meeting

(I) 2001 Shareholders' General Meeting

The Board of Directors of the Company published the notification of holding 2001 Shareholders' General Meeting on the designated newspapers of Securities Times and Hong Kong Ta Kung Pao on April 8, 2002. On the morning of May 16, 2002, the Company held 2001 Shareholders' General Meeting of Shenzhen Tellus Holding Co., Ltd. in 3rd Floor, Yongtong Building, Renmin N. Road, Shenzhen. Two shareholders attended the Meeting, including two shareholders of A share and 0 shareholder of B share, representing 159,596,550 shares (including 159,596,550 shares of A share and 0 share of B share) and taking 72.45% of the total amount of shares, which was in compliance with the valid shares stipulated in Articles of Association. The directors, supervisors and executives above the middle-level attended the Meeting. The Meeting approved the following proposals by signed voting:

1. 2001 Annual Report and its Summary (A and B share)

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

2. 2001 Auditors' Report (domestic and overseas version)

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

3. Proposal of 2001 Profit Distribution Preplan and 2002 Profit Distribution Policy

According to 2001 Auditors' Report, the Company realized a profit after taxation of RMB 5,144,050.69 in that year, which was not enough to offset the loss of the previous year. The Board of Directors suggested to Shareholders' General Meeting: the profit as of the report year should be used to offset the operating loss of the previous year and neither profit distribution nor conversion of capital public reserve into share capital shall be implemented.

Based on the principle of steadiness, weariness and sustainable development, the Company estimated that the distribution preplan of the year of 2002 was: not to distribute profit temporarily.

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

4. 2001 Work Report of the Board of Directors

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

5. 2001 Work Report of the Supervisory Committee

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of

shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

6. Proposal on Engagement of 2002 Auditors

1) Engagement of Shenzhen Nanfang Minhe Certified Public Accountants as 2002 domestic financial auditor of the Company

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

2) Engagement of Moore Stephens (Shenzhen) Certified Public Accountants as 2002 overseas financial auditor of the Company

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

The lawyers of Beijing Tongshang Lawyers' Firm witnessed the Meeting in locale and provided Legal Position Letter with the aforesaid resolutions valid.

The Public Notice of Resolutions of 2001 Shareholders' General Meeting was published on Securities Times and Hong Kong Ta Kung Pao respectively dated May 17, 2002.

(II) The 1st Extraordinary Shareholders' General Meeting of 2002

The Board of Directors of the Company published the notification of holding the 1st Extraordinary Shareholders' General Meeting of 2002 on the designated newspapers of Securities Times and Hong Kong Ta Kung Pao on Sept. 27, 2002. On the morning of Nov. 28, 2002, the Company held the 1st Extraordinary Shareholders' General Meeting of Shenzhen Tellus Holding Co., Ltd. in the Conference Room in 5/F, Yongtong Building, Renmin N. Road, Shenzhen. Two shareholders attended the Meeting, including two shareholders of A share and 0 shareholder of B share, representing 159,596,550 shares (including 159,596,550 shares of A share and 0 share of B share) and taking 72.45% of the total amount of shares, which was in compliance with the valid shares stipulated by Articles of Association of the Company. Six directors, four supervisors and all senior executives attended the Meeting and the Meeting approved the following resolutions by signed voting:

1. Proposal on Amendment of Articles of Association

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

2. Proposal on Election of Independent Directors

Voting results:

1) Independent Director Zhou Chengxin gained 159,596,550 shares (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

2) Independent Director Shi Weihong gained 159,596,550 (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

3. Proposal on Salary and Remuneration Standard of Independent Directors

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

4. Proposal on Ruan Honglai's Resignation of the Post of Supervisor

Voting results: 159,596,550 shares agreed (including 159,596,550 shares of shareholders of A share and 0 share of shareholders of B share), 0 share was against (including 0 share of shareholders of A share and 0 share of shareholders of B share) and 0 share waived (including 0 share of shareholders of A share and 0 share of shareholders of B share). The favorable shares took 100% of the total amount of voting right of the Meeting.

The lawyers of Beijing Tongshang Lawyers' Firm witnessed the Meeting in locale and provided Legal Position Letter with the aforesaid resolutions valid.

The Public Notice of Resolutions of the 1st Extraordinary Shareholders' General Meeting of 2001 was published on Securities Times and Hong Kong Ta Kung Pao respectively dated Nov. 29, 2002.

VII. Report of the Board of Directors

(I) Analysis of effect of significant events happened in the report period or to happen on the operating results and financial status of the Company

Shenzhen Auto Industrial Trading Corporation (hereinafter referred to as Auto Industrial Trading) is a wholly owned holding enterprise of the Company. Since Shenzhen Auto Import and Export Company (hereinafter referred to as Import and Export Company), which is a subsidiary of Auto Industrial Trading, implemented system renovation. After the renovation, the equity of Import and Export Company held by Auto Industrial Trading reduced from 100% to 35% and Auto Industrial Trading no longer had control right to Import and Export Company, thus commencing from Aug. 1, 2002, Auto Industrial Trading no longer united the statements of Import and Export Company. Ended Dec. 31, 2001, the total assets of Import and Export Company were RMB 209,701,300, net assets were RMB 12,041,200 and its income from core business was RMB 589,384,000.

Besides, according to announcement of Shenzhen State Revenue Bureau, commencing from Jan. 1, 2003, the country does not levy upon value added tax according to simple measure (namely 6% levy rate) from Shenzhen general taxpayers

of value added tax engaging in the business of processing and repair and levies upon value added tax uniformly as per 17% tax rate. Thus Shenzhen Tefa Huari Auto Enterprise Co., Ltd. Repair Plant, a holding enterprise of the Company, implemented value added tax of 17% from Jan. 1, 2003. The adjustment of tax rate shall lead to the slight profit of this business of the Company and this adjustment is estimated to make the profit of 2003 of the Company decrease by RMB.

(II) Production and operation in the report period

1. Scope of core business and its operation

The core business of the Company is automobile sales, automobile repair, automobile testing, manufacture of testing equipments, property lease and car lease etc.

In the report period, according to the operating strategy of 2002, the Company had ensured the standardized running and the improved administrative mechanism and had pushed the increase of production and sales in a certain extent with reinforcement of managerial concept and strengthening the management as the start and with the reinforcement of marketing, active expansion of market and digging potential and increasing efficiency as the goal.

(1) In the report period, the income from core business of the Company was RMB 1,289,320,000 and the profit from core business was RMB 110.5 million. The income from core business was classified according to industry as follows:

Income from automobile sales: RMB 1,181.56 million Sales cost: RMB 1,129.11 million Gross profit: RMB 52.45 million

Income from automobile repair: RMB 33.87 million Repair cost: RMB 25.42 million Gross profit: RMB 8.45 million

Income from property lease: RMB 38.21 million Cost: RMB 5.87 million Gross profit: RMB 32.34 million

(2) The market share of core business and business activities taking over 10% of gross profit of core business of the Company:

The business of automobile sales and automobile repair, which was core business of the Company, was mainly in Shenzhen and the market share was 8% and 20% respectively.

Shenzhen Auto Industrial Trading Corporation, a wholly owned enterprise of the Company, accomplished an income from automobile sales of RMB 1,110.06 million, paid sales cost of RMB 1,058.97 million and realized a gross profit of RMB 51.09 million in the report period.

(3) In the report period, the core business and its structure and capability of core business experienced no material change compared with the previous report year.

2. Operation and achievement of main holding companies and share-holding companies

In the report period, the main holding and share-holding companies of the Company were: Shenzhen Auto Industrial Trading Corporation (hereinafter referred to as Auto Industrial Trading), Shenzhen Tefa New Yongtong Industrial Co., Ltd. (hereinafter referred to as New Yongtong Company), Shenzhen Huatong Automobile Co. (hereinafter referred to as Huatong Automobile), Shenzhen Tefa Tellus Property Management Co., Ltd. (hereinafter referred to as Property Company), Shenzhen Tefa Tellus Real Estate Co., Ltd. (hereinafter referred to as Real Estate Company), Shenzhen Zhongtian Industrial Co., Ltd. (hereinafter referred to as Zhongtian Company), Shenzhen Tefa Huari Automobile Co. (hereinafter referred to as Huari

Automobile) and Shenzhen Xin Yongtong Motor Vehicle Testing Equipments Company (hereinafter referred to as Testing Equipments). The core business and operation of the aforesaid holding enterprises was as follows:

Unit: RMB'0000

	Auto Industrial Trading	New Yongtong	Huatong Automobile	Property Company	Zhongtian Company	Huari Automobile	Testing Equipments	Real Estate Company
Registered capital	5,896	3,290	5,447	705	725	USD5 million	1,000	3,115
Income from core business	111,006	3,497	1,779	1,355	378	8,276	1,193	0
Profit from core business	5,010	1,057	1,226	618	323	1,325	405	0
Net profit	408	-263	-1,227	-111	67	10	-69	43

3. Major suppliers and customers

In the report period, the total amount of purchase of the top five suppliers was RMB 730 million, taking 93% of the total annual amount of purchase. The total amount of sales of the top five customers was RMB 978 million, taking 64.8% of the total annual amount of sales.

