SHENZHEN TELLUS HOLDING CO., LTD.
SUMMARY ANNUAL REPORT 2003

§1. Important Notes

1.1 Board of Directors of Shenzhen Tellus Holding Co., Ltd. (hereinafter referred to as the Company) and its directors 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. The 2003 annual report summary is abstracted from the annual report; the investors are suggested to read the full text of annual report to understand more details.

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.

1.2 No director stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.

1.3 Director Yang Feng asked for leave due to business, Independent Director Zhang Yuan entrusted Independent Director Shi Weihong to attend the meeting and exercise the voting right.

1.4 Moore Stephens (Shenzhen) Certified Public Accountants issued an unqualified Auditors' Report with paragraph of emphatic events for the Company.

1.5 Chairman of the Board of the Company Mr. Zhang Ruili, Chief Financial Officer Mr. Ren Yongjian and Manager of Planning & Financial Department Ms. Li Mingjun hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

§2. Company Profile

2.1 Basic information

Short form of the stock	ST Tellus-A, ST Tellus-B
Stock code	000025, 200025
Listed stock exchange	Shenzhen Stock Exchange
Registered address and office address	3/F, Tellus Bldg., No. 56 of Shui Bei Er Road, Luohu District, Shenzhen
Post code	518020
Internet web site of the Company	http://www.sdgtellus.com.cn
E-mail of the Company	sztljtgf@public.szptt.net.cn

2.2 Contact person and method

	Secretary of the Board of Directors	**Authorized Representative in charge of the Securities Affairs**
Name	Ren Yongjian	Li Mingjun
Contact address	3/F, Tellus Bldg., No. 56 of Shui Bei Er Road, Luohu District, Shenzhen	3/F, Tellus Bldg., No. 56 of Shui Bei Er Road, Luohu District, Shenzhen
Telephone	(86) 755-25536888-388	(86) 755-25536888-351
Fax	(86) 755-25536658	(86) 755-25536658
E-mail	szryj@tom.com	szlmj@tom.com

§3. Summary of Accounting Data and Financial Indexes

3.1 Major accounting data Unit: RMB

	2003	2002	Increase/decrease over last year（%）	2001
Income from main operations	1,436,382,877.72	1,289,321,184.23	11.41%	703,244,863.19
Total profit	13,630,669.73	-34,302,617.24	-	4,880,915.00
Net profit	5,175,063.43	-40,980,896.04	-	5,144,050.69
Net profit after deducting non-recurring gains and losses	-5,157,990.61	-35,020,226.61	-	-9,668,602.80
	At the end of 2003	**At the end of 2002**	**Increase/decrease from the end of previous year（%）**	**At the end of 2001**
Total assets	1,274,704,955.23	1,232,230,347.02	3.45%	1,368,433,164.58
Shareholder's equity (excluding minority interests)	211,162,165.06	203,523,567.11	3.75%	241,238,794.25
Net cash flow arising from operating activities	100,750,071.64	120,412,420.24	-16.33%	57,918,274.85

3.2 Major financial indexes Unit: RMB

	2003	2002	Increase/decrease over last year（%）	2001
Earnings per share	0.02	-0.19	-	0.02
Earnings per share (calculated based on new share capital if share capital was changed)	0.02	-	-	-
Return on equity	2.45%	-20.14%	-	2.13%
Return on equity calculated based on net profit after deducting non-recurring gains and losses	-2.44%	-17.21%	-	-4.01%
Net cash flow per share arising from operating activities	0.46	0.55	-16.45%	0.26
	At the end of 2003	**At the end of 2002**	**Increase or decrease from the end of previous year（%）**	**At the end of 2001**
Net assets per share	0.96	0.92	3.79%	1.10
Net assets per share after adjustment	0.10	0.04	150.00%	0.17

