SHENZHEN TELLUS HOLDING COMPANY LIMITED

(Incorporated in the People's Republic of China)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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REPORT OF AUDITORS TO THE SHAREHOLDERS OF
SHENZHEN TELLUS HOLDING COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

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 2003 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements as set out on pages 3 to 26 are the responsibility of the Group's management. Our responsibility is to express an opinion on the 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 2003 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 to the financial statements which indicates that the Group's current liabilities exceeded its current assets by RMB289,805,000 as at 31 December 2003. This condition, along with other matters as set out in note 2 to the financial statements, indicates 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

15 April 2004

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 RMB'000	2002 RMB'000
Turnover	4	1,436,383	1,289,321
Cost of sales		(1,311,843)	(1,178,813)
Gross profit		**124,540**	**110,508**
Other operating income		37,138	25,955
Distribution costs		(52,861)	(41,690)
Administrative expenses		(62,416)	(78,094)
Other operating expenses		(24,723)	(45,495)
Profit/(loss) from operations	5	**21,678**	**(28,816)**
Finance costs	6	(19,861)	(30,026)
Income from associates		2,697	3,588
Dividend income from investments		2,025	2,408
Gain from disposal of associates		3,203	--
Gain from disposal of investments		14,058	--
Loss from disposal of a subsidiary		(5,803)	(4,268)
Profit / (loss) before tax		**17,997**	**(57,114)**
Income tax expense	7	(3,930)	(2,201)
Profit / (loss) after tax		**14,067**	**(59,315)**
Minority interest		(4,370)	(4,263)
Net profit / (loss) for the year		**9,697**	**(63,578)**
Profit / (loss) per share	8		
Basic		RMB 0.04	RMB (0.29)
Diluted		N/A	N/A

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2003

	Note	2003 RMB'000	2002 RMB'000
Non-current assets			
Goodwill	9	12,808	34,824
Property, plant & equipment	10	403,964	458,461
Interests in associates	12	25,315	33,234
Long-term investments	13	83,775	57,548
		525,862	**584,067**
Current assets			
Properties held for sale	14	61,593	86,912
Inventories	15	88,025	54,329
Accounts receivable and prepayments		179,403	115,762
Amount due from ultimate holding company	16	95,389	98,482
Pledged bank deposits	17	179,117	108,453
Cash and bank balances		86,511	105,105
		690,038	**569,043**
Current liabilities			
Accounts payable		109,382	90,357
Accruals and other payables		161,955	190,313
Provision for staff welfare		7,344	8,450
Bills payable	17	272,092	173,000
Bank loans	18	233,162	283,663
Other loans	19	192,482	179,642
Tax payable		3,426	4,772
		979,843	**930,197**
Net current liabilities		**(289,805)**	**(361,154)**
		236,057	**222,913**
Capital and reserves			
Share capital	20	220,282	220,282
Reserves	21	(15,415)	(25,112)
Minority interests		31,190	27,743
		236,057	**222,913**

Director

Director

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003	2002
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Cash received from sale of goods or rendering of services		1,708,985	1,482,025
Other cash received relating to operating activities		29,972	45,436
Cash paid for goods and services		(1,448,580)	(1,237,914)
Cash paid to and on behalf of employees		(60,860)	(67,312)
Tax paid		(57,364)	(32,382)
Cash paid relating to other operating activities		(71,403)	(69,441)
Interest paid		(21,468)	(23,396)
Net cash from operating activities		79,282	97,016
INVESTING ACTIVITIES			
Cash received from disposal of investments		36,317	13,577
Dividends received and interest received		9,732	4,959
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		5,983	13,643
Other cash received relating to investing activities		-	20,000
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(9,802)	(15,777)
Cash paid to acquire investments		(24,853)	(2,569)
Cash paid relating to other investing activities		(73,892)	(114,682)
Net cash used in investing activities		(56,515)	(80,849)
FINANCING ACTIVITIES			
Proceeds from borrowings		268,515	191,820
Other cash received relating to financing activities		-	2,520
Repayments of borrowings		(309,876)	(201,557)
Cash paid relating to other financing activities		-	(349)
Net cash used in financing activities		(41,361)	(7,566)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(18,594)	8,601
Cash and cash equivalents at beginning of year		105,105	96,504
Cash and cash equivalents at end of year		86,511	105,105

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital	Share premium	Asset revaluation reserve	Staff welfare fund	General reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1/1/2002	220,282	124,248	32,436	3,210	55,480	–	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
Profit for the Year						9,697	9,697
At 31/12/2003	220,282	124,248	36,389	3,210	55,480	(234,742)	204,867

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

b. The 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 represents surplus of revaluation of assets acquired.