4. Difficulties and problems arising from the operation and solutions

- 1) Though the Company carried through assets replacement in 2001 and the core business had been adjusted in a comparatively large scope, but comparing with those in the same industry, each enterprise had excessive staffs with excessively high operating cost, thus making the profitability capability not strong generally. Each operating index was in the comparatively low level and lacked for new growth point of profit.
- 2) The particulars about cash flow was improved quite a lot compared with that of before the reorganization, but the parts of cash flow still had gap.
- 3) The lawsuits arising from providing guarantee for loans of Zhonghao Group and Jintian Group by the Company had still not been solved thoroughly, which became the hidden trouble of affecting the operating development of the Company.

Aiming at the aforesaid problems, the Company shall adopt the following measures to solve them:

To continues to improve the legal person's administrative structure, fully harmonize and tidy up all relationships, reinforce the market expansion and strengthen the management of leading industry so as to reduce the cost-expense rate, push the leading industry to create fast and much profit and really improve the operating profitability capability of the Company; to break through the difficulties of liabilities, solve the problem of funds necessary for the loan recovery and operating development and reorganize the existing liabilities through positively dunning credit and liquidizing and transacting stock assets so as to improve the relationship between banks and enterprises and thoroughly change the capital status of the Company; to properly deal with the bequeathal lawsuits, positively strive for the support from all sides and solve the compensation and payment risks so as to safeguard the rights and interests of the Company and create a normal and stable production and operation environment for the Company.

(III) Investment

1. In the report period, the Company had no proceeds raised through share offering or there was no such situation that the application of proceeds raised through previous share offering continuing to the report period.
2. In the report period, there was no significant project invested with proceeds not raised through share offering.

(IV) Financial status and operating results

Unit: in RMB

Items	Dec. 31, 2002	Dec. 31, 2001	Increase/decrease (%)
Total assets	1,232,230,347.02	1,368,433,164.58	-9.95
Shareholders' equity	203,523,567.11	241,238,794.25	-15.63
Long-term liabilities	10,232,148.40	8,755,542.82	16.86
Income from core business	1,289,321,184.23	703,244,863.19	83.34
Profit from core business	110,507,981.38	79,644,040.66	38.75
Net profit	-40,980,896.04	5,144,050.69	

Explanation: The decrease of total assets was due to the operating loss.

The decrease of shareholders' equity was due to the operating loss.

The increase of income from core business and profit from core business was because that the Company carried out assets replacement and only consolidated the income and profit from Aug. to Dec.2001 of posting enterprise in 2001 while consolidated the amount of the whole year in 2002.

The decrease of net profit was mainly due to the following incomparable factors: in 2001, New Yongtong transferred its equity with earnings of RMB 2.59 million, Real Estate Company transferred the property earning right of "Tellus Garden" with earnings of RMB 6.08 million and Huatong Automobile sold the 7th and 8th floor of Huatong Building with earnings of RMB 11.3 million.

(V) After China's entry to WTO, the automobile market of our country will further be open and the competition from the same industry at home and abroad is increasingly intensified, which brings certain effect and pressure to the business of the Company, thus impacting on the production and operation of the Company.

Since Shenzhen Government has adjusted the value added tax rate of the automobile repair industry and has increased the value added tax rate of automobile repair industry from 6% to 17%, which affects a certain influence on the profit of the Company.

(VI) Business plan of 2003

The guiding thought of the operating and business development of the Company in 2003 is: according to the regulations of standardizing the legal person's administrative structure of listed companies, to continue to standardize the legal person's administrative structure of the Company, improve the formation of the Board of Directors and improve the Independent Director System; to further standardize the whole running of the Company with market as direction, with standardization as premise, with efficiency as center and with reform as means, effectively bring the function of each functional department into play and really safeguard the interests of shareholders. To be specific, to strengthen the internal management and cost control, reduce the expense and reinforce the efficiency of management; to raise the service quality and service level, positively expand the market and enlarge the market share

and establish the service brand; to further reduce the accounts receivable and inventory, positively push the financing process and improve the operating environment of the Company.

(VII) Routine work of the Board of Directors

Meetings of the Board of Directors and resolutions in the report period

The Board of Directors totally held seven meetings in 2002 with details as follows:

1) The 7th meeting of the 3rd Board of Directors was held in 3/F, Yongtong Building, Luohu District, Shenzhen on the afternoon of April 3, 2002. Seven directors should be present at the meeting and actually five directors attended the meeting and there was one entrusted authorization representative. The members of the Supervisory Committee and relevant senior executives attended the meeting as nonvoting delegates. The meeting examined and approved the following issues: 2001 Annual Report and its Summary (A and B share); 2001 Auditors' Report (domestic and overseas version); Proposal on 2001 Profit Distribution Preplan and 2002 Estimated Profit Distribution Policy; 2001 Work Report of the Board of Directors; Proposal on Engagement of 2002 Auditors; Proposal on Adopting the Same Accounting Policy and Accounting Estimation by Shareholders of A and B Share; Proposal on Holding 2001 Shareholders' General Meeting. The aforesaid resolutions were published on Securities Times and Hong Kong Ta Kung Pao dated April 8, 2002.

2) The 2nd extraordinary meeting of 2002 of the Board of Directors was held by means of communication on April 23, 2002. Six directors voted, taking 85.71% of the total amount of directors. The meeting examined and approved The 1st Quarter Report of 2002 of Shenzhen Tellus Holding Co., Ltd. (including Financial Report Statements). The aforesaid resolutions were published on Securities Times and Hong Kong Ta Kung Pao dated on April 25, 2002.

3) The 8th meeting of the 3rd Board of Directors was held in 4/F, Tellus Building, No.56, Shuibei Er Road, Shenzhen on June 28, 2002. Seven directors should be present at the meeting and actually five directors attended the meeting, taking 71.43% of the total amount of directors. The members of the Supervisory Committee attended the meeting as nonvoting delegates. The meeting examined and approved the following issues: Proposal on Nomination of Candidates of Independent Directors and Proposal on Salary and Remuneration Standard of Independent Director. The aforesaid resolutions were published on Securities Times and Hong Kong Ta Kung Pao dated June 29, 2002.

4) The 3rd extraordinary meeting of 2002 of the Board of Directors was held in the Conference Room in 2/F of Tefa Gulf on July 19, 2002 and six directors attended the meeting, taking 85.71% of the total amount of directors. The meeting decided to stop the Equity Transfer Agreement on transferring 70% equity of Shenzhen Huatong Automobile Co. held by the Company signed with Shenzhen Pingtai Investment Development Co., Ltd. on March 5, 2002. The aforesaid resolutions were published on Securities Times and Hong Kong Ta Kung Pao dated July 20, 2002.

5) The 4th extraordinary meeting of 2002 of the Board of Directors was held in the Conference Room in 4/F, Tellus Building on Aug. 8, 2002 and seven directors all attended the meeting voted. The meeting examined and approved 2002 Semi-annual Report of Shenzhen Tellus Holding Co., Ltd. and its Summary (domestic and overseas version). The aforesaid resolutions were published on Securities Times and Hong Kong Ta Kung Pao dated Aug. 17, 2002.

6) The 9th meeting of the 3rd Board of Directors was held in 4/F, Tellus Building, Shuibei Er Road, Shenzhen on the morning of Sept. 25, 2002. All seven directors

attended the meeting and the meeting examined and approved the following resolutions: Rectification Report on Establishment of Modern Enterprise System; Amendment of Articles of Association and Notification on Holding the 1st Extraordinary Shareholders' General Meeting of 2002 of Shenzhen Tellus Holding Co., Ltd.. The aforesaid resolutions were published on Securities Times and Hong Kong Ta Kung Pao dated Sept. 27, 2002.

7) The 5th extraordinary meeting of 2002 of the Board of Directors was held on Oct. 24, 2002 by means of communication and seven directors all voted. The meeting examined and approved The 3rd Quarter Report of 2002 of Shenzhen Tellus Holding Co., Ltd. (including Financial Report Statements). The aforesaid resolutions were published on Securities Times and Hong Kong Ta Kung Pao dated Oct. 25, 2002.

VIII. REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee held altogether 8 meetings in the report year, which main content was: examined and approved Annual Work Report of the Supervisory Committee, Annual Work Report of the Board of Directors, Semi Annual and Annual Financial Report and their Summary, Annual Profit Distribution Proposal, Proposal on Engaging Auditing Institutions, Proposal on Holding Annual Shareholders' General Meeting and Proposal on Election at Expiration of Office Terms.

Independent opinions of the Supervisory Committee:

1. Opinion on operation according to law

According to Company Law, Securities Law, Articles of Association and other relevant laws and regulations, the Supervisory Committee supervised over the procedure of holding and resolutions of the Shareholders' General Meeting, the Board of Directors, implementation of resolutions of the Shareholders' General Meeting by the Board of Directors, implementation of duties of senior executives of the Company and the Company's management system and found no actions of breaking laws, regulations and Articles of Association and damaging the interest of the shareholders and the Company when the directors and senior executives of the Company implemented their duties.