3.3 Difference in net profit as audited by Chinese Accounting Standard (CAS) and International Accounting Standard (IAS)

√Applicable ☐Inapplicable

Unit: RMB'0000

	CAS	IAS
Net profit	517.51	969.70

Explanation on the difference	The Company's net profit as of year 2003 was RMB 5,175,000 audited by domestic certified public accountants and RMB 9,697,000 audited by international certified public accountants respectively, which was RMB 4,522,000 more than the former figure. The reasons are as follows: the long-term investment evaluation and amortization has increased by RMB 2,327,000, valuation with object investment has decreased by RMB 269,000, switching back excess deficit of subsidiaries has increased by RMB 157,000, expenses for the use of funds due to associated related has increased by RMB 768,000, income from debts reorganization has increased by RMB 1,539,000.

§4. Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share (Unit: share)

	Before the change	Increase / decrease in this time (+, -)	After the change
I. Unlisted Shares			
1. Sponsors' shares	159,588,000	0	159,588,000
Including: State-owned share	159,588,000	0	159,588,000
Domestic legal person's shares		0	0
Foreign legal person's shares		0	0
Others		0	0
2. Raised legal person's shares		0	0
3. Inner employees' shares		0	0
4. Preference shares or others		0	0
Total unlisted shares	159,588,000	0	159,588,000
II. Listed Shares			
1. RMB ordinary shares	34,293,600	0	34,293,600
2. Domestically listed foreign shares	26,400,000	0	26,400,000
3. Overseas listed foreign shares		0	0
4. Others		0	0
Total listed shares	60,693,600	0	60,693,600
III. Total shares	220,281,600	0	220,281,600

4.2 Statement of shares held by the top ten shareholders and the top ten shareholders of circulation share

Total number of shareholders at the end of report year	17,120					
Particulars about shares held by the top ten shareholders						
Full name of Shareholders	**Increase / decrease in the report year (share)**	**Shares held at the year-end (share)**	**Proportion (%)**	**Type of shares (Circulating/Non-circulating)**	**Number of share pledged/ frozen (share)**	**Nature of shareholders (State-owned shareholder/foreign shareholder)**
Shenzhen Special Economic Zone Development (Group) Company	0	159,588,000	72.45	Non-circulation	0	State-owned shareholder

DBS BICKERS（HONG KONG） LTD A/C CLIENTS	Unknown	363,600	0.17	Circulation	Unknown	Foreign shareholder
JIN YAN	Unknown	312,200	0.14	Circulation	Unknown	Foreign shareholder
WU SHAO XIAN	Unknown	229,070	0.10	Circulation	Unknown	Foreign shareholder
WANG ZI QIANG	Unknown	224,000	0.10	Circulation	Unknown	Foreign shareholder
CAI ZU JIAN	Unknown	200,000	0.09	Circulation	Unknown	Foreign shareholder
CHENG DONG LU	Unknown	190,000	0.09	Circulation	Unknown	Foreign shareholder
CUI JUN MIN	Unknown	186,858	0.08	Circulation	Unknown	Foreign shareholder
FU, YA KUANG	Unknown	180,000	0.08	Circulation	Unknown	Foreign shareholder
XU HONG BO	Unknown	171,550	0.08	Circulation	Unknown	Foreign shareholder
Explanation on associated relationship among the top ten shareholders or consistent action	Among the top ten shareholders as listed above, there exists no associated relationship between Shenzhen Special Economic Zone Development (Group) Company and other shareholders, and they do not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies. For the shareholders of circulation share, the Company is unknown whether there exists associated relationship or not.					

Particulars about shares held by the top ten shareholders of circulation share		
Full name of shareholders	Number of circulation shares at the year-end (share)	Type (A-share, B-share, H-share and other)
DBS BICKERS (HONG KONG)LTD A/	363,600	B-share
JIN YAN	312,200	B-share
WU SHAO XIAN	229,070	A-share
WANG ZI QIANG	224,000	B-share
CAI ZU JIAN	200,000	B-share
CHENG DONG LU	190,000	B-share
CUI JUN MIN	186,858	B-share
FU,YA KWANG	180,000	B-share
XU HONG BO	171,550	B-share
CHEN JIAN	170,000	B-share
Explanation on associated relationship among the top ten shareholders of circulation share	Among the top ten shareholders of circulation share as listed above, the Company is unknown whether there exists associated relationship or not.	