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

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 2003 and net profit for the year are included in note 27 to the financial statements.

The directors have prepared the financial statements on the going concern basis. However, the Group's current liabilities exceeded its current assets by RMB289,805,000 as at 31 December 2003. The directors have successfully negotiated with the bankers of the Group to extend a substantial part of the Group's bank loans which have fallen or are falling due for 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 RMB163,282,000, inclusive of interest of RMB11,511,612 (see also note 19). 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 instalments. Amortization is provided to write off the cost of computer software over 5 years.

Property, plant & equipment

Property, plant & equipment except for 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 as applicable to 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 deposed 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 a defined contribution scheme and 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.

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 financial statements. 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 financial statements 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 within three months of maturity when acquired.

4.TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate of the invoiced value of goods sold, after allowances for goods returned, trade discounts, value added tax and sales returns. All of the Group's operations are conducted in the PRC.

Segment analysis by principal activities:

	Manufacturing and others		Property development and management		Import and export trading		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	127,089	147,446	32,928	31,816	1,276,366	1,110,059	1,436,383	1,289,321
Segment results	5,210	(8,837)	6,861	5,602	20,104	17,948	32,175	14,713
Unallocated Corporate expense							(10,497)	(43,529)
Profit / (loss) from operations							21,678	(28,816)
Finance costs							(19,861)	(30,026)
Income from associates							2,697	3,588
Dividend income from investments							2,025	2,408
Gain from disposal of associates							3,203	--
Gain from disposal of investments							14,058	--
Loss from disposal of a subsidiary							(5,803)	(4,268)
Profit / (loss) before tax							17,997	(57,114)
Income tax expense							(3,930)	(2,201)
Profit / (loss) after tax							14,067	(59,315)
Minority interest							(4,370)	(4,263)
Net Profit / (loss) for the year							9,697	(63,578)

4.TURNOVER AND SEGMENT INFORMATION (continued)

	Manufacturing and others		Property development and management		Import and export trading		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION								
Segment assets	255,498	315,810	316,071	337,254	580,941	436,374	1,152,510	1,089,438
Interests in associates	--	--	10,076	26,296	15,239	6,938	25,315	33,234
Unallocated corporate assets							38,075	30,438
Consolidated total assets							1,215,900	1,153,110
Segment liabilities	125,724	175,545	473,563	461,559	380,556	293,093	979,843	930,197
Capital expenditure	6,679	12,925	1,651	746	26,593	5,009		
Depreciation	10,145	10,157	7,044	6,935	4,017	4,223		
Non-cash expenses other than depreciation	1,949	4,211	1,605	1,835	658	914		

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

	2003	2002
Manufacturing and others	733	999
Property development and management	192	187
Import and Export trading	233	282
	1,158	1,468

5. PROFIT/(LOSS) FROM OPERATIONS

Profit/ (loss) from ordinary activities is stated after charging / (crediting):-

	2003 RMB'000	2002 RMB'000
Amortization	3,487	6,960
Staff costs	60,860	67,312
Depreciation	25,406	25,554
Provision for doubtful debts	1,600	6,588
Provision for impairment losses of assets:		
- long-term investments	(1,820)	1,960
- inventories	--	5
- property, plant & equipment	--	4
Exchange losses	42	139

6. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest expenses	19,861	30,026

7. INCOME TAX EXPENSE

	2003 RMB'000	2002 RMB'000
Income tax for the year	3,930	2,201

Income tax is calculated in accordance with applicable income tax regulations and at 15% (2002: 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 is as follows:

	2003 RMB' 000	2002 RMB' 000
Accounting profit/ (loss) before tax under IFRS	17,997	(57,114)
Difference arising from accounting policies based on IFRS	(4,366)	22, 811
Accounting profit/(loss) before tax under Accounting Standards for Enterprise Business of the PRC	13,631	(34,303)
Tax at the domestic rate of 15%	2,045	(5,145)
Net tax effect of expenses not deductible for tax purposes and other factors	1,885	7,346
Tax expense	3,930	2,201

In respect of tax losses carried forward in the amount of RMB50,595,000 (2002:RMB44,479,000), 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. PROFIT/ (LOSS) PER SHARE

(a) The calculation of basic profit / (loss) per share is based on the consolidated profit of RMB9,697,000 (2002: loss of RMB63,578,000) and on the 220,281,600 shares (2002: 220,281,600 shares) in issue during the year.

(b) During the year ended 31 December 2003 and 2002, there were no dilutive potential shares. Fully diluted profit / (loss) per share are not disclosed.

9. GOODWILL

	RMB'000
Cost	
At January 1, 2003	40,854
Disposals	(23,963)
At December 31, 2003	16,891
Amortization	
At January 1, 2003	6,030
Charge for the year	3,487
On disposals	(5,434)
At December 31, 2003	4,083

9. GOODWILL (continued)

Net book value	
At December 31, 2003	12,808
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, 2003	519,687	34,001	35,334	29,321	12,921	355	631,619
Additions	18,831	3,699	2,233	4,802	847	--	30,412
Disposals	(54,097)	(5,916)	(3,023)	(18,332)	(4,941)	(355)	(86,664)
At December 31, 2003	484,421	31,784	34,544	15,791	8,827	--	575,367
Depreciation							
At January 1, 2003	95,368	23,253	22,259	15,666	8,554	--	165,100
Charge for the year	14,435	4,162	2,662	3,071	1,076	--	25,406
On disposals	(4,597)	(4,353)	(2,672)	(7,002)	(4,060)	--	(22,684)
At December 31, 2003	105,206	23,062	22,249	11,735	5,570	--	167,822
Provision for impairment							
At January 1, 2003	8,032	--	26	--	--	--	8,058
On disposals	(4,477)	--	--	--	--	--	(4,477)
At December 31, 2003	3,555	--	26	--	--	--	3,581
Net book value							
At December 31, 2003	375,660	8,722	12,269	4,056	3,257	--	403,964
At December 31, 2002	416,287	10,748	13,049	13,655	4,367	355	458,461

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, 2003	305,853
Additions	--
Disposals	(38,619)
At December 31, 2003	267,234
Depreciation	
At January 1, 2003	51,558
Charge for the year	8,737
On disposals	(2,272)
At December 31, 2003	58,023
Net book value	
At December 31, 2003	209,211
At December 31, 2002	254,295

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 23).

10. PROPERTY, PLANT & EQUIPMENT (continued)

Management did not hire professional valuers and could not get information relating to recent sale of equivalent properties in the area. However, the directors are of the opinion that the carrying value is not less than its carrying cost.

11. SUBSIDIARIES

Subsidiaries held at 31 December 2003:

Company name	Registered capital RMB'000	Proportion of shares held 2003	Proportion of shares held 2002	Principal activities	Consolidated or not
Shenzhen Te Fa Tellus Property Management Co. Ltd.	7,050	100%	100%	Provision of services and management of industrial districts and employees' 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 fittings	Yes
Shenzhen Tellus Real Estate Trading Co. Ltd.	2,000	100%	100%	Properties trading agency	Yes
深圳市华日丰田汽车销售有限公司	2,000	60%	60%	Sale of automobile	Yes

12. INTERESTS IN ASSOCIATES

	2003 RMB'000	2002 RMB'000
Share of net assets	25,123	33,042
Amount due from associates	1,182	1,182
Amount due to associates	(990)	(990)
	25,315	33,234

12. INTERESTS IN ASSOCIATES (continued)

As at 31 December 2003, associates were:

Company name	Principal activities	Proportion of shares held 2003	2002
Shenzhen Xing Long Mechanical Models Co.	Manufacturing and sale of steel moulds for plastic products	50%	50%
Shenzhen Automobile Industry Import and Export Co.	Automobile import and export	35%	35%
Shenzhen Biao Yuan Automobile Maintenance Co. Ltd.	Provision of automobile repairs and inspection services	35.84%	35.84%
Shenzhen Biao Yuan General Automobile Co. Ltd.	Sale of automobile	46.10%	--
Shenzhen Hua Tong Automobile Co. Ltd.	Leasing of automobile, sale of automobile fittings	30%	100%

Shenzhen Hua Tong Automobile Co. Ltd. was a wholly-owned subsidiary last year and the Company disposed of 70% of its shares during 2003.

13. LONG-TERM INVESTMENTS

	2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	115,462	91,744
Listed shares, at cost	3,522	7,398
Debt securities	121	121
Less: provision for impairment	(35,330)	(41,715)
	83,775	57,548

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

	2003 RMB'000	2002 RMB'000
Developed properties held for sale, at cost	63,037	31,424
Properties under development, at cost	883	57,815
Less: provision for impairment	(2,327)	(2,327)
	61,593	86,912

15. INVENTORIES

	2003 RMB'000	2002 RMB'000
Raw materials, at cost	10,590	8,700
Work in progress, at cost	4,151	4,961
Finished goods, at cost	--	317
Merchandise purchased, at cost	88,325	55,487
Less: Provision for impairment	(15,041)	(15,136)
	88,025	54,329

16. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

	2003 RMB'000	2002 RMB'000
Shenzhen Special Economic Zone Development (Group) Company ("SDG")		
- current account, net	104,133	125,482
- unsecured and interest bearing	(8,744)	(27,000)
	95,389	98,482

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

	2003 RMB'000	2002 RMB'000
Balance at December 31	272,092	173,000

Bank deposits totalling RMB 179,116,800 (2002: RMB 108,453,425) have been pledged as security for the Group's general banking facilities in respect of bills payable (see note 23).

18. BANK LOANS

	2003 RMB'000	2002 RMB'000
Secured and interest bearing	63,217	74,803
Unsecured and interest bearing	169,945	208,860
	233,162	283,663

All the above bank loans bear interest at rates ranging from 5.04% to 8.40% per annum and are repayable within one year except for RMB61,707,189 in which the Group is under negotiation with the banks for the new repayment terms (2002: RMB 49,053,000). Particulars of assets pledged for bank loans are set out in note 23.

19. OTHER LOANS

	2003 RMB'000	2002 RMB'000
Unsecured and non-interest bearing	161,482	146,842
Unsecured and interest bearing	6,000	6,000
Secured and interest bearing	4,600	5,000
Secured and non-interest bearing	20,400	21,800
	192,482	179,642

19. OTHER LOANS (continued)

The unsecured and interest bearing loan totalling RMB 6,000,000 and the secured and interest bearing loan totalling RMB 4,600,000 bear interest at 6.50% and 7.00% per annum respectively. All the above other loans are repayable within one year except for RMB8,700,000 in which the Group is under negotiation with the lenders for the new repayment terms (2002: RMB 7,400,000).

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 totalling 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. During 2003, the Group repaid RMB1,160,000 to the Assets Management Companies. SDG has promised to repay its amounts due to the Group of RMB95,389,000 (see note 16 above) and amounts owed by other related companies to the Group of RMB11,281,000 (see note 24 below) by offsetting against the remaining loan balance totalling RMB163,282,000. The legal procedures of the loan capitalization are still in progress.

20. SHARE CAPITAL

	2003 RMB'000	2002 RMB'000
Registered, issued and paid-up (220,281,600 shares in total)		
193,881,600 "A" shares of RMB 1.00 per share	193,882	193,882
26,400,000 "B" shares of RMB 1.00 per share	26,400	26,400
	220,282	220,282

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	Accumulated losses RMB'000	Total RMB'000
At 1/1/2002	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)
Profit for the year	--	--	--	--	9,697	9,697
At 31/12/2003	124,248	36,389	3,210	55,480	(234,742)	(15,415)

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

b. The 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 represents surplus of revaluation of assets acquired.