2. Opinion on inspection of the Company's financing

The Supervisory Committee inspected patiently and carefully the financial system and financial status of the Company and believed that 2002 Financial Report of the Company could reflect truly the financial status and operation result of the Company. Shenzhen Nanfang Minhe Certified Public Accountants and Ma Shiyun (Shenzhen) Certified Public Accountants has issued auditor's report with non-reservation opinion.

3. Opinion on investment item of raised capital of the Company

In the report period, the Company had no raised capital.

4. Opinion on purchase and sale of assets of the Company

In the report period, the Company had no significant purchase and sale of assets.

5. Opinion on related transaction

In the report period, the Company had related transaction.

. SIGNIFICANT EVENTS

(I) Material lawsuit and arbitration

Lawsuits and arbitrations in the report period:

1.The Company loaned RMB 21,500,000 from China Merchants Bank Shenzhen Dongmen Sub-branch, which was guaranteed by the principal shareholder, SDG. Due to not repaying on schedule by the Company, Merchants Bank lodged a complaint to Shenzhen Municipal Intermediate People's Court. Through cognizance of Shenzhen Municipal Intermediate People's Court, it judged that the Company should repay the principal and the corresponding interest and SDG should take the joint guarantee responsibility. The Company has published public notice on material lawsuit events on Securities Times and Ta Kung Pao dated Apr.13, 2002.

The Company has signed repayment agreement with the creditor and started implementation.

2. The Company signed Equity Assignment Contract to transfer 70% equity of Shenzhen Huatong Automobile Company, the subsidiary of the Company with Shenzhen Pingtai Investment & Development Co., Ltd. Because of change of condition, the Company put forward to end Equity Assignment Contract. So, the assignee lodged a complaint to Shenzhen Municipal Intermediate People's Court and appealed the court to judge that Equity Assignment Contract was invalid and the Company supply and deal with the registration procedure of equity change. The Company has published public notice on material lawsuit events on Securities Times and Ta Kung Pao dated Aug.1, 2002.

The case is still in the cognizance.

Explanation on the resolve of the initial material lawsuit and arbitration of the Company is as follows:

1.In implementing the judgment of the case that Zhonghao (Group) Ltd. (hereinafter referred to as "Zhonghao") failed to repay Shenzhen Development Bank the loan amounting to RMB 10 million, guaranteed by the Company, Shenzhen Municipal Intermediate People's Court has sealed up a story industrial warehouse, five stories of industrial workshops and one residence apartment of the Company. The Company has paid RMB 5 million due interest and concerning the other principal and interest of guaranteed loan amounting to RMB 11,500,000, the Company signed Loan Agreement with the bank guaranteed in the aforesaid guaranty. Recently the bank imploded again to Shenzhen Municipal Intermediate People's Court as the reason that the Company could not repay debt on schedule. The case has not been judged yet.

2. Shenzhen Development Bank submitted a lawsuit against Zhonghao (Group) Ltd. for failure in repaying the loan amounting to RMB 5 million, guaranteed by the Company in due time. Guangdong Provincial High People's Court affirmed the original judgment after the second trial: Zhonghao (Group) Ltd. shall repay the principal and the interest of the loan and the Company shall take the joint responsibility.

Recently, Shenzhen Municipal Intermediate People's Court conducted public sale of 2,900,000 shares of Merchants Bank held by the Company to repay the debt in place.

3.CITIC Bank submitted a lawsuit against Gintian Industry (Group) Co., Ltd. (hereinafter referred to as Gintian) for failure in repaying the loan amounting to RMB 3 million, guaranteed by the Company in due time. Shenzhen Municipal Intermediate

People's Court has made judgment that Gintian shall repay the principal and the interest of the loan and the Company shall take the joint responsibility.

4. Shenzhen Development Bank submitted a lawsuit against Zhonghao (Group) Ltd. for failure to repaying the loan amounting to USD 2 million, which was guaranteed by the Company, in due time. Shenzhen Municipal Intermediate People's Court has sealed up 95% equity of Xinyongtong Industrial Company owned by the Company and partial equity and properties in Guangzhou and Shenzhen owned by Gintian.

5. For the dispute case concerning the Joint Property Construction Contract brought by Tellus Real Estate Company against Shenzhen Jinlu Industrial and Trade Company (Jinlu Company), Futian District People's Court increased Guangzhou Military Area Shenzhen Property Administrative Department (GMAA) as the third party according to the law after receiving the case. It was ruled by Futian District People's Court that the contract was of no effect; GMAA shall repay Jinlu Company RMB 9.8 million principal and interest, which shall be transferred to the plaintiff within three days of the reception by Jinlu Company. GMAA applied for further trial that was allowed, and the original judgment was cancelled during the retrial. Since the target of the litigation was located out of Futian Dis., the second trial is undertook by Shenzhen Municipal Intermediate People's Court without holding court so far.

(II) In the report period, the Company has no events of purchase and sale of assets, consolidation and merge.

(III) Significant related transaction

1. In the report period, the Company has no related transaction of purchase and sale of commodity and supply of labor and service with the related parties.

2. In the report period, the Company has no related transaction of transfer of assets and equity with the related parties.

3. On credit and liability and guarantee between the Company and the related parties, please read note of accounting statement for detail.

(IV) In the report period, the Company has no significant trusteeship and contract of other companies' assets and vice visa. The Company has no significant external guarantee events, has not entrusted others to manage cash assets and has no entrusted loan. In the report period, the Company has no other significant contracts.

(V) Other Significant Events

1. Commitment of the principal shareholder

(1) Before being transferred into the Company by assets exchange, Shenzhen Huatong Mobile Company had offered guarantee to SDG, the principal shareholder of the Company, for a loan of RMB 20 million. In the process of the assets exchange, SDG promised to remove the guarantee of Huatong Automobile Company upon the expiration of the loans. By the end of Aug.31, 2002, the loan has been at expiration and the guarantee liability has been removed by Huatong Automobile Company.

(2) The Company and its subsidiary, Shenzhen SD Tellus Real Estate Company has offered guarantee to four companies, including Shenzhen Mechanical Industry and Commerce Co., Ltd. and Shenzhen SD Huatong Packaging Industrial Co., Ltd. etc. for loans totaling RMB 37.17 million. The Company promised to remove the guarantee liability gradually upon the expiration of the loans. By the end of Dec. 31,

2002, guarantee liability by the Company and its subsidiary has been removed.

(3) In 1997, the Company transferred equity of Telongfa Company, the subsidiary of the Company, to SDG and other business and it produced credit to the principal shareholder. By the end of Dec. 31, 2001, SDG still owed RMB 112,350,000 to the Company.

Related creditors and SDG negotiated to change from credit to share equity to the principal shareholder on the balance of part short-term loan and interest payable. Because the work of debt-to-equity swap is in the process, SDG made commitment not reversible as follows on the debt owed to the Company of RMB 144,670,945.40 ended as of Apr.30, 2000:

SDG takes in charge of dealing with the legal procedure of debt-to-equity swap as soon as possible. If debt-to-equity swap is not implemented due to any reason, SDG will accept the aforesaid bank debts and corresponding interest of the Company to repay the debts SDG owed to the Company. The commitment letter is subject to Chinese law and binds SDG.

2. Engagement of Certified Public Accountants

In the report period, the Company reengaged Shenzhen Nanfang Minhe Certified Public Accountants as domestic financial audit institution of 2002 and engaged Ma Shiyun (Shenzhen) Certified Public Accountants as overseas financial audit institution of 2002. The domestic and overseas audit expense was totally RMB 550,000. At present, the two Certified Public Accountants have provided auditing service for the Company for consistent two years.

3. In the report period, the Company, the Board of Directors and the directors of the Company have not been checked by CSRC, have no administrative punishment and circling criticism by the CSRC and not been publicly accused by Stock Exchange.

From Aug.2 to 6, 2002, Shenzhen Securities Regulatory Office inspected the establishment of modern enterprise system by the Company and released Notification of Correction in Stipulated Period of Shenzhen Tellus Holding Co., Ltd. (called Correction Notification) with SZBFZI [2002] NO.218 to the Company on Aug.22, 2002.

The Company highly paid attention to the inspection of the administrative structure in listed companies. After receiving Correction Notification, for the problems put forward in Correction Notification, the Company established item by item and carried out correction measure according to Company Law, Securities Law, Administration Rules for Listed Companies, Guide Opinion on Establishing Independent Directors in Listed Companies and other laws and regulations and held respectively the Board of Directors and the Supervisory Committee on Sep.25, 2002 and examined and approved Correction Report. The public notice on resolution of the Board of Directors was published on Securities Times and Ta Kung Pao dated Sep.27, 2002.

(VI) Disclosed items of the Company

1.The public notice on the estimated profit of 2001 was published on Securities Times and Ta Kung Pao dated Feb.2, 2002.