4.3 Particulars about controlling shareholders and actual controller of the Company

4.3.1 Particulars about change in controlling shareholders and actual controller of the Company

□Applicable　　√Inapplicable

4.3.2 Introduction of especial situation for controlling shareholder and other actual controller

Name of the Company's controlling shareholder of: Shenzhen Special Economic Zone Development (Group) Company (state-owned shareholder) Legal representative: Hu Ge Date of establishment: In October 1981

Registered capital: RMB 104.85 million
Company type: state-owned enterprise of Shenzhen City
Business scope: principal business: 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, 2003, particulars about shares held by the shareholder of SDG: Shenzhen Investment Holding Corporation held 100% equity of Shenzhen Special Economic Zone Development (Group) Company.

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 foundation: 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.

§5. Particulars About Directors, Supervisors and Senior Executives

5.1 Particulars about changes in shares held by directors, supervisors and senior executives

Name	Title	Gender	Age	Office term	Holding shares at the year-begin	Holding shares at the year-end	Reason of change
Zhang Ruili	Chairman of the Board	Male	40	Apr. 18, 2003-Apr. 18, 2006	0	0	
Mao Songbai	General Manager	Male	48	Apr. 18, 2003-Apr. 18, 2006	0	0	
Guo Dongri	Director, Deputy General Manager	Male	38	Apr. 18, 2003-Apr. 18, 2006	0	0	
Wang Hailin	Director	Male	44	Apr. 18, 2003-Apr. 18, 2006	0	0	
Yang Feng	Director	Male	49	Apr. 18, 2003-Apr. 18, 2006	0	0	
Jiang Qinjian	Director	Male	41	Apr. 18, 2003-Apr. 18, 2006	9,000	9,000	
Zhou Chengxin	Independent Director	Male	48	Apr. 18, 2003-Apr. 18, 2006	0	0	

Shi Weihong	Independent Director	Femal	36	Apr. 18, 2003-Apr. 18, 2006	0	0	
Zhang Yuan	Independent Director	Male	43	Jun. 19, 2003-Apr. 18, 2006	0	0	
Li Binxue	Supervisor, Chairman of the Supervisory Committee	Male	45	Apr. 18, 2003-Apr. 18, 2006	0	0	
Chen Shuipu	Supervisor	Male	47	Apr. 18, 2003-Apr. 18, 2006	0	0	
Luo Tao	Supervisor	Male	42	Apr. 18, 2003-Apr. 18, 2006	0	0	
Hu Xiaomei	Supervisor	Female	43	Apr. 18, 2003-Apr. 18, 2006	2,000	0	Shares was sold before taking the post of supervisor
Ren Yongjian	Chief Financial Officer, Secretary of the Board of Directors	Male	40	Apr. 18, 2003-Apr. 18, 2006	0	0	
Wu Yonggang	Deputy General Manager	Male	39	Apr. 18, 2003-Apr. 18, 2006	0	0	

5.2 Particulars about directors and supervisors holding the post in Shareholding Company

√Applicable ☐Inapplicable

Name	Name of Shareholding Company	Title in Shareholding Company	Office term	Drawing the payment from the Shareholding Company (Yes / No)
Wang Hailin	Shenzhen Special Economic Zone Development (Group) Company	Deputy General Economist	Nov. 2001 to now	Yes
Yang Feng	Shenzhen Special Economic Zone Development (Group) Company	Minister of Human Resource Dept.	Jun. 2000 to now	Yes
Jiang Qinjian	Shenzhen Special Economic Zone Development (Group) Company	Minister of Planing & Financing Dept.	Mar. 2001 to now	Yes
Luo Tao	Shenzhen Special Economic Zone Development (Group) Company	Minister of the 2nd Dept. of the Group	Jul. 1996 to now	Yes

