

SHENZHEN TELLUS HOLDING CO., LTD.

ANNUAL REPORT 2003

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 has been prepared in Chinese version and English version respectively. In the event of difference in interpretation between the two versions, the Chinese report shall prevail.

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.

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

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

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I. Company Profile

1. Legal Name of the Company in Chinese: 深圳市特力（集团）股份有限公司
Legal Name of the Company in English: ShenZhen Tellus Holding Co., Ltd.
2. Legal Representative: Zhang Ruili
3. Secretary of the Board of Directors: Ren Yongjian
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Authorized Representative in Charge of the Securities Affairs: Li Mingjun
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E-mail: szlmj@163.net
4. 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 Chosen by the Company for Disclosing the Information:
Securities Times (Shenzhen) and Ta Kung Pao (Hong Kong)
Internet Website 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 Holding 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
Registration number of enterprise legal person's business license: 19219221-0
 - (2) Registered number of taxation: 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

II. Summary of Financial Highlight and Business Highlight

(I) Accounting data and financial indexes as of the year 2003

Unit: RMB

Total profit	13,630,669.73
Net profit	5,175,063.43
Net profit after deducting non-recurring gains and losses	-5,157,990.61
Profit from main operations	124,539,718.81
Other operating profit	11,269,400.88
Operating profit	2,968,591.81
Investment income	12,454,767.59
Subsidy income	136,948.00
Net non-operating income/expenses	-1,929,637.67
Net cash flow arising from operating activities	100,750,071.64
Net increase in cash and cash equivalents	-18,593,865.89
Note: Items of non-recurring gains and losses and the relevant amount	
1. Income from equity transfer	9,731,144.68
2. Reserve for impairment switched back	1,820,000.00
3. Non-operating income	5,187,133.51
4. Non-operating expenses	7,116,771.18
5. Subsidy income	136,948.00
6. Funds occupied fee received from non-finance enterprises	574,599.03
7. Subtotal	10,333,054.04

Note: 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.

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

Items	2003	2002	2001
Income from main operations	1,436,382,877.72	1,289,321,184.23	703,244,863.19
Net profit	5,175,063.43	-40,980,896.04	5,144,050.69
Total assets	1,274,704,955.23	1,232,230,347.02	1,368,433,164.58
Shareholders' equity	211,162,165.06	203,523,567.11	241,238,794.25
Fully diluted earnings per share	0.02	-0.19	0.02
Weighted average earnings per share	0.02	-0.19	0.02
Fully diluted earnings per share deducting non-recurring gains and losses	-0.02	-0.16	-0.04

Weighted average earnings per share deducting non-recurring gains and losses	-0.02	-0.16	-0.04
Net assets per sharer	0.96	0.92	1.10
Net assets per share after adjustment	0.10	0.04	0.17
Net cash flow per share arising from operating activities	0.46	0.55	0.26
Fully diluted return on equity (%)	2.45	-20.14	2.13
Weighted average return on equity (%)	2.51	-18.56	9.38
Fully diluted return on equity deducting non-recurring gains and losses (%)	-2.44	-17.21	-4.01
Weighted average return on equity deducting non-recurring gains and losses (%)	-2.50	-15.86	-17.62

(III) Supplemental statement of profit as of year 2003

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	2003			
	Return on equity (%)		Earnings per share (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	58.98	60.42	0.57	0.57
Operating profit	1.41	1.44	0.01	0.01
Net profit	2.45	2.51	0.02	0.02
Net profit after deducting non-recurring gains and losses	-2.44	-2.50	-0.02	-0.02

Note: Calculation formula for major financial indexes

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

Weighted average earnings per share= $P / (SO + S1 + Si \times Mj / MO)$

Among them: P stands for the profit as of the report period; SO stands for the total shares at the period-begin; S1 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; Si stands for the number of shares increased due to issuance of new shares or debt-to-equity swap in the report period; Sj stands for the number of shares reduced due to buy-back or shrinkage of the shares; Mo stands for the number of months in the report period; Mi stands for the number of months from the next month after the increase of shares to the end of the report period; Mj stands for the number of months from the next month after decrease of the shares to the end of the report period.