2.The public notice on agreement of transferring 70% equity of Shenzhen Huatong Automobile Company(100% equity was held by the Company) to Shenzhen Pingtai Investment & Development Co., Ltd. was published on Securities Times and Ta Kung Pao dated Mar.8, 2002.

3.The public notice on neither distributing profit nor transferring capital public

reserve to share capital in 2001 was published on Securities Times and Ta Kung Pao dated Apr.8, 2002.

4.The public notice on announcement of independent directors' candidates of the Company and remuneration standard of independent director was published on Securities Times and Ta Kung Pao dated June 29, 2002.

5.The public notice on decision of ending Equity Assignment Agreement about transferring 70% equity of Shenzhen Huatong Automobile Company held by the Company signed with Shenzhen Pingtai Investment & Development Co., Ltd. on Mar.5, 2002 was published on Securities Times and Ta Kung Pao dated July 19, 2002.

6.The public notice on Ruan Honglai's Resigning post as supervisor due to busy work was published on Securities Times and Ta Kung Pao dated Aug.31, 2002.

7.Proposal on Correction Report of Establishing Modern Enterprise System examined and approved by the 9th meeting of the 3rd Board of Directors, Proposal on Amendment of Articles of Association and the resolutions of the Board of Directors was published on Securities Times and Ta Kung Pao dated Sep.27, 2002.

8.The public notice on the estimated losses of 2002 was published on Securities Times and Ta Kung Pao dated Dec.5, 2002.

9.The public notice on commitment of offsetting debts of the principal shareholder was published on Securities Times and Ta Kung Pao dated Dec.6, 2002.

10. The public notice on the equity of the Company held by the biggest shareholder being frozen was published on Securities Times and Ta Kung Pao dated Jan.28, 2003.

X. FINANCIAL REPORT

(Attachment)

XI. DOCUMENTS FOR REFERENCE

Complete sets of documents are placed in the Company's office for the reference of the CSRC, SSE, relevant authorities and all shareholders, including:

1. Original of 2002 Financial Statements carried with the signatures and seals of the legal representative, Financial Supervisor and manager of Accounting Dept.;
2. Original of the Auditors' Report carried with the seal of the Certified Public Accountants as well as the signatures and seals of certified public accountants; Original of the Auditors' Report prepared under the International Accounting Standards carried with the seals of overseas Certified Public Accountants (Chinese and English version).
3. Original of the Company's documents and manuscripts of the public notices disclosed in the newspapers designated by the CSRC;
4. Annual Report or its summary published in other stock exchange.

Signature of Chairman of the Board: _____

**Board of Directors of
Shenzhen Tellus Holding Co., Ltd.
April 15, 2003**

SHENZHEN TELLUS HOLDING COMPANY LIMITED
(Incorporated in the People's Republic of China)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

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**REPORT OF AUDITORS TO THE SHAREHOLDERS OF SHENZHEN TELLUS
HOLDING COMPANY LIMITED**
INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA

We have audited the accompanying consolidated balance sheet of Shenzhen Tellus Holding Company Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2002 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements set out on pages 3 to 28 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2002 and of the results of operations and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Group incurred a net loss of RMB63,578,000 during the year ended 31 December 2002 and, as of that date, the Group's current liabilities exceeded its current assets by RMB361,154,000. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Moore Stephens Shenzhen Nanfang Minhe
Certified Public Accountants

11 April 2003

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>Note</u>	<u>2002</u> <u>RMB'000</u>	<u>2001</u> <u>RMB'000</u>
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Turnover	4	1,289,321	703,245
Cost of sales		(1,178,813)	(623,601)
Gross profit		110,508	79,644
Other operating income		25,955	32,919
Distribution costs		(41,690)	(24,354)
Administrative expenses		(78,094)	(52,919)
Other operating expenses		(49,763)	(10,472)
(Loss)/profit from operations	5	(33,084)	24,818
Finance costs	6	(30,026)	(24,312)
Income from associates		3,588	2,472
Income from investments		2,408	2,660
Gain from disposal of subsidiaries		--	226,598
(Loss)/profit before tax		(57,114)	232,236
Income tax expense	7	(2,201)	(2,129)
(Loss)/profit after tax		(59,315)	230,107
Minority interest		(4,263)	(2,022)
Net (loss)/profit for the year		(63,578)	228,085
(Loss) / profit per share	8		
Basic		RMB (0.29)	RMB1.04
Diluted		N/A	N/A

The notes on pages 7 to 28 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2002

Note	2002	2001
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		RMB'000	RMB'000
Non-current assets			
Goodwill	9	34,824	40,538
Intangible assets	9	--	1,151
Property, plant & equipment	10	458,461	468,414
Interests in associates	12	33,234	25,279
Long-term investments	13	57,548	78,090
		584,067	613,472
Current assets			
Properties held for sale	14	86,912	81,634
Inventories	15	54,329	195,135
Accounts receivable and prepayments		115,762	199,151
Amount due from ultimate holding company	16	98,482	105,795
Cash and bank balances		213,558	96,504
		569,043	678,219
Current liabilities			
Accounts payable		90,357	261,241
Accruals and other payables		190,313	143,554
Provision for staff welfare		8,450	8,829
Bills payables	17	173,000	45,000
Bank loans	18	283,663	369,748
Other loans	19	179,642	174,222
Tax payable		4,772	10,507
		930,197	1,013,101
Net current liabilities		(361,154)	(334,882)
		222,913	278,590
Capital and reserves			
Share capital	20	220,282	220,282
Reserves	21	(25,112)	34,513
Minority interests		27,743	23,795
		222,913	278,590

The financial statements on pages 3 to 28 were approved and authorized for issue by the Board of Directors on 11 April 2003.

Director

Director

The notes on pages 7 to 28 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

		2002	2001
	Note	RMB'000	RMB'000
OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		1,482,025	741,907
Other cash received relating to operating activities		45,436	43,688
Cash paid for goods and services		(1,237,914)	(609,188)
Cash paid to and on behalf of employees		(67,312)	(43,721)
Taxation paid		(32,382)	(22,089)
Cash paid relating to other operating activities		(69,441)	(52,679)
Interest paid		(23,396)	(27,778)
Net cash from operating activities		97,016	30,140
INVESTING ACTIVITIES			
Cash received from disposal of investments		13,577	7,512
Dividends received and interest received		4,959	1,058
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		13,643	3,602
Other cash received relating to investing activities		20,000	28,279
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(15,777)	(8,064)
Cash paid to acquire investments		(2,569)	--
Cash paid relating to other investing activities		(114,682)	(887)
Net cash (used in)/ from investing activities		(80,849)	31,500
FINANCING ACTIVITIES			
Proceeds from borrowings		191,820	181,300
Other cash received relating to financing activities		2,520	--
Repayments of borrowings		(201,557)	(178,760)
Cash paid relating to other financing activities		(349)	--
Net cash (used in)/from financing activities		(7,566)	2,540
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year	22	96,504	32,324
Cash and cash equivalents at end of year	22	105,105	96,504

The notes on pages 7 to 28 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2002

	Share capital	Share premium	Asset revaluation reserve	Staff welfare fund	General reserve	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1/1/2001	220,282	124,248	32,436	3,210	55,480	(160)	(414,946)	20,550
Prior year adjustment						160	6,000	6,160
As restated	220,282	124,248	32,436	3,210	55,480	--	(408,946)	26,710
Profit for the year							228,085	228,085
At 31/12/2001	220,282	124,248	32,436	3,210	55,480	--	(180,861)	254,795
Loss for the year							(63,578)	(63,578)
Addition			3,953					3,953
At 31/12/2002	220,282	124,248	36,389	3,210	55,480	--	(244,439)	195,170

a. PRC laws and regulations restrict the distribution of share premium and asset revaluation reserve in the form of cash dividends to shareholders.

b. PRC laws and regulations require companies to make appropriations to certain statutory reserves from net profit after taxation as reported in the statutory accounts. These statutory reserves include the staff welfare fund and the general reserve which are designated for specific purposes and are not distributable in the form of cash dividends.

c. Asset revaluation reserve of RMB32,436,000 represents surplus of revaluation of assets acquired at the time the Company listed its shares on the "A" shares stock exchange market.

The notes on pages 7 to 28 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

1. GENERAL INFORMATION OF THE COMPANY

Shenzhen Tellus Machinery Co. Ltd. was established in Shenzhen, the People's Republic of China (the "PRC") on 18 March 1982 as a state-owned enterprise. On 11 December 1992, the Shenzhen Municipal People's Government approved the reorganization of Shenzhen Tellus Machinery Co. Ltd. to become a public limited stock company. Shenzhen Tellus Machinery Co. Ltd. changed its name to Shenzhen Tellus Holding Company Limited (the "Company") on 30 June 1994. The Company and its subsidiaries are collectively referred to as the "Group".

On 31 March 1997, with the approval of Shenzhen Municipal People's Government and China Security Regulatory Commission, Shenzhen Investment Administrative Company transferred 159,588,000 shares of the Company to Shenzhen Special Economic Zone Development (Group) Company. The shares transferred represent 72.45% of the issued shares of the Company.