5.3 Particulars about the annual payment of directors, supervisors and senior executives

Total annual payment	RMB 1,028,100
Total annual payment of the top three directors drawing the highest payment	RMB 596,000
Total annual payment of the top three senior executives drawing the highest payment	RMB 616,100
Allowance of independent director	RMB 30,000 per person/ year
Other treatment of independent directors	Naught
Name of directors and supervisors receiving no payment or allowance from the Company	Wang Hailin, Yang Feng, Jiang Qinjian, Luo Tao, Chen Shuipu and Hu Xiaomei

Payment	Number of persons
RMB 150,000 ～ RMB 180,000	3
RMB 200,000 ～ RMB 220,000	2

§ 6. Report of the Board of Directors

6.1 Discussion and analysis to the whole operation in the report period

In the report period, under the lead of the Board of Directors, after collective efforts of all staffs, the Company has gained obvious effects in all work and the operation and management has took on good trend. In the whole year of 2003, the Company has accomplished income from main operations and net profit amounting to RMB 1,436.38 million and RMB 5.18 million respectively and has realized the objective of making up the deficits and getting surpluses.

In the report period, under the lead of the new Board, the Company reinforced the construction of legal person's administrative mechanism, amended a series of systems and enhanced the level of standardized operation of the enterprise, which has founded a solid foundation for the development of the Company.

In the report period, with the operation as the core and cash withdrawal as the breakthrough, the Company reinforced the adjustment to assets-liability structure, liquidized the existing assets, actively developed liabilities reorganization and settled liability risks, which has created good operating environment for making up the deficits and getting surpluses in the whole year.

In the report period, the Company strengthened the main operations, reinforced the marketing and actively expanded the market. The automobile marketing and service enterprises continued to push the responsibility system of operating objective, thus the income from main operations grew steadily.

6.2 Statement of main operations classified according to industries or products

Unit: RMB'0000

Classified according to industries or products	Income from main operations (RMB)	Cost of main operations (RMB)	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Other social service	10,972.00	7,693.00	29.89	-12.70	-20.80	7.20
Other wholesale and retail trade	126,344.00	121,174.00	4.09	14.60	14.30	0.20
Lease service	6,322.00	1,869.00	70.44	2.70	3.80	-0.30
Including: related transactions	0.00	0.00	-	0.00		
Automobile inspection and maintenance	10,972.00	7,693.00	29.89	-12.70	-20.80	7.20
Automobile trade	126,344.00	121,174.00	4.09	14.60	14.30	0.20
Lease service	6,322.00	1,869.00	70.44	2.70	3.80	-0.30
Including: related transactions	0.00	0.00	-			

Pricing rules for related transactions	Naught
Necessity and durative of related transactions	Naught

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations (RMB)	Increase/decrease in income from main operations over the last year (%)
Shenzhen	143,638.00	11.40

6.4 Particulars about the customers of purchase and sales

Unit: RMB'0000

Total amount of purchase of the top five suppliers	110,000.00	Proportion in the total amount of purchase	90.00%
Total amount of sales of the top five sales customers	500.00	Proportion in the total amount of sales	0.30%

6.5 Operation of share-holding companies (applicable to the situation where investment equity takes over 10% of its net profit)

□Applicable √Inapplicable

6.6 Explanation on reasons of material changes in main operations and its structure

□Applicable √Inapplicable

6.7 Explanation on reasons of material changes in profitability capability of main operations (gross profit ratio) than that in the last year

□Applicable √Inapplicable

6.8 Analysis to reasons of material changes in operating results and profit structure compared with the previous year

The income in the year increased by RMB 146.8617 million over the last year, an increase of 11.39%, which was mainly because that Shenzhen Huari TOYOTA Automobile Sales Service Co., Ltd. started to sell VIOS etc. series TOYOTA car since Nov. 2002, which made the income increase by RMB 140.9367 million. The cost also increased by 11.28% due to the said reason in the year. Profit from other operations increased by RMB 7.0493 million, an increase of 167.04%, which was mainly because that the houses shared by Shenzhen Auto Industrial Trading Corporation, a subsidiary of the Company, in the cooperative house construction, realized sales in the year.