22. CASH FLOW STATEMENT

70% interests in Shenzhen Hua Tong Automobile Co. Ltd. were disposed of in 2003 and fair value of assets and liabilities disposed as of 30 September 2003 are as follows:

	2003 RMB' 000
Current assets	31,012
Long-term investments	13,960
Property, plant & equipment	54,893
Current liabilities	(49,093)
Net assets	
- book value	50,772
- reconciliation	3,256
- fair value	54,028

Impact on cash arising from disposal of 70% interests in Shenzhen Hua Tong Automobile Co. Ltd. and non-consolidation of Shenzhen Hua Tong Automobile Co. Ltd. was as follows:

	2003 RMB' 000
Disposal of interests	37,820
Non-consolidation	(3,333)
	34,487

23. PLEDGE OF ASSETS

At 31 December 2003, certain of the Group's leasehold land and buildings with an aggregate net carrying value of RMB91,158,000 and fixed deposits amounting to RMB179,116,800 were pledged to secure bank and other loans of RMB88,217,200 and general banking facilities in respect of bills payable of RMB272,092,000 granted to the Group. Facilities amounting to RMB360,309,200 were utilized at 31 December 2003.

The above secured bank and other loans included RMB20,400,000, which were pledged by the Group's leasehold land and buildings with an aggregate net carrying value of RMB15,204,000, represented part of the loans taken up by SDG in the loan capitalization (see note 19 above).

As set out in note 26(a), several properties owned by the Company have been sealed up by Shenzhen Intermediate People's Court in 1999 as a result of the guarantee granted to Zhonghao (Group) Ltd..

As set out in note 26(c), 95% equity of Shenzhen Tellus Xin Yong Tong Automobile Dev. Co. Ltd owned by the Company has been sealed up by Shenzhen Development Bank in 2002 as a result of the guarantee granted to Shenzhen Jintian Industry (Group) Co. Ltd..

24. 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

24. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)
year end.

	Nature of relationship
Shenzhen Te Fa Swan Industry Co.	Fellow subsidiary
Shenzhen Te Fa Hua Tong Packing Industry Co. Ltd.	Fellow subsidiary
Shenzhen Mechanical Equipment Import & Export Co.	Fellow subsidiary
Shenzhen Te Long Fa Industry Co. Ltd.	Fellow subsidiary
Hong Kong Yu Jia Investment Co. Ltd.	Fellow subsidiary
Tellus (Jinbian) Development Co. Ltd.	Fellow subsidiary
Shenzhen Tellus Real Estate Dev. (Yue Yang) Co.	Fellow subsidiary
Shenzhen Te Fa Development Center Construction Management Co. Ltd.	Fellow subsidiary
Shenzhen Tellus Yang Chun Property Dev. Co. Ltd.	Fellow subsidiary
Shenzhen Long Gang Tellus Property Dev. Co. Ltd.	Fellow subsidiary
深圳市机械工贸有限公司	Fellow subsidiary

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

	2003 RMB'000	2002 RMB'000
SDG:		
Loan received	--	5,000
Interest paid	--	1,681
Shenzhen Te Fa Dev. Center Construction Management Co. Ltd.:		
Loan received	--	6,000
Interest paid	325	325
Shenzhen Te Fa Swan Industry Co.:		
Interest received	929	929
Shenzhen Te Fa Hua Tong Packing Industry Co. Ltd.:		
Interest received	146	251

Loans from SDG and Shenzhen Te Fa Dev. Center Construction Management Co., Ltd. bear interest at 6.58% and 6.50% per annum respectively. The interest charged for 2003 is waived by both lenders.

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

24. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Shenzhen Automobile Machinery Industry and Trading Co. Ltd., a subsidiary of the Company, provided a guarantee for bank loans totalling RMB36 million granted to Shenzhen Automobile Industry Import and Export Co. (see note 25)

A contract was signed between the Company and Shenzhen Te Fa Hua Tong Packing Industry Co., Ltd. in respect of the loan of RMB5.037 million provided to the latter by the Company on 22 July 2003. Under the contract, Shenzhen Te Fa Hua Tong Packing Industry Co., Ltd. was allowed to repay the loan by certain properties, equipment, motor vehicles and receivables at a consideration revalued by professional valuers.