In 2001, the Group had undergone large scale company restructuring and exchange of assets with its majority shareholder namely Shenzhen Special Economic Zone Development (Group) Company.

The principal activities of the Group are automobile repairing, inspection and other services, the manufacture and sale of machinery, electronic and electrical appliances, property development and management, and import and export trading businesses.

2. BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board under the historical cost basis except as disclosed in the accounting policies set out below. The accounting policies adopted by the Company under IFRS differ from the accounting policies used in the financial statements of the Group which were prepared in accordance with Accounting Standards for Enterprise Business and Accounting Systems for Enterprise Business in the PRC. Adjustments to restate the results of operations and the net assets in compliance with IFRS will not be taken up in the accounting books of the companies in the Group. Details of impacts of such adjustments on the net assets as at 31 December 2002 and net loss for the year ended are included in note 28 to the financial statements.

The directors have prepared the financial statements on the going concern basis. As a result of a loss incurred during the year ended 31 December 2002 in the amount of RMB63,578,000, current liabilities exceeded current assets as at that date by RMB361,154,000. The directors have successfully negotiated with the banks to extend the substantial part of the bank loans which have fallen or are falling due by another year. In addition, the directors are currently engaged in negotiation with the ultimate holding company and creditors in respect of the assignment of the loan owing to the ultimate holding company totaling RMB164,442,000, inclusive of interest of RMB11,511,612. The ability of the Company and the Group to continue as a going concern is dependent upon their future profitable operations, the continuing support of the bankers and the ultimate holding company. If the Company and the Group were not a going concern, non-current assets will not realize their full values and further liabilities will arise. In addition, non-current assets and non-current liabilities will be reclassified as current. The directors believe that it is appropriate with the available information for the financial statements to be prepared as a going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the effective date of acquisition or up to the

effective date of disposal, as appropriate. The results of operations of subsidiaries are included in the consolidated income statement and the share attributable to minority interests is excluded from the consolidated net profit. All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates plus the unamortized goodwill less capital reserves on acquisition of the associates.

In the Company's balance sheet the investment in associates are stated at cost less provision, if necessary, for impairment.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis over its estimated useful life of 10 years.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognized as income on a

straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognized as income immediately.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet as a deduction from assets.

Intangible assets

Intangible assets represent the cost of acquisition of taxi licenses and computer software and are stated at cost less amortization and provision, if any, for impairment. Amortization is provided to write off the cost of taxi licenses over the license period granted by relevant authorities, namely 10 years, by equal installments. Amortization is provided to write off the cost of computer software over 5 years.

Property, plant & equipment

Property, plant & equipment except construction in progress is stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. When an asset is sold, its cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the profit and loss account.

Depreciation is provided to write off the cost of property, plant & equipment over their estimated useful lives on a straight-line basis. Estimated useful lives are summarized as follows:

Land and buildings	35 years
Furniture, fixture and office equipment	7 years
Motor vehicles	7 years
Plant and machinery	10 to 13 years

Construction-in-progress represents plant and properties under construction and includes the costs of construction plus interest charges arising from borrowings used to finance the construction during the construction period. No depreciation is provided for construction-in-progress until they are completed and put in use.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at cost less accumulated depreciation and any impairment losses just as property, plant & equipment.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties held for sale

Properties held for sale and properties under development are stated at costs including the cost of land use rights, construction and interest charges arising from borrowings used to finance the development of these properties during the construction period. Provision for impairment is made when it is expected that the total costs will exceed the sale proceeds.

When land use rights designated for property development are sold, the related transfer fee payable thereon is accrued. Provisions for these amounts are made based on management assessment of the ultimate amounts payable, after taking into account advice from the Shenzhen Land Bureau.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Long-term investments

Long-term investments where the Group is not in a position to exercise significant influence or exert control are stated at cost less provision for impairment losses recognized, where investments' carrying amounts exceed their estimated recoverable amounts.

Long-term investments are recognized on a trade-date basis and are initially measured at cost, including transaction costs.

Long-term investments in equity and debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

Retirement benefit cost

In accordance with local government regulations, the Group is required to make contributions to a retirement insurance fund which is administered by the local social security bureau in accordance

with government regulations. The amount of contributions is determined at a fixed percentage of the basic salaries of the Group's existing PRC staff.

Retirement benefits are paid directly from the fund and are calculated based upon a retired employee's basic monthly salary and their number of years' service.

The amount charged to the income statement represents the amount of contribution payable to the scheme by the Group.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Foreign currency transactions are converted at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these transactions are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries maintained in foreign currencies are translated at exchange rates ruling on the balance sheet date. Exchange difference arising on consolidation, if any, are dealt with in reserves.

Turnover and revenue recognition

Turnover represents the invoiced value of goods supplied and services performed, and properties sold to customers outside the Group, net of discounts, return and sale taxes.

Sales of goods are recognized when goods are delivered and title has passed.

Service income is recognized when the services are rendered.

Income from sales of properties together with the interest earned on deposits from the installment sales of flats are recognized upon the execution of a binding sales agreement or upon the issuance of an occupation permit completion certificate by the relevant authority, whichever is the later. Deposits received from forward sales of properties are carried in the balance sheet under current liabilities. Installment sales of developed properties are recognized to the extent that installments are received or become due under the relevant sales contracts.

Rental income, including rental invoiced in advance from properties under operating leases, is recognized on a straight-line basis over the terms of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Deferred income tax

Deferred taxation is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. It is recognized in the financial statements to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

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

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalization.

All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank balances and time deposits

(Loss)/profit before tax	(57,114)	232,236
Income tax expense	<u>(2,201)</u>	<u>(2,129)</u>
(Loss)/profit after tax	(59,315)	230,107
Minority interest	<u>(4,263)</u>	<u>(2,022)</u>
Net (loss) / profit for the year	<u>(63,578)</u>	<u>228,085</u>

4.TURNOVER AND SEGMENT INFORMATION (-continued)

	Manufacturing and others		Property development and management		Import and export trading		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'00</u>	<u>RMB'00</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
OTHER INFORMATION								
Segment assets	315,810	326,572	337,254	324,894	436,374	570,630	1,089,438	1,222,096
Interests in associates	--	--	26,296	25,279	6,938	--	33,234	25,279
Unallocated corporate assets							<u>30,438</u>	<u>44,316</u>
Consolidated total assets							<u>1,153,110</u>	<u>1,291,691</u>
Segment liabilities	175,545	163,409	461,559	440,629	293,093	408,963	<u>930,197</u>	<u>1,013,001</u>
Capital expenditure	12,925	3,835	746	489	5,009	3,739		
Depreciation	10,157	8,283	6,935	7,583	4,223	9,739		
Non-cash expenses other than depreciation	4,211	4,540	1,835	1,364	914	1,280		

The average number of employees for the year for each of the Group's principal divisions was as follows:

	<u>2002</u>	<u>2001</u>
Manufacturing and others	187	214
Property development and management	999	1,036
Import and Export trading	<u>282</u>	<u>272</u>

<u>1,468</u>	<u>1,522</u>
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5. (LOSS) / PROFIT FROM OPERATIONS

(Loss) / profit from ordinary activities is stated after charging / (crediting)

	2002 RMB'000	2001 RMB'000
Amortization	6,960	6,699
Staff costs	67,312	43,721
Depreciation	25,554	29,858
Provision for impairment losses of assets:		
- long-term investments	1,960	127
- accounts receivable	6,588	(3,761)
- inventories	5	(578)
- property, plant & equipment	4	22
Exchange losses	139	159

6. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest expenses	<u>30,026</u>	<u>24,312</u>

7. INCOME TAX EXPENSE

	2002 RMB'000	2001 RMB'000
Income tax for the year	<u>2,201</u>	<u>2,129</u>

Income tax is calculated in accordance with applicable income tax regulations and at 15% (2001: 15%) of the estimated assessable profit determined in accordance with the accounting principles and the relevant financial regulations applicable to enterprises in the PRC.

Reconciliation to the domestic tax expense as follows:

	2002 RMB' 000	2001 RMB' 000
Accounting profit under IFRS	(57, 114)	232,236
Difference arising from accounting policies based on IFRS	<u>22, 811</u>	<u>(227, 355)</u>
Accounting profit under Accounting Standards for Enterprise Business of the PRC	<u>(34, 303)</u>	<u>4,881</u>
Tax at the domestic rate of 15%	--	732
Net tax effect of expenses not deductible for tax purposes and other factors	<u>2, 201</u>	<u>1,397</u>
Tax expense	<u>2, 201</u>	<u>2,129</u>

In respect of tax losses carried forward in the amount of RMB44,479,000 (2001:RMB16,364,000), no deferred tax asset was recognized because, from a current perspective, a tax benefit will probably not be realizable within a reasonable period. Events in future business years may require an adjustment to deferred tax assets.

8. (LOSS) / PROFIT PER SHARE

(a) The calculation of basic (loss) / profit per share is based on the consolidated loss of RMB63,578,000 (2001: profit of RMB228,085,000) and on the 220,281,600 shares (2001: 220,281,600 shares) in issue during the year.