Analysis to reasons of material changes in the whole financial position than that in the last year

In the year, operating expense increased by RMB 12.0502 million over the last year,

which was mainly because that the sales scale of automobile in Shenzhen Biaoyuan Auto Co., Ltd., Shenzhen Steyr Auto Sales Co., Ltd. and Shenzhen Huari TOYOTA Auto Sales Co., Ltd., subsidiaries of the Company, was expanded in 2003.
In the year, management expense decreased by RMB 16.5564 million, a decrease of 20.96%, which was mainly because that the Company just consolidated the income statement of Shenzhen Huatong Automobile Co. during Jan.-Sept. in 2003, resulting in the decrease by RMB 7.4944 million, and the Company adopted various measures to control expenses in 2003.
The interest expenditure in financial expense decreased by RMB 10.1653 million, a decrease of 33.85%, which was mainly because: 1. In 2003, Shenzhen Automobile Export and Import Company was not listed in the consolidation of the subsidiaries of the Company while its statements during Jan.-Jul. in 2002 was consolidated in 2002, resulting in the decrease by RMB 2.8402 million; 2. Shenzhen Auto Industrial Trading Corporation, a subsidiary of the Company, stopped calculating interests due to debt-to-equity of a loan, resulting in the decrease by RMB 0.9331 million; 3. In 2003, the Company just consolidated the income statement of Shenzhen Huatong Automobile Co. during Jan.-Sept., resulting in the decrease by RMB 0.3446 million; 4. The refund of loans and decrease in interest rate resulted in the decrease by RMB 4.3663 million.
Non-operating income decreased by RMB 5.1278 million, a decrease of 49.71%, which was mainly because that Shenzhen Auto Industrial Trading Corporation, a subsidiary of the Company, sold the house called Dongfeng Building from its fixed assets in 2002, thus forming earnings amounting to RMB 7.9154 million. In 2003, the variance income from housing reform was the listing variance account of housing reform received by the Company from its employees.

6.9 Explanation on the past, current and future important effects of the material changes in production and operation environment, macro-policies and regulations on the Company’s financial position and operating results

□Applicable √Inapplicable

6.10 Completion of the profit estimation

□Applicable √Inapplicable

6.11 Completion of the business plan

□Applicable √Inapplicable

6.12 Application of the raised proceeds

□Applicable √Inapplicable

Particulars about the changed projects

□Applicable √Inapplicable

6.13 Application of the proceeds not raised through shares offering (For details, please refer to 7.1 in this report)

□Applicable √Inapplicable

6.14 Explanation of the Board of Directors on the “Qualified Opinion” made by the Certified Public Accountants

□Applicable √Inapplicable

6.15 Business plan as of the next year of the Board of Directors (If it has)

□Applicable √ Inapplicable

Profit estimation of the next year (If it has)

□Applicable √ Inapplicable

6.16 The preplan on the profit distribution and capitalization of capital public reserve of the Board of Directors

No distribution or capitalization.