Some net balances due from / (to) related companies at 31 December 2003 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:

	2003 RMB'000	2002 RMB'000
Shenzhen Te Fa Swan Industry Co. Ltd.	21,571	20,858
Shenzhen Te Fa Hua Tong Packing Industry Co. Ltd.	--	4,619
Shenzhen Mechanical Equipment Import & Export Co.	4,811	4,763
Shenzhen Te Long Fa Industry Co. Ltd.	(8,478)	(7,895)
Hong Kong Yu Jia Investment Co. Ltd.	210	1,055
Tellus (Jinbian) Development Co. Ltd.	299	237
Shenzhen Tellus Real Estate Dev. (Yue Yang) Co.	220	195
Shenzhen Te Fa Dev. Center Construction Management Co. Ltd.	(6,000)	(6,000)
Shenzhen Tellus Yang Chun Property Dev. Co. Ltd.	(256)	(170)
深圳市机械工贸有限公司	--	(237)
Shenzhen Long Gang Tellus Property Dev. Co. Ltd.	(1,096)	(1,096)
	11,281	16,329

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

	2003 RMB'000	2002 RMB'000
Accounts receivable and prepayments	27,110	32,282
Other loans- unsecured and interest bearing	(6,000)	(6,000)
Accruals and other payables	(3,774)	(3,898)
Accounts payable	(6,055)	(6,055)
	11,281	16,329

24. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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).

25.CONTINGENT LIABILITIES

At 31 December 2003, the Group had provided guarantee in respect of short-term bank loans granted to the following party:

	2003 RMB'000	2002 RMB'000
Shenzhen Automobile Industry Import and Export Co.	36,000	46,000

Due to the disposal of the Group's interests in Shenzhen Automobile Industry Import and Export Co. in 2002, Shenzhen Automobile Industry Import and Export Co. became an associate of the Company and the guarantee provided by the Company's wholly-owned subsidiary, Shenzhen Automobile Machinery Industry and Trading Co. Ltd., has become a contingent liability of the Group (see note 24).

26. MATERIAL LAWSUIT AND ARBITRATION

(a). 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 an industrial warehouse, five storeys of industrial workshops and one residence apartment of the Company.

(b). 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 judgement was suspended during the retrial. Since the target of the litigation was located out of Futian District, the second trial was undertaken by the Shenzhen Intermediate People' Court on 18 March 2003, which overruled the judgement of the Futian District People's Court. The Shenzhen Intermediate People's Court admitted that the original contract entered between Real Estate Co. and Jinlu Company is still effective. Provision of RMB4.9 million has been made by the Group. As Real Estate Co. is still under

26.MATERIAL LAWUIT AND ARBITRATION (continued)

negotiation with Jinlu Company, in the opinion of directors, no further provision is deemed necessary as of the balance sheet date.

(c). Shenzhen Development Bank submitted a lawsuit against Shenzhen Jintian Industry (Group) Co. Ltd. ("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 2003, Shenzhen Intermediate People's

26. MATERIAL LAWSUIT AND ARBITRATION (continued)

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 thereon.

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

	Net profit for the year RMB'000	Net assets RMB'000
As reported in the statutory consolidated financial statements in PRC	5,175	211,162
Adjustment for interest capitalized as cost of property, plant & equipment	--	(4,617)
Reversed amortization of investments in associates	2,327	(3,829)
Revaluation of workshops invested	(269)	2,151
Profit from subsidiaries not recognized previously	157	--
Interest received from the related parties	768	--
Gain from waiver of accounts payable	1,539	--
As reported in the consolidated financial statements prepared in accordance with IFRS	9,697	204,867

28. 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
Other operating expenses	(49,763)	4,268	(45,495)
Loss from disposal of a subsidiary	--	(4,268)	(4,268)
	(49,763)	--	(49,763)
Pledged bank deposits	--	108,453	108,453
Cash and bank balances	213,558	(108,453)	105,105
	213,558	--	213,558

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 15 April 2004.