(b) During the year ended 31 December 2002 and 2001, there were no dilutive potential shares. Fully diluted (loss) / profit per share are not disclosed.

9. GOODWILL AND INTANGIBLE ASSETS

	Intangible assets RMB'000	Goodwill RMB'000
At 1 January 2002	1,151	40,538
Amortization for the year	(1,151)	(4,177)
Transfer	--	(1,537)
At December 31, 2002	--	34,824

10. PROPERTY, PLANT & EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Furniture fixture, plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At January 1, 2002	521,830	27,971	34,475	21,921	14,155	--	620,352
Additions	10,687	6,030	2,286	10,015	1,144	355	30,517
Valuation	3,953	--	--	--	--	--	3,953
Disposals	(16,783)	--	(1,427)	(2,615)	(2,378)	--	(23,203)
At December 31, 2002	519,687	34,001	35,334	29,321	12,921	355	631,619
Depreciation							
At January 1, 2002	85,145	19,013	19,927	15,252	8,979	--	148,316
Charge for the year	15,558	4,240	2,371	2,400	985	--	25,554
On disposals	(5,335)	--	(39)	(1,986)	(1,410)	--	(8,770)
At December 31, 2002	95,368	23,253	22,259	15,666	8,554	--	165,100
Provision for impairment							
At January 1, 2002	3,600	--	22	--	--	--	3,622
Additions	4,432	--	4	--	--	--	4,436
At December 31, 2002	8,032	--	26	--	--	--	8,058
Net book value							
At December 31, 2002	416,287	10,748	13,049	13,655	4,367	355	458,461
At December 31, 2001	433,085	8,958	14,526	6,669	5,176	--	468,414

Certain properties have been leased as investment properties that have been included in the property, plant & equipment stated in the balance sheet.

	Investment properties RMB'000
Cost	
At January 1, 2002	306,503

Additions	6,745
Disposals	(7,395)
At December 31, 2002	<u>305,853</u>
Depreciation	
At January 1, 2002	43,034
Charge for the year	8,807
On disposals	(283)
At December 31, 2002	<u>51,558</u>
Net book value	
At December 31, 2002	<u>254,295</u>
At December 31, 2001	<u>263,469</u>

The Group's leasehold land and buildings including investment properties as above are being held in the People's Republic of China under medium term leases. Certain properties have been pledged as security for the Group's bank loans (see note 24).

Management did not hire professional valuers and could not get information relating to recent sale of equivalent properties in the area.

11. SUBSIDIARIES

Subsidiaries held at 31 December 2002:

Company name	Registered capital RMB'000	Proportion of shares held		Principal activities	Consolidated or not
		2002	2001		
Shenzhen Te Fa Tellus Property Management Co. Ltd.	7,050	100%	100%	Provision of services and management of industrial districts and employee's residential quarters	Yes
Shenzhen Te Fa Tellus Real Estate Development Co. Ltd.	31,150	100%	100%	Property development and sale of properties	Yes
Shenzhen Tellus Xin Yong Tong Automobile Dev. Co. Ltd.	32,900	100%	100%	Manufacturing and sale of automobile testing equipment, provision of repairs and inspection services	Yes
Shenzhen Zhong Tian Industry Co. Ltd.	7,250	100%	100%	Leasing of property	Yes
Shenzhen Automobile Machinery Industry and Trading Co. Ltd.	58,960	100%	100%	Sale of automobile and fittings, Property development	Yes
Shenzhen Te Fa Hua Ri Automobile Co. Ltd.	USD5,000	60%	60%	Provision of automobile repairs and inspection services, Manufacturing and sale of automobile fitting	Yes

Shenzhen Hua Tong Automobile Co. Ltd.	54,470	100%	100%	Leasing of automobile, sale of automobile fitting	Yes
Shenzhen Tellus Real Estate Trading Co. Ltd.	2,000	100%	100%	Properties trading agency	Yes

12. INTERESTS IN ASSOCIATES

	2002 RMB'000	2001 RMB'000
Share of net assets	33,042	24,225
Amount due from associates	1,182	1,054
Amount due to associates	(990)	--
	<u>33,234</u>	<u>25,279</u>

12. INTERESTS IN ASSOCIATES (continued)

As at 31 December 2002, associates were:

Company name	Principal activities	Proportion of shares held
Shenzhen Xing Long Mechanical Models Co.	Manufacturing and sale of steel moulds for plastic products	50%
Shenzhen Far East Machinery Co. Ltd.	Manufacturing and sale of suitcases and plastic products	20%
Bao Gung Group Shenzhen Da Xi Yang Welding Electrodes Co.	Manufacturing and sale of welding electrode products	20%
Shenzhen Automobile Industry Import and Export Co.	Automobile import and export	35%
Shenzhen Biao Yuan Automobile Maintenance Co. Ltd.	Provision of automobile repairs and inspection services	35.84%

13. LONG-TERM INVESTMENTS

	2002 RMB'000	2001 RMB'000
Unlisted shares, at cost	91,744	107,124
Listed shares, at cost	7,398	10,317
Debt securities	121	405
Less: provision for impairment	(41,715)	(39,756)
	<u>57,548</u>	<u>78,090</u>

The unlisted shares are not available for sale to the public. In the opinion of the directors, the carrying values of them are not less than their fair values. Therefore, further provision for impairment losses for the investments is not necessary.

14. PROPERTIES HELD FOR SALE

	2002 RMB'000	2001 RMB'000
Developed properties held for sale, at cost	31,424	55,114
Properties under development, at cost	57,815	28,847
Less: Provision for impairment	(2,327)	(2,327)
	<u>86,912</u>	<u>81,634</u>

15. INVENTORIES

	2002 RMB'000	2001 RMB'000
Raw materials, at cost	8,700	9,726
Work in progress, at cost	4,961	2,920
Finished goods, at cost	317	195
Merchandise purchased, at cost	55,487	209,244
Less: Provision for impairment	(15,136)	(26,950)
	<u>54,329</u>	<u>195,135</u>

16. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

	2002 RMB'000	2001 RMB'000
Shenzhen Special Economic Zone Development (Group) Company ("SDG")		
- current account, net	125,482	127,795
- unsecured and interest bearing	(27,000)	(22,000)
	<u>98,482</u>	<u>105,795</u>

Included in the current account is an amount of RMB152 million which is a cash deposit in the Clearing Center of Shenzhen City Te Fa Finance Company which was a wholly-owned subsidiary of SDG and was a non-licensed financial company approved by the People's Bank of China. The said financial company was terminated in 1999. The amount was assigned to SDG.

No provision for the above balance has been made by the Group as it will be offset against the Group's bank loan taken up by SDG (see note 19).

17. BILLS PAYABLE

	2002 RMB'000	2001 RMB'000
Balance at December 31	<u>173,000</u>	<u>45,000</u>

Bank deposits have been pledged as security for the Group's general banking facilities in respect of bills payable (see note 23).

18. BANK LOANS

	2002 RMB'000	2001 RMB'000
Secured and interest bearing	74,803	103,260
Unsecured and interest bearing	<u>208,860</u>	<u>266,488</u>

283,663	369,748

All the above bank loans are repayable within one year except for RMB49,053,000 in which the Group is under negotiation with the banks for the new repayment terms. Particulars of assets pledged for bank loans are set out in note 23.

19. OTHER LOANS

	2002 RMB'000	2001 RMB'000
Unsecured and non-interest bearing	146,842	150,622
Unsecured and interest bearing	6,000	1,800
Secured and interest bearing	5,000	--
Secured and non-interest bearing	21,800	21,800
	<u>179,642</u>	<u>174,222</u>

19. OTHER LOANS (continued)

All the above other loans are repayable within one year except for RMB7,500,000 in which the Group is under negotiation with the borrowers for the new repayment terms.

On 19 April 2000, SDG entered into a loan capitalization agreement with 中国长城资产管理公司, 中国信达资产管理公司 and 中国东方资产管理公司 (hereby collectively referred to as "Assets Management Companies") to take up the Group's bank loans of total RMB164,442,000 and their corresponding interest payables of RMB11,511,612 respectively, which have been assigned to Assets Management Companies by the banks. The effective date of the agreement was 1 April 2000 and SDG will issue new shares to Assets Management Companies after its restructuring. The original interest bearing bank loans of the Group became non-interest bearing loan owing to SDG since 1 April 2000. SDG has promised to repay its amounts due to the Group of RMB98,482,000 (see note 16 above) and amounts owed by other related companies to the Group of RMB16,329,000 (see note 25 below) by offsetting against the loan of RMB164,442,000 as mentioned above. The legal procedures of the loan capitalization are still in progress.

20. SHARE CAPITAL

	2002 RMB'000	2001 RMB'000
Registered, issued and paid-up (220,281,600 shares in total)		
"A" shares of RMB 1.00 per share	193,882	193,882
"B" shares of RMB 1.00 per share	26,400	26,400
	<u>220,282</u>	<u>220,282</u>

A and B shares have the same par value of RMB 1 per share and rank pari passu.