§ 7. Significant Events

7.1 Purchase of assets

□Applicable √ Inapplicable

7.2 Sales of assets

√ Applicable □ Inapplicable

The transaction party and sold assets	Date of sale	Price of sale	Net profit contributed to the Company by those sold assets from the beginning of the year to date of sale	Profit or loss occurred from sale	Related Transaction or not (If yes, please point out the principle of pricing
20% share equity of Shenzhen Space Far-east Industrial Company held by the Company sold to 11 natural person including Mr. Li Ruizheng etc.	July. 9, 2003	1,012.20	86.44	86.44	No
19.05% share equity of Shenzhen Atlantic Jointing Material Co., Ltd. held by the Company sold to Sichuan Atlantic Jointing Material Co., Ltd.	Dec.5, 2003	863.46	61.19	61.19	No
70% equity of Shenzhen Huatong Automobile Company held by the Company sold to Shenzhen Pingtai Investment & Development Co., Ltd.	Oct.1, 2003	4,062.00	-458.81	-458.81	No
5% share equity of Big Thermoking Transportation & Refrigeration Co., Ltd. held by the Company sold to Ingersoil-rand.	Dec.12,2003	1,076.00	981.39	981.39	No

The influence on the consistence of business and stability of management

There is no influence on the consistence of business and stability of management.

7.3 Important guarantee

√ Applicable □Inapplicable

Unit:(RMB)'0000

Name of Guarantee	Date of	Amount of	Type of	Term of	Implemented	Guarantee for

	signing agreement	Guarantee	Guarantee	Guarantee	or not	Related parties or not (Yes or No)
Shenzhen Machinery Export-Import Company	Mar.11, 1998	192.00	Common guarantee	Mar.11, 1998-Dec.10, 1998	No	Yes
The total amount of Guarantee						
The total remaining amount of Guarantee			6,783.00			
Including: the total remaining amount of Related Guarantee			3,600.00			
The total amount accrued from the Company providing guarantee to the holding subsidiaries			1,215.00			
The total amount of irregular guarantee			0.00			
The proportion of the total amount of guarantee in the net assets of the Company			0.32			

7.4 Related credits and liabilities transaction

√ Applicable ☐ Inapplicable

Related Parties	Providing capital to the related parties		The related parties provided capital to the Company	
	Amount occurred	Balance	Amount occurred	Balance
SDG	-2,133.54	14,928.66	-1,824.22	5,389.74
Shenzhen SD Swan Industrial Company	92.93	2,178.69	0.00	0.00
Shenzhen Machinery Export-Import Company	4.76	481.11	0.00	0.00
Hong Kong Yujia Investment Co., Ltd.	-84.43	21.02	0.00	0.00
Shenzhen Telongfa Industrial Co., Ltd.	0.00	55.50	0.00	0.00
Tellus (Jinbian) Development Co., Ltd.	6.18	29.89	0.00	0.00
Shenzhen Tellus Real Estate Yueyang Company	2.48	21.95	0.00	0.00
Shenzhen SD Development Center Construction Supervision Co., Ltd.	0.00	0.00	0.00	600.00
Shenzhen Telongfa Industrial Co., Ltd.	0.00	0.00	0.00	845.05
Shenzhen SD Huatong Package Industrial Co., Ltd.	-461.90	0.00	0.00	0.00
Shenzhen Machinery Industry& Trade Co., Ltd.	0.00	0.00	-23.70	0.00
Shenzhen Longgang Tellus Real Estate Company	0.00	0.00	0.00	109.57
Shenzhen Tellus Yangchun Real Estate Company	0.00	0.00	8.65	25.60
Total	-2,573.52	17,716.82	-1,839.27	6,969.96

7.5 Entrust financing

☐Applicable √ Inapplicable

7.6 Implementation of commitment items

√ Applicable ☐ Inapplicable

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. 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:

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.

7.7 Significant lawsuit and arbitration

√ Applicable ☐ Inapplicable

Explanation on the result of original significant lawsuits and arbitrations of the Company was as follows::

1.The controlling shareholder SDG provided guarantee for the Company to get loan amounting to RMB 21.5 mil from Dongmen branch of China Merchants Bank. The Company didn't repay past due. China Merchants appealed to Shenzhen Intermediate People's Court. The Company published public notice on significant lawsuits in Securities Times and Hong Kong Ta Kung Pao on Apr. 13, 2002.

The Company signed agreement on renewing loan with creditor.