Net assets per share = shareholders' equity as at the year-end/total number of ordinary

shares at the year-end

Net assets per share after adjustment = (shareholders' equity as at the year-end – 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 ordinary shares as at the year-end

Net cash flow per share arising from operating activities = Net cash flow arising from operating activities / total number of ordinary shares as at the year-end

Fully diluted return on equity= Net profit / shareholders' equity as at the year-end × 100%

Weighted average return on equity = $P / (EO * NP \div 2 + Ei \div MO - Ej \times Mj \div MO)$

Among them: P stands for the profit as of the report period; E_o 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_o 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.

(IV) Changes in shareholders' equity (Unit: RMB)

Items			Share capital	Capital reserve	Surplus reserve	Statutory welfare fund	Retained profit	Total shareholders' equity
Amount	at	the	220,281,600.00	170,568,120.79	54,295,698.45	3,210,576.83	-241,422,761.26	203,523,567.11
period-begin								
Increase	in	the	0	2,306,954.94	0	0	5,175,063.43	7,638,597.95
period								
Decrease	in	the	0	0	0	0	0	0
report period								
Amount	at	the	220,281,600.00	172,875,075.73	54,295,698.45	3,210,576.83	-236,247,697.83	211,162,165.06
period-end								

Explanation on reason for change: increase of shareholders' equity is mainly due to realization of profit as of the report period and debts reorganization.

Reason for increase of capital public reserve:

- (1) Reserve for equity investment as of the report period has increased by RMB 1,539,203.12; including debts reduction of RMB 1,537,751.83, from which Shenzhen SD Tellus Real Estate Co., Ltd., the subsidiary of the Company, came to an agreement of debts exemption with the debtee in 2003; and Shenzhen Huari TOYOTA Auto Vendition Co., Ltd. could not pay the debts amounting to RMB 2,418.82 and increased by RMB 1,451.29 due to 60% equity held by the Company.
- (2) Difference price due to related transaction as of the report period has increased by RMB 767,751.82, which the Company received the funds occupied fees exceeding interest rate of fixed deposit for one year from the related parties.

III. Changes in Share Capital and Particulars about Shareholders

(I) Changes in share capital (Unit: share)

Type of shares	Before the change	Increase/decrease in this time (+, -)						After the change
		Rationed share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Sub-total	
I. Unlisted Shares								
1. Sponsors' 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	0	0	0	0	0	0	0	0
Foreign legal person's shares	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
2. Raised legal person's shares	0	0		0	0	0	0	0
3. Inner employees' shares		0	0	0	0	0	0	
4. Preference shares or others	0	0	0	0	0	0	0	0
Total unlisted shares	159,588,000	0	0	0	0	0	0	159,588,000
II. Listed Shares								
1. RMB ordinary shares	34,284,600	0	0	0	0	0	0	34,284,600
2. Domestically listed foreign shares	26,400,000	0	0	0	0	0	0	26,400,000
3. Overseas listed foreign shares	0	0	0	0	0	0	0	0
4. Shares held by senior executives	9,000	0	0	0	0	0	0	9,000
Total listed shares	60,693,600	0	0	0	0	0	0	60,693,600
III. Total shares	220,281,600	0	0	0	0	0	0	220,281,600

(II) Issuance and listing of shares

1. The Company had issued neither additional shares nor derivative securities in recent three years.

2. In the report period, the Company had never been involved in any events which may cause change of the total shares and the equity structure such as bonus shares, share capital converted, rationed share, additional issuance, absorption and combination, transferring convertible company bonds into shares, reduction of capital, listing of inner employees' shares or company's employees' shares, etc..

3. The company had no present inner employees' share.

(III) About shareholders

1. Ended the end of the report period, the Company had totally 17223 shareholders, including 13085 shareholders of A-share and 4138 shareholders of B-share.

2. Particulars about shares held by the top ten shareholders

Full name of Shareholder	Increase / decrease in the report year (share)	Shares held at the year-end (share)	Proportion (%)	Type of shares	Share pledged or frozen	Nature of shareholders
Shenzhen Special Economic Zone Development (Group) Company	0	159588000	72.45	Non-circulation	159588000	State-owned shareholder
DBS BICKERS (HONG KONG) LTD A/C CLIENTS	Unknown	363600	0.17	Circulation	Unknown	B-share
JIN YAN	Unknown	312200	0.14	Circulation	Unknown	B-share
WU SHAO XIAN	Unknown	229070	0.10	Circulation	Unknown	A-share
WANG ZI QIANG	Unknown	224000	0.10	Circulation	Unknown	B-share
CAI ZU JIAN	Unknown	200000	0.09	Circulation	Unknown	B-share
CHENG DONG LU	Unknown	190000	0.09	Circulation	Unknown	B-share
CUI JUN MIN	Unknown	186858	0.08	Circulation	Unknown	B-share
FU, YA KUANG	Unknown	180000	0.08	Circulation	Unknown	B-share
XU HONG BO	Unknown	171550	0.08	Circulation	Unknown	B-share
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.					