21. RESERVES

Share premium RMB'000	Asset revaluation reserve RMB'000	Staff welfare fund RMB'000	General reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
-----------------------------	--	-------------------------------------	-------------------------------	--------------------------------	----------------------------------	------------------

At 1/1/2001	124,248	32,436	3,210	55,480	(160)	(414,946)	(199,732)
Prior year adjustment					160	6,000	6,160
As restated	124,248	32,436	3,210	55,480	--	(408,946)	(193,572)
Profit for the year						228,085	228,085
At 31/12/2001	124,248	32,436	3,210	55,480	--	(180,861)	34,513
Loss for the year						(63,578)	(63,578)
Addition		3,953					3,953
At 31/12/2002	124,248	36,389	3,210	55,480	--	(244,439)	(25,112)

a. PRC laws and regulations restrict the distribution of share premium and asset revaluation reserve in the form of cash dividends to shareholders.

b. PRC laws and regulations require companies to make appropriations to certain statutory reserves from net profit after taxation as reported in the statutory accounts. These statutory reserves include the staff welfare fund and the general reserve which are designated for specific purposes and are not distributable in the form of cash dividends.

c. Asset revaluation reserve of RMB32,436,000 represents surplus of revaluation of assets acquired at the time the Company listed its shares on the "A" shares stock exchange market.

22. CASH AND CASH EQUIVALENTS

	2002 RMB' 000	2001 RMB' 000
Cash and bank balances	213,558	96,504
Less: deposits secured over 3 months	(108,453)	
Restated cash and cash equivalents	105,105	96,504

23. CASH FLOW STATEMENT

65% interests in Shenzhen Automobile Industry Import and Export Co. were disposed of in 2002 and fair value of assets and liabilities disposed as of 31 December 2002 as follows:

	2002 RMB' 000
Current assets	192,273
Long-term investments	17,960
Property, plant & equipment	4,066
Current liabilities	(203,502)
Net assets	
- book value	10,797
- reconciliation	(4,760)
- fair value	6,037

Impact on cash arising from disposal of 65% interests in Shenzhen Automobile Industry Import and Export Co. and non-consolidation of Shenzhen Automobile Industry Import and Export Co. was as follows:

	2002 RMB' 000
Disposal of interests	3,924
Non-consolidation	(6,229)
	(2,305)

24. PLEDGE OF ASSETS

At 31 December 2002, certain of the Group's leasehold land and buildings with an aggregate net carrying value of RMB 117,202,000 and fixed deposits amounting to RMB108,453,400 were pledged to secure bank and other loans of RMB95,250,000 and general banking facilities in respect of bills payable of RMB170,000,000 granted to the Group. Facilities amounting to RMB265,250,000 were utilized at 31 December 2002.

The above secured bank and other loans included RMB21,800,000, which were pledged by the Group's leasehold land and buildings with an aggregate net carrying value of RMB15,991,500, represented part of the loans taken up by SDG in the loan capitalization (see note 19 above).

Bank loans are repayable in various installments up to 31 December 2003. Interest is charged on the outstanding balances at rates ranging from 5.19% to 10.79% per annum.

In addition to the properties and 95% equity of Shenzhen Tellus Xin Yong Tong Automobile Dev. Co. Ltd. owned by the Company which have previously been sealed up by court, 2.9 million PRC legal entity shares of China Merchants Bank held by the Company have been sealed up by the court as a result of the guarantee granted to Zhonghao (Group) Ltd.

25. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

In addition to interests in associates and amount due from ultimate holding company stated in notes 12 and 16 respectively, the following entities have also been defined as related parties with whom the Group has had significant transactions during the year or with whom a significant balance exists at the year end.

	<u>Nat ure of r el at i onshi p</u>
Shenzhen Te Fa Swan Industry Co.	Fel l ow subsi di ar y
Shenzhen Te Fa Hua Tong Packing Industry Co. Ltd.	Fel l ow subsi di ar y
Shenzhen Mechanical Equipment Import & Export Co.	Fel l ow subsi di ar y
Shenzhen Te Long Fa Industry Co. Ltd.	Fel l ow subsi di ar y
Hong Kong Yu Jia Investment Co. Ltd.	Fel l ow subsi di ar y
Tellus (Jinbian) Development Co. Ltd.	Fel l ow subsi di ar y
Shenzhen Tellus Real Estate Dev. (Yue Yang) Co.	Fel l ow subsi di ar y
Shenzhen Te Fa Development Center Construction Management Co. Ltd.	Fel l ow subsi di ar y
Shenzhen Tellus Yang Chun Property Dev. Co. Ltd.	Fel l ow subsi di ar y
Shenzhen Long Gang Tellus Property Dev. Co. Ltd.	Fel l ow subsi di ar y
深圳市机械工贸有限公司	Fel l ow subsi di ar y

The following is a summary of the significant transactions with related parties during the

year.

	2002 RMB'000	2001 RMB'000
SDG:		
Loan received	5,000	9,000
Interest paid	1,681	1,302
Shenzhen Te Fa Dev. Center Construction Management Co. Ltd.:		
Loan received	6,000	--
Interest paid	325	--
Shenzhen Te Fa Swan Industry Co.:		
Management fee received	--	1,400
Interest received	929	431
Shenzhen Te Fa Hua Tong Packing Industry Co. Ltd.:		
Interest received	251	105
Tellus (Jinbian) Development Co. Ltd.:		
Interest received	--	78

25. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Interest is charged on the outstanding balances at 6.58% per annum for the loan provided by SDG and 6.5% per annum for Shenzhen Te Fa Dev. Center Construction Management Co. Ltd.

Interest received is charged on the outstanding balances at the bank loan interest rate for the same term.

Shenzhen Automobile Machinery Industry and Trading Co. Ltd., a subsidiary of the Company, provided a guarantee for bank loan of RMB46 million granted to Shenzhen Automobile Industry Import and Export Co. (see note 26 (d))

Some net balances due from / (to) related companies at 31 December 2001 and 2002 are stated in notes 12 and 16, and included in the balance sheet of the Group as interests in associates and amount due from ultimate holding company, the remaining related companies' balances are summarized as follows:

	2002 RMB'000	2001 RMB'000
Shenzhen Te Fa Swan Industry Co. Ltd.	20,858	19,835
Shenzhen Te Fa Hua Tong Packing Industry Co. Ltd.	4,619	4,474
Shenzhen Mechanical Equipment Import & Export Co.	4,763	17,014
Shenzhen Te Long Fa Industry Co. Ltd.	(7,895)	(7,895)
Hong Kong Yu Jia Investment Co. Ltd.	1,055	1,055
Tellus (Jinbian) Development Co. Ltd.	237	103

Shenzhen Tellus Real Estate Dev. (Yue Yang) Co.	195	14
Shenzhen Te Fa Dev. Center Construction Management Co. Ltd. (6, 000)		--
Shenzhen Tellus Yang Chun Property Dev. Co. Ltd.	(170)	(272)
深圳市机械工贸有限公司	(237)	(237)
Shenzhen Long Gang Tellus Property Dev. Co. Ltd.	(1, 096)	(1, 096)
	<u>16,329</u>	<u>32,995</u>

The above amounts are included in the consolidated balance sheet of the Group as follows:

	2002 RMB'000	2001 RMB'000
Accounts receivable and prepayments	32, 282	43, 050
Other loans	(6, 000)	--
Accruals and other payables	(3, 898)	(4, 000)
Accounts payable	(6, 055)	(6, 055)
	<u>16, 329</u>	<u>32, 995</u>

No provision for the above balances has been made as SDG has promised to repay them by offsetting against the loan owed to it (see note 19 above).

26.CONTINGENT LIABILITIES

At 31 December 2002, the Group had provided guarantees in respect of short-term bank loans of total RMB24,560,000 granted to the following parties:

	2002 RMB'000	2001 RMB'000
Shenzhen Jintian Industry (Group) Co., Ltd.	19,560	19,560
Shenzhen Zhonghao (Group) Co. Ltd.	5,000	15,000
Shenzhen Xing Long Mechanical Models Co., Ltd.	--	1,150
Shenzhen Automobile Industry Import and Export Co.	46,000	--
	<u>70,560</u>	<u>35,710</u>

(a) The bank loans of RMB19,560,000 is an aggregate amount of RMB3,000,000 and USD2,000,000.

Since Shenzhen Jintian Industry (Group) Co., Ltd failed its assets reorganization, the bank cancelled the prolonged repayment period of 3 years granted for the loan of US\$2,000,000 and Shenzhen Intermediate People's Court sealed up 95% equity of Shenzhen Tellus Xin Yong Tong Automobile Dev. Co. Ltd. owned by the Company. Full provision has been made on the bank loan of RMB 3,000,000 which is confirmed to be the joint liability of payment according to the court ruling issued by the Shenzhen Intermediate People's Court in November 1999. (see note 27)

(b) Guarantee for bank loan of RMB10 million provided to Shenzhen Zhonghao (Group) Co. Ltd. has been converted into bank loan undertaken by the Company.