2.The Company and the assignee Shenzhen Pingtai Investment & Development Co., Ltd. disputed on the transfer of 70% share equity of its subsidiary Shenzhen Huatong Automobile Company. The Company published public notice about the procedures and the verdict of the court in Securities Times and Hong Kong Ta Kung Pao respectively on Oct. 24, 2003.

At present, all procedures of the equity transfer have all accomplished.

3.Shenzhen Development Bank indicted the Company to Shenzhen Intermediate People's Court for the Company didn't repay RMB11.5 mil past due. Shenzhen Intermediate People's Court held the court and judged the Company paid back the principal and its interests.

The Company signed agreement on renewing loan with creditor.

4.Shenzhen Development Bank indicted Zhonghao Company and the Company for Zhonghao Company didn't repay RMB5 mil past due and the Company provided guarantee for the loan. Guangdong Highest People's Court verdict for second trial to keep the original judgment: Zhonghao Company paid back the principal and interests and the Company held joint clearing responsibility.

Shenzhen Intermediate People's Court auctioned 2.9 mil shares of China Merchants held by the Company to pay back the loan.

5.CITIC Industrial Bank indicted Gintian Industry (Group) Co., Ltd. and the Company for Gintian Industry (Group) Co., Ltd. didn't pay back the loan amounting to RMB3 mil past due and the Company provided guarantee for the loan. Shenzhen Intermediate People's Court verdict that Gintian Industry (Group) Co., Ltd. should pay back the principal and the interests and the Company should hold joint clearing responsibility. The Company paid off the loan.

6.Shenzhen Development Bank indicted Gintian Industry (Group) Co., Ltd. and the Company for Gintian Industry (Group) Co., Ltd. didn't pay back the loan amounting to USD 2 mil past due and the Company provided guarantee for the loan. Shenzhen Intermediate People's Court froze 95% equity share of Xinyongtong Industrial Company held by the Company and part of share equity and assets of Gintian Industry (Group) Co., Ltd. in Guangzhou and Shenzhen.

7. Tellus Real Estate Company indicted Shenzhen Jinlu Industry & Trade Company (hereinafter referred to as" Jinlu Company") for disputes on cooperation agreement of building up houses. Shenzhen Intermediate People's Court heard the case again and denied the motion of Tellus Real Estate Company and admitted the validity of cooperation agreement of building up houses. Both parties should fulfill the obligations in the agreement.

§8.Report of the Supervisory Committee

The Supervisory Committee totally held seven entire meetings in the report period and the main content: approved the resolution on election at expiration of office terms of the Supervisory Committee; examined and approved proposal on amendment of Articles of Association of the Company, Rules for Procedure of the Shareholders' General Meeting, Detailed Rules for Work of General Manager, Management Regulation of Classification Authorization and Management System of Investor's Relationship; examined and approved proposal on equity transfer of Shenzhen Atlantic Ocean Welding Material Co., Ltd., Shenzhen Spaceflight Far East Industrial Co., Ltd., and Thermo King Dalian Transport Refrigeration Co., Ltd.; examined and approved the proposal on equity change of the relevant enterprises and proposal on application of cancellation after verification of bad assets; patiently examined the work report of the Board of Directors, business report of management team and quarterly financial report and annual financial report of the Company and proposal on profit distribution; approved work report of the Supervisory Committee in 2003 and formed resolutions.

According to the duty scope stated in relevant laws, regulations and Articles of Association of the Company, the Supervisory Committee of the Company supervised over and checked the operation according to law of the Company, work and behavior of the members of the Board of Directors and other senior executives through attending the meeting of the Board as non-voting delegates and other approaches this year.

The Supervisory Committee expressed the following independent opinion on relevant events of the Company in 2003:

1. Opinion on the Company's operation according to law

According to Company Law, Securities Law, Articles of Association of the Company and other relevant laws and regulations, the Supervisory Committee supervised over the procedure of holding and resolutions of the Shareholders' General Meeting and 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. The Supervisory Committee believes that every decision-making procedure of the Company was in accordance with laws, regulations and Articles of Association of the Company, the internal control system of the Company was perfect and there found no actions of breaking laws, regulations and Articles of Association of the Company and damaging the interest of the Company when the directors and senior executives of the Company implemented their duties of the Company.

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 2003 Financial Report of the Company could reflect truly the financial status and operation result of the Company. Shenzhen Nanfang Minhe Certified Public Accountants and Moore Stephens (Shenzhen) Certified Public Accountants has issued the unqualified auditor's report.

3. Opinion on invested projects 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 this accounting year, as researched and decided by the Board of Directors of the Company and authorized by the relevant superior departments, the Company transferred 19.05% equity of Shenzhen Atlantic Ocean Welding Material Co., Ltd., 20% equity of Shenzhen Spaceflight Far East Industrial Co., Ltd. and 5% equity of Thermo King Dalian Transport Refrigeration Co., Ltd. held by the Company. Before every transfer, it was evaluated by assets appraisal company with qualification and the result was examined and confirmed by Shenzhen State-owned Assets Management Office and was finished corresponding procedures in Shenzhen Assets and Equity Exchange according to the stated procedures. The procedures of the above four equity transfer were legal and there was no inside transaction.

5. Opinion on related transaction

In the report period, the Company has not occurred significant related transactions.

§9. Financial Report

9.1 Auditor's opinion

9.2 Balance Sheet, Income Statement and Cash Flow Statement (Attachment)

9.3 Explanation on the change in accounting policy, policy, accounting assessment and accounting settlement method compared with the latest annual report.

1. Detail explanation on the change of accounting policy

According to Financing Department CK [2003] No.12 Document on Printing and Distributing the Notification on Enterprise Accounting Rule- Items after the Date of Balance Sheet, which stipulated enterprise executing the principle should adjust retroactively the items involving cash dividend distribution (or profit distributed to the investors) in comparing the periods of financial statements when the enterprise worked out 2003 annual report, the Company listed cash dividend separately in Shareholders' equity of balance sheet from the date of comparing periodical balance sheet of statements to the approved date of financial report compiled with the above requirements in the process of making out 2003 financial report. The above change in accounting policy would not affect the profit of the Company in the previous years, but affected the net assets and weighted net assets of the Company in the period-end, thus affected the return on equity indexes of the Company of the previous years accounted based on net assets and weighted net assets of the Company in the period-end. Because the Company didn't distribute cash dividend in 2001 and 2002, the above change on accounting policy didn't affect the return on equity indexes of the Company in 2002 and 2003.

2. There was no change on accounting assessment.
3. There was no change on accounting settlement.

9.4 Explanation on the change in the consolidated scope in the report period compared with the latest annual report.

On Mar. 5, 2002, the Company and Shenzhen Pingtai Investment & Development Co., Ltd.(hereinafter referred to as "Pingtai Company") signed agreement of equity transfer, in which 70% share equity of Shenzhen Huatong Automobile Company(hereinafter referred to as "Huatong Company") held by the Company was transferred to Pingtai Company. However, the two parties didn't fulfill the obligation in the agreement. In 2003, Pingtai Company appealed to Shenzhen Intermediate People's Court. On Sep.2, 2003, Shenzhen Intermediate People's Court verdict the Company to implement the share equity transfers agreement. In the lawsuit, the two parties agreed to confirm the transfer price based on 70% of net assets amounting to RMB 54,028,391.85 of Huatong Company on Dec.31, 2002. On Sep.30, 2003, the Company conveyed the rights of operation and management of Huatong Company to Pingtai Company on Sep.30, 2003. Thus, the Company confirmed the date of selling share equity was Oct. 1, 2003. In 2003, only 2003 Jan-Sep Income Statement and Cash Inflow Statement of Huatong were listed into the consolidated scope.

Board of Directors of
ShenZhen Tellus Holding Co., Ltd.
Apr. 19, 2004