(III) About the controlling shareholder of the Company

(1) Name of the controlling shareholder of the Company: 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.

(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 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.

(IV) Particulars about shares held by the top ten shareholders of circulation share

Full name of Shareholder	Shares held at the year-end (share)	Type of shares (A-share, B-share, H-share or others)
DBS BICKERS (HONG KONG) LTD A/C CLIENTS	363600	B-share
JIN YAN	312200	B-share
WU SHAO XIAN	229070	A-share
WANG ZI QIANG	224000	B-share
CAI ZU JIAN	200000	B-share
CHENG DONG LU	190000	B-share
CUI JUN MIN	186858	B-share
FU YA KUANG	180000	B-share
XU HONG BO	171550	B-share
CHEN JIAN	170000	B-share

Note: Among the top ten shareholders of circulation share as listed above, the Company is unknown whether there exists associated relationship or not.

IV. Particulars about directors, supervisors, senior executives and employees

(I) Directors, supervisors and senior executives

1. Basis information

Name	Gender	Age	Title	Office term	Number of holding shares (share)	
					At the period-begin	At the period-end
Zhang Ruili	Male	40	Director, Chairman of the Board	Apr. 18, 2003- Apr. 18, 2006	0	0
Mao Songbai	Male	48	Director, General Manager	Apr. 18, 2003- Apr. 18, 2006	0	0
Guo Dongri	Male	38	Director, Deputy General Manager	Apr. 18, 2003- Apr. 18, 2006	0	0
Wang Hailin	Male	44	Director	Apr. 18, 2003- Apr. 18, 2006	0	0
Yang Feng	Male	49	Director	Apr. 18, 2003- Apr. 18, 2006	0	0
Jiang Qinjian	Male	41	Director	Apr. 18, 2003- Apr. 18, 2006	9000	9000

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Zhou Chengxin	Male	48	Independent Director	Apr. 18, 2003- Apr. 18, 2006	0	0
Shi Weihong	Female	36	Independent Director	Apr. 18, 2003- Apr. 18, 2006	0	0
Zhang Yuan	Female	43	Independent Director	Jun. 19, 2003- Apr. 18, 2006	0	0
Li Binxue	Male	45	Supervisor, Chairman of the Supervisory Committee	Apr. 18, 2003- Apr. 18, 2006	0	0
Chen Shuipu	Male	47	Supervisor	Apr. 18, 2003- Apr. 18, 2006	0	0
Luo Tao	Male	42	Supervisor	Apr. 18, 2003- Apr. 18, 2006	0	0
Hu Xiaomei	Female	43	Supervisor	Apr. 18, 2003- Apr. 18, 2006	2000	0
Wu Yonggang	Male	39	Deputy General Manager	Apr. 18, 2003- Apr. 18, 2006	0	0
Ren Yongjian	Male	40	Chief Financial Officer, Secretary of the Board	Apr. 18, 2003- Apr. 18, 2006	0	0

Note: Particulars about directors and supervisors holding the post in Shareholding Company

Name	Name of Shareholding Company	Title in Shareholding Company	Office term
Wang Hailin	Shenzhen Special Economic Zone Development (Group) Company	Deputy General Economist	Nov. 2001-now
Yang Feng	Shenzhen Special Economic Zone Development (Group) Company	Minister of human resource Dept.	Jun. 2000-now
Jiang Qinjian	Shenzhen Special Economic Zone Development (Group) Company	Minister of Planing & Financing Dept.	Mar. 2001-now
Luo Tao	Shenzhen Special Economic Zone Development (Group) Company	Minister of the 2 nd Dept. of the Group	Jul. 1996-now

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

1. In the report period, the remuneration and welfare of directors, supervisors and senior executives taking the position in the Company were determined in accordance with the present assignment system, welfare system of the Nation and the Company and work position in the Company.

2. In the report period, the Company has 15 directors, supervisors and senior executives in office at present, among them, 8 persons drew the remuneration from the Company. The total annual remuneration received from the Company was RMB 1.0281 million. The total annual remuneration of the top three directors drawing the highest payment was RMB 596,000, and the total annual remuneration of the top three senior executives drawing the highest payment was RMB 616,100.

As decided by the extraordinary shareholders' general meeting 2002 of the Company, the

allowance of three independent directors of the Company was respectively RMB 30,000 per year.

3. Among present directors, supervisors and senior executives, three enjoy the total annual payment between RMB 150,000 and RMB 180,000 respectively, and 2 enjoy the total annual payment between RMB 200,000 and RMB 220,000 respectively.

4. Directors, supervisors and senior executives taking the position in the Company received their remuneration according to their position in the Company, Wang Hailin, Yang Feng, Jiang Qinjian, Luo Tao, Chen Shuipu, Hu Xiaomei and Wu Yonggang drew their remuneration from the shareholding companies or other associated companies, while received no payment from the Company.

(III) During the report period, name of directors, supervisors and senior executives leaving the office and the reason

1. In the report period, the office term of the 3rd Board of Directors of the Company has expired, so that the Company conducted election at expiration of office terms to the Board of Director. The 4th Board of Directors consisted of 8 directors, namely Zhang Ruili, Mao Songbai, Guo Dongri, Wang Hailin, Yang Feng, Jiang Qinjian, Shi Weihong and Zhou Chengxin; of them, Shi Weihong and Zhou Chengxin were independent directors. The said proposal was examined and approved by the 1st extraordinary shareholders' general meeting 2003 on Apr. 18, 2003.

2. The office term of the 3rd Supervisory Committee of the Company has expired, so that the Company conducted election at expiration of office terms to the Supervisory Committee. The 4th Supervisory Committee consisted of 4 supervisors, namely Li Binxue, Chen Shuipu, Luo Tao and Hu Xiaomei. The said proposal was examined and approved by the 1st extraordinary shareholders' general meeting 2003 on Apr. 18, 2003.

The Public Notice of resolutions of the said extraordinary shareholders' general meeting was published in Securities Times and Ta Kung Pao dated Apr. 21, 2003.

3. On Jun. 19, 2003, the Shareholders' General Meeting 2003 unanimously approved Mr. Zhang Yuan to take the post of independent director of the Group. The relevant resolution was published in Securities Times and Ta Kung Pao dated Jun. 20, 2003.

4. On Mar. 12, 2004, as decided by the 4th provisional meeting of the 4th Board of Directors, Mr. Ren Yongjian was engaged as Secretary of the Board, Ms. Li Chunxiu no longer took the said position. The relevant resolution was published in Securities Times and Ta Kung Pao dated Mar. 16, 2004.

(IV) About employees

By the end of the year 2003, the Company had totally 1272 on-the-job employees, including 83 financial personnel, 143 administration personnel; the Company has 15 master, 138 bachelor, 202 persons graduated from 3-years regular college and 933 persons graduated from senior higher or lower. The Company needs bear the expenses of 85 retirees.

V. Administrative Structure

(I) The Company's Administrative Structure

In 2003, the Company established and perfected a series of regulations and rules in accordance with the standardized documents related with Administration Rules of Listed Companies promulgated by CSRC in order to further perfect the Company's administrative structure. In accordance with Company Law, Securities Law and the relevant regulations of CSRC, the Company successively revised the Articles of Association of the Company, and set down Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of Board of Directors, Working System of Information

Disclosure, Provisional Measure on Management for Special Funds of Board of Directors, Management Measure on Classification Authorization, Working Detailed Rules of General Manager and Management System of Investor Relationship etc., and set up the Remuneration and Checking Committee of Board of Directors, at the same time, enacted Rules for the Implementation of Remuneration and Checking Committee of Board of Directors.

(II) Performance of Independent Directors:

The Company engaged three professional majoring in accounting and law as independent directors of the 4th Board of Directors of the Company. Three independent directors performed their duties in line with the relevant laws and regulations, actively knew the Company's business and operation situations and issued independent opinion to the significant events of the Company since holding their post, and gave full play to active function in order to ensure the benefit of the Company and medium and small shareholders.

(III) 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.

(IV) At the end of report period, the Company's Board of Directors evaluated senior

executives aiming at work outstanding achievement.

VI. Brief of the Shareholders' General Meeting

During the report period, the Company held the annual shareholders' general meeting 2002 and the 1st extraordinary shareholders' general meeting.

(I) Annual Shareholders' General Meeting 2002

The Board of Directors of the Company published the notification on holding Annual Shareholders' General Meeting 2002 in the designated newspapers namely Securities Times and Hong Kong Ta Kung Pao on May 20, 2003. On the morning of Jun.19, 2003, the Company held the Annual Shareholders' General Meeting 2002 of ShenZhen Tellus Holding Co., Ltd. at the meeting room on 5/F, Yongtong Building, Renmin North Road, Shenzhen. Two shareholders attended the Meeting, including two shareholders of A-share and 0 shareholder of B-share, representing 159,590,000 shares (including 159,590,000 shares of A-share and 0 share of B-share) and taking 72.45% of total shares of the Company, which was in compliance with the valid shares regulated in the Articles of Association of the Company. The Company's directors, supervisors and senior executives above the middle-level attended the Meeting. The following proposals were approved by means of signed voting:

1. Examined and approved Annual Report 2002 and its Summary (domestic and international version);
2. Examined and approved Work Report 2002 of the Board of Directors;
3. Examined and approved Work Report 2002 of the Supervisory Committee
4. Examined and approved 2002 Profit Distribution Plan;
5. Examined and approved proposal on engaging auditor for the year 2003 and paying 2002 annual auditor's expenses;
6. Examined and approved proposal on additionally electing independent director;
7. Examined and approved proposal on revising the Articles of Associations of the Company;
8. Examined and approved proposal on Rules of Procedure of the Shareholders' General Meeting;
9. Examined and approved proposal on Rules of Procedure of the Board of Directors;
10. Examined and approved proposal on Work System of Information Disclosure;
11. Examined and approved proposal on Provisional Measure on Management for Special Funds of Board of Directors
12. Examined and approved proposal on Management Measure on Classification Authorization;

The lawyers of Guangdong China Commercial Law Co. witnessed the Meeting in locale and issued Legal Opinion with the aforesaid resolutions valid.

The Public Notice on Resolutions of the Annual Shareholders' General Meeting 2002 was published in Securities Times and Hong Kong Ta Kung Pao respectively dated Jun. 20, 2003.

(II) The 1st Extraordinary Shareholders' General Meeting of 2003

The Board of Directors of the Company published the notification on holding the 1st

Extraordinary Shareholders' General Meeting 2003 in the designated newspapers namely Securities Times and Hong Kong Ta Kung Pao on Mar. 18, 2003. On the morning of Apr. 18, 2003, the Company held the 1st Extraordinary Shareholders' General Meeting 2003 of ShenZhen Tellus Holding Co., Ltd. in the meeting room on 5/F, Yongtong Building, Renmin North 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 total shares of the Company, which was in compliance with the valid shares regulated in the Articles of Association of the Company. The partial directors, supervisors and new director candidates attended the Meeting. The following proposals were approved by means of signed voting:

1. Approved proposal on electing members of the 4th Board of Directors of the Company; The Meeting elected the members of the 4th Board of Directors, namely Zhang Ruili, Mao Songbai, Guo Dongri, Wang Hailin, Yang Feng, Jiang Qijian, Zhou Chengxin and Shi Weihong, among them, Zhou Chengxin and Shi Weihong are independent directors of the Company.

2. Approved proposal on electing members of the 4th Supervisory Committee of the Company;

The Meeting elected the members of the 4th Supervisory Committee, namely Li Binxue, Chen Shuipu and Luo Tao.

3. Hu Xiaomei was elected as employee supervisor of the 4th Supervisory Committee through election of the Employees' Representative Convention.

The lawyers of Shenzhen Commerce & Finance Law Offices witnessed the Meeting in locale and issued Legal Opinion with the aforesaid resolutions valid.

The Public Notice on Resolutions of the 1st Shareholders' General Meeting 2003 was published in Securities Times and Hong Kong Ta Kung Pao respectively dated Apr. 21, 2003.

VII. Report of the Board of Directors

(I) Discussion and analysis to operation of the Company

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.

(II) Production and operation in the report period

1. Scope of main operations and their management

The Company was mainly engaged in automobile inspection and maintenance, automobile trade and lease service etc..

(1) In the report period, the Company's income from main operations and profit from main operations was RMB 1,436.38 million and RMB 124.54 million respectively. The Company's income from main operations was classified as follows according to industrial products:

Unit: RMB'0000

Products	Income from main operations	Cost of main operations	Gross profit ratio (%)
Automobile inspection and maintenance	10,972	7,693	29.89
Automobile trade	126,344	121,174	4.09
Lease service	6,322	1,869	70.44

(2) The market share of the Company's main operations and the operating activities of the Company's business taking over 10% in gross profit of main operations:

In the report period, Shenzhen Auto Industrial Trading Corporation, a wholly owned enterprise of the Company, accomplished sales income of automobile amounting to RMB 1,118.18 million, paid sales cost amounting to RMB 1,078.23 million and realized gross profit amounting to RMB 11.47 million.

(3) In the report period, there was no relatively great change in the Company's main operations and their structure and capability of main operations.

2. Operations and achievements 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 Tellus New Yongtong Automobile Development Co., Ltd. (hereinafter referred to as New Yongtong Company), Shenzhen Huatong Automobile Co. (hereinafter referred to as Huatong Automobile), Shenzhen SDG Tellus Property Management Co., Ltd. (hereinafter referred to as Property Company), Shenzhen SDG Tellus Real Estate Co., Ltd. (hereinafter referred to as Real Estate Company), Shenzhen Zhongtian Industrial Co., Ltd. (hereinafter referred to as Zhongtian Company), Shenzhen SDG Huari Automobile Co. (hereinafter referred to as Huari Automobile) and Shenzhen New Yongtong Motor Vehicle Inspecting Equipments Company (hereinafter referred to as Inspecting Equipments). The main operations and managements of the aforesaid holding enterprises was as follows:

Unit: RMB'0000

	Auto Industrial Trading	New Yongtong	Huatong Automobile	Property Company	Zhongtian Company	Huari Automobile	Inspecting Equipments	Real Estate	Huari Auto Trade
Registered capital	5,896	3,290	5,447	705	725	USD500	1,000	3,115	200
Income from main operations	113,136	3,890	1,709	1,454	415	20,349	1,261	0	14,501

SHENZHEN TELLUS HOLDING COMPANY LIMITED

Profit from main operations	5,013	1,349	1,159	715	358	2,318	465	0	970
Net profit	1,169	353	-326	29	120	-17	98	-104	289

3. Main suppliers and customers of the Company

In the report period, the Company's total purchase amount from the top five suppliers was RMB 1100 million, accounting for 90% in total purchase amount in the whole year. The Company's main sales customers were terminal consumers and the sales income from the top five customers occupied no more than 3% in the income from main operations.

4. Problems and difficulties from the operation and their solutions

In 2003, though the Company made up the deficit. However, viewing from the long term, it was still very urgent to solve how to enhance the profitability capability of assets, effectively integrate automobile-rear market resources and property resources and form a united brand with strong force. Besides, it was also a relatively large problem faced by us to how to increase the cash flow, enhance financing capability and settle the capital gap of operation, loan refund and development.

Aiming at the above problems, the Company would adopt the following measures to settle them:

Through resources integration, the Company would centralize the human resources, financial resources and material resources to develop the comprehensive service of automobile, establish chain operating service system of automobile maintenance, fully exert the existing technical and brand advantages of the Company and gradually develop automobile inspecting equipments and automobile network comprehensive service with high technical contents and depend on E-commerce network platform to conduct further integration of resources so as to strive for occupying the lead position in the automobile-rear market industry in Shenzhen. At the same time, the Company would continue to conduct liability reorganization, expand financing channels through actively dunning credit, liquidizing or disposing stock assets, and completely change the Company's capital position so as to create normal and stable productive and operating 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.

In the report period, there was no significant project invested with proceeds not raised through share offering.

(IV) Financial position and operating results of the Company

Unit: RMB

Items	Dec. 31, 2003	Dec. 31, 2002	Increase/decrease (%)
Total assets	1,274,704,955.23	1,232,230,347.02	+3.45
Shareholders' equity	211,162,165.06	203,523,567.11	+3.75

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Long-term liabilities	8,365,096.20	8,532,148.40	-1.96
Income from main operations	1,436,382,877.72	1,289,321,184.23	+11.39
Profit from main operations	124,539,718.81	110,507,981.38	+12.70
Net profit	5,175,063.43	-40,980,896.04	
Net increase in cash and cash equivalents	-18,593,865.89	8,600,632.84	

Explanations:

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. 2003, 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.

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.

(V) Business plan for 2004

In 2004, the guiding thought in work of Tellus Group is: further improve the legal person's administrative mechanism, standardize the operation of the enterprise and operate and manage the enterprise according to modern enterprise system. Reinforce the inspection and assessment to the operating responsibility contract, improve decision-making and supervision mechanism and enhance profitability capability; strengthen financial management and increase financing capability; strengthen the integration of resources in the enterprise, reorganize the business flow and conduct association with brand, service and business so as to enhance the competitive capability in the market. Besides, expand the market with development, fully enhance the image of the enterprise and speed up increasing the market share of leading industry so as to make Tellus Group to truly enter into the healthy and stable development track.

(VI) Routine work of the Board of Directors

1. Meetings and resolutions of the Board in the report period

In 2003, the Board of the Company totally held 8 meetings with details as follows:

(1) The 10th Meeting of the 3rd Board of Directors of the Company was held on Mar. 17, 2003 by means of communications. 9 directors attended the Meeting, accounting for 100% of total number of directors. The following proposals have been considered and passed at the Meeting: Proposal on Recommending Candidates of Directors for the 4th Board and Resolution on Holding the 1st Temporary Shareholders' General Meeting 2003. The said resolutions were published on Securities Times and Ta Kung Pao dated Mar. 18, 2003.

(2) The 11th Meeting of the 3rd Board of Directors of the Company was held in Conference Room, 5/F, Tellus Building on the morning of Apr. 11, 2003. 9 directors should be present and actually 7 of them attended the Meeting. Chairman of the Board Song Renquan authorized Director Zhang Ruili to preside over the Meeting and vote on his behalf while Director Zhang Ruilong authorized Director Guo Dongri to attend the Meeting and vote on his behalf. 3 supervisors attended the Meeting as non-voting delegates. The following proposals have been considered and passed at the Meeting: Annual Report 2002 and its Summary (A and B shares), Auditors' Report 2002 (Domestic and oversea versions), Profit Distribution Preplan 2002, Work Report of the Board 2002, Proposal on Engaging Auditors for 2003 and Auditing Expenses for 2002 and Proposal on Holding Annual Shareholders' General Meeting 2002 with time of holding proclaimed separately. The said resolutions were published on Securities Times and Ta Kung Pao dated Apr. 15, 2003.

(3) The 1st Meeting of the 4th Board of Directors of the Company was held in Conference Room, 5/F, Yongtong Building, Shenzhen on the morning of Apr. 18, 2003. 8 directors should be present and actually 7 of them attended the Meeting. Director Yang Feng authorized Director Wang Hailin to attend the Meeting and vote on his behalf and all supervisors attended the Meeting as non-voting delegates. The following proposals have

been considered and passed at the Meeting: Electing Mr. Zhang Ruili as Chairman in the 4th Board of the Group, Proposal on Engaging Senior Executives, Engaging Mr. Mao Songbai as General Manager of the Group, Engaging Mr. Ren Yongjian as Chief Financial Officer of the Group, Engaging Ms. Li Chunxiu as Secretary of the Board of the Group and Engaging Mr. Guo Dongri and Mr. Wu Yonggang as Deputy General Managers of the Group. For details of the relevant contents, please refer to Securities Times and Ta Kung Pao dated Apr. 21, 2003.

(4) The 1st Temporary Meeting 2003 of the 4th Board of Directors of the Company was held in Conference Room, Xiaomeisha Hotel on May 16, 2003. 8 directors should be present and actually 7 of them attended the Meeting. Director Yang Feng authorized Director Wang Hailin to attend the Meeting and vote on his behalf and 4 supervisors and partial leaders in middle-level attended the Meeting as non-voting delegates. The following proposals have been considered and passed at the Meeting: Proposal on Increasing to Set up Candidates of Independent Directors, Proposal on Amending the Articles of Association of the Company, Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of the Board of Directors, Detailed Rules on Work of General Manager, System on Information Disclosure, Provisional Measure on Management of Subentry Funds of the Board, Management Measure on Graded Authorization and Proposal on Holding Annual Shareholders' General Meeting 2002. The said resolutions were published on Securities Times and Ta Kung Pao dated May 20, 2003.

(5) The 3rd Meeting of the 4th Board of Directors of the Company was held in Shenzhen China Automotive Training Center on Aug. 8, 2003. 9 directors should be present and actually 7 of them attended the Meeting. Independent Director Zhou Chengxin authorized Independent Director Shi Weihong to attend the Meeting and vote on his behalf. Semi-annual Report 2003 and its Summary (Domestic and oversea versions) has been considered and passed at the Meeting. The said resolution was published on Securities Times and Ta Kung Pao dated Aug. 12, 2003.

(6) The 2nd Temporary Meeting of the 4th Board of Directors of the Company was held in Room No. 502, Yongtong Hotel on the morning of Sept. 12, 2003. 9 directors should be present and actually all of them attended the Meeting, where discussed the contents in Civil Judgment [(2002) SZFJYCZ No. 291] released by Guangdong Shenzhen Intermediate People's Court. The present persons unanimously agreed to obey the judgment on equity transfer dispute between Pingtai Company and the Company from Shenzhen Intermediate People's Court and decided not to appeal any more.

(7) The 4th Meeting of the 4th Board of Directors of the Company was held in Peony Hall No. 6, Shenzhen Guest House on Oct. 21, 2003. 9 directors should be present and actually 6 of them attended the Meeting. Director Jiang Qinjian authorized Director Wang Hailin to attend the Meeting and vote on his behalf. The 3rd Quarterly Report of the Company (Including Financial Report) has been considered and passed at the Meeting. The said resolution was published on Securities Times and Ta Kung Pao dated Oct. 22, 2003.

(8) The 3rd Temporary Meeting of the 4th Board of Directors of the Company was held in Hotel Good View Sangem Dongguan on Dec. 30, 2003. 9 directors should be present and actually all of them attended the Meeting. 4 supervisors and relevant senior executives

attended the Meeting as non-voting delegates. The following proposals have been considered and passed at the Meeting: Proposal on Setting up Salary, Remuneration and Assessment Committee of the Board of the Company, Detailed Rules on Implementation in Salary, Remuneration and Assessment Committee of the Board, Management System on Investors' Relationships of the Company, Proposal on Recommending Such Four Work Groups as Restructuring Work Group of Huatong Automobile Co. and etc. to Gain Outstanding Contribution Award, Proposal on Liabilities Reorganization in Auto Industrial Trading Corporation, Proposal on Applying for Cancellation of Partial Bad Assets in Auto Industrial Trading Corporation and Work Summary and Duties Presentation of Members in the Management. The relevant resolutions were published on Securities Times and Ta Kung Pao dated Jan. 6, 2004.

2. Implementation of the Board on resolutions of the Shareholders' General Meetings

According to the resolutions passed by Annual Shareholders' General Meeting 2002, the Company would not distribute profits nor convert reserve into share capital in 2003.

(VII) The profit distribution preplan

In 2003, neither profit distribution nor capitalization would be conducted. This profit distribution plan still should be submitted to Annual Shareholders' General Meeting 2003 for consideration and approval.

(VIII) Other issues

In the report period, the Company did not change the designated newspapers for information disclosure.

(IX) Special explanation

1. Special explanation of CPA on capital occupied by the controlling shareholder and other related parties of the Company

Special Opinion of Shenzhen Nanfang-Minhe Certified Public Accountants on Capital Occupied by the Controlling Shareholder and Other Related Parties of Shenzhen Tellus Holding Co., Ltd. in 2003

SZSBZ (2004) No. ZA056

To all shareholders of Shenzhen Tellus Holding Co., Ltd.:

We have audited the accompanying balance sheet of Shenzhen Tellus Holding Co., Ltd. (Hereinafter referred to as Tellus Company) as of Dec. 31, 2003 and the accompanying income statement and cash flow statement (Hereinafter referred to as Accounting Statements) for the year then ended according to Independent Auditing Standards of Chinese CPA and have issued the unqualified auditors' report with SNCSBZ (2004) No. CA325 document.

According to the requirements in Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Some Problems released by China Securities Regulatory Commission and State-owned Assets Supervision and

Administration Commission of the State Council, Tellus Company has prepared attached Explanation on Capital and Guarantees of the Listed Company Occupied by its Controlling Shareholder and Other Related Parties (Hereinafter referred to as Special Explanation).

Preparing and disclosing the Special Explanation externally and ensuring its truthfulness, legality and completeness are the responsibility of Tellus Company. We have checked the materials carried in the Special Explanation with the accounting information rechecked and relevant contents in the financial report audited while auditing the financial report for 2003 of Tellus Company and have not found any variance in all material aspects. Except for implementing the auditing procedures related to related transactions carried out in the auditing of accounting statements for 2003 to Tellus Company, we have not conducted extra auditing procedures on the materials carried in the Special Explanation.

In order to better understand the capital and guarantees occupied by Tellus Company's controlling shareholder and other related parties, the Special Explanation should be read along with the accounting statements ever audited.

Appendix: Explanation of Shenzhen Tellus Holding Co., Ltd. on