(c) The contingent liability of the Group in respect of its guarantee to Shenzhen Xing Long Mechanical Models Co., Ltd. ("Xing Long") was zero as at 31 December 2002 because Xing Long repaid the loan during the year.

(d) Due to the disposal of the Group's interests in Shenzhen Automobile Industry Import and Export Co., Shenzhen Automobile Industry Import and Export Co. became an associate of the Company in 2002 and the guarantee provided by Shenzhen Automobile Machinery Industry and Trading Co. Ltd. became a contingent liability of the Group (see note 25).

27. MATERIAL LAWSUIT AND ARBITRATION

1. In implementing the judgment, the Company should take the joint responsibility as Zhonghao (Group) Ltd. failed to repay Shenzhen Development Bank the loan amounting to RMB15 million, guaranteed by the Company, Shenzhen Intermediate People's Court has sealed up a storey industrial warehouse, five storeys of industrial workshops and one residence apartment of the Company. In respect of the guarantee for a bank loan of RMB5 million, as 2.9 million PRC legal entity shares of China Merchants Bank held by the Company have been sealed up and bid for sale at RMB2.8 per share by the court, the Company estimated that the most probable payment was RMB8.12 million.

2. Shenzhen Tellus Real Estate Development Co. Ltd. ("Real Estate Co."), a wholly-owned subsidiary of the Company, entered into a Joint Property Construction Contract with Shenzhen Jinlu Industrial and Trade Company ("Jinlu Company") on 29 November 1994 to build a real estate in Shenzhen. Real Estate Co. paid RMB9.8 million to Jinlu Company as of 31 December 1996. However, Jinlu Company breached the contract and cooperated with Guangzhou Military Area Shenzhen Property Administrative Department ("GMAA") to develop the real estate and paid the RMB9.8 million received from Real Estate Co. to GMAA. Therefore, Real Estate Co. lodged a claim against Jinlu Company. The Futian District People's Court admitted GMAA as the third party of this case according to the law of the PRC. It was ruled by the Futian District People's Court that the contract was of no effect; GMAA shall repay Jinlu Company the principal of RMB9.8 million plus interest, which shall be transferred to Real Estate Co. within three days of the reception by Jinlu Company. GMAA applied for further trial that was allowed, and the original judgment was suspended during the retrial. Since the target of the litigation was located out of Futian Dis., the second trial is undertaken by the Shenzhen Intermediate People's Court without hearing so far. Provision of RMB4.9 million has been made by the Company. As the court case is still in progress, in the opinion of directors, no further provision is deemed necessary as of the balance sheet date.

27. MATERIAL LAWSUIT AND ARBITRATION (continued)

3. CITIC Bank submitted a lawsuit against Shenzhen Jintian Industry (Group) Co., Ltd. ("Jintian") for failure in repaying its loan amounting to RMB3 million after due date, which was guaranteed by the Company. Shenzhen Intermediate People's Court has made a judgment on 10 November 1999 that Jintian should repay the principal and the interest of the loan and the Company should take the joint responsibility. Provision of RMB3 million has been made by the Company in 2001 and retrospectively adjusted in accounts for the year 1999.

Shenzhen Development Bank submitted a lawsuit against Jintian for failure in repaying the loan amounting to USD 2 million, guaranteed by the Company, when Jintian failed its assets reorganization for which the bank has granted a prolonged repayment period of 3 years to Jintian. Up to 31 December 2002, Shenzhen Intermediate People's Court has sealed up 95% equity of Shenzhen Tellus Xin Yong Tong Automobile Dev. Co. Ltd. owned by the Company and the Company has made provision of USD3.03 million about it.

4. On 29 January 2002, Dongmen Branch of China Merchants Bank lodged a claim to Shenzhen Intermediate People's Court against the Company for failure in repaying the overdue loan of RMB21,500,000. As sentenced by Shenzhen Intermediate People's Court on 12 April 2002, the Company should repay the principal and the interest of the loan and undertake the legal costs of RMB122,200. As of to 31 December 2002, the Company has repaid the principal of RMB2,500,000.

5. On 5 March 2002, the Company entered an agreement with Shenzhen Pingtai Investment & Development Company ("Pingtai") to sell its share of 70% interests in Shenzhen Hua Tong

Automobile Co. Ltd. (“Hua Tong”) Under the agreement, Pingtai has paid the first proportion of the consideration of RMB20 million to the Company. As the Company has not fulfilled its obligation to sell its interests in Hua Tong as specified in the agreement, Pingtai applied for the court ‘s adjudication to verify the agreement as legal binding and valid and the Company to transfer its interests in Hua Tong and undertake the legal costs.

6. Hua Tong entered a cooperative agreement with Shenzhen Tong Wei Industry Co., Ltd. (“Tong Wei”) to develop Lianhua North Road in Shenzhen in 1997. Under the agreement, Hua Tong provided the land and Tong Wei paid Hua Tong expenses before development of RMB8.02 million and fixed profit from the project of RMB27 million and undertook all development expenses for the project. At the same time both parties signed a second agreement for the project again, which has been authorized by Shenzhen Municipal Planning and Land Bureau. Under the second agreement, Tong Wei returned the expenses before development paid by Hua Tong and undertook all construction and development fund. Profit from the project was shared pro rata at 6:4. But Tong Wei has not paid the fixed profit from the project to Hua Tong according to the first agreement, so Hua Tong took a lawsuit against Tong Wei. As sentenced by Guangdong Province high People’s Court on 24 June 2002, the first agreement is of no effect and the fixed profit of RMB17.27 million obtained by Hua Tong according to the first agreement should be returned to Tong Wei. Hua Tong should share RMB11.51 million from the profits of RMB28.77 million after the audit conducted by CPA entrusted by the court. Hua Tong should pay the net amount of RMB1.76 million to Tong Wei and undertake the legal fare of RMB 0.24 million, which have been paid and charged to profit and loss account in 2002. As at 31 December 2002, all legal procedures have been finished and the financial effect has been stated in the financial statements for the year ended 31 December 2002.

28. OTHER MATTERS

1. Due to the case that Shangbu Branch of Shenzhen Commercial Bank lodged a claim against Shenzhen Jinquan Industry Co. Ltd., Shenzhen Zhongcai Investment and Development Co. Ltd. and SDG, 159,588,000 PRC legal entity shares representing 72.45% interests in the Company held by SDG have been frozen for a one year period ended 3 December 2003 by the Shenzhen Intermediate People’s Court.

2. On 14 December 1995, the Company provided a guarantee for the loan of RMB57.6 million granted to Shenzhen Petrochemical Industry (Group) Co., Ltd (“Petrochemical Industry”) by Shangbu Sub-branch under Shenzhen Branch of Agricultural Bank of China and the loan was due on 14 December 2000. Subsequently, on 29 December 2000, Petrochemical Industry, Shenzhen Branch of Agricultural Bank of China (“Agricultural Bank”) and Shenzhen Office of Great Wall Assets Management Co. (“Great Wall”) entered an agreement, in which Agricultural Bank assigned the loan to Great Wall who took up the loan as an investment in Petrochemical Industry. Therefore, the guarantee obligation undertaken by the Company was released. However, on 11 December 2002, Agricultural Bank and Great Wall jointly informed Petrochemical Industry that the above agreement was not implemented and the loan was therefore restored and required Petrochemical Industry to repay the principal and its interest of the loan to Agricultural Bank. As the above agreement did not specify the period of the Company’s guarantee, the Company’s obligation to guarantee the repayment of the above loan was limited to a maximum of two years

from the due date of the loan repayment (i.e. 14 December 2002) in accordance with the Law of Guarantee of the People's Republic of China. As of 31 December 2002, the Company's guarantee was therefore released accordingly.

29. IMPACT OF DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS ON FINANCIAL STATEMENTS

	Net loss for the year RMB'000	Net assets RMB'000
As reported in the statutory consolidated financial statements in PRC	(40,981)	203,524
Adjustment for interest capitalized as cost of property, plant & equipment	--	(4,617)
Reversed amortization of investments in associates	758	(6,157)
Revaluation of workshops invested	(269)	2,420
Reversed loss from subsidiaries exceeding the carrying value of interests in subsidiaries	214	--
Interest received from the related parties	873	--
Gain from waiver of bank loan	915	--
Loss from the guarantee for third parties	(25,088)	--
As reported in the consolidated financial statements prepared in accordance with IFRS	(63,578)	195,170

30. COMPARATIVE FIGURES

Certain amounts reflected in the previous year's financial statements have been reclassified to conform with the current year's presentation as follows:

	As previously stated RMB'000	Reclassification RMB'000	As restated RMB'000
Property, plant & equipment	459,456	8,958	468,414
Other assets	10,930	(10,930)	--
Accounts receivable and prepayments	211,469	(12,318)	199,151
Amount due from ultimate holding company	159,081	(53,286)	105,795
Accounts payable	(266,241)	5,000	(261,241)
Accruals and other payables	(200,630)	57,076	(143,554)
Bill payables	--	(45,000)	(45,000)

Bank loans	(399,048)	29,300	(369,748)
Other loans	(195,422)	21,200	(174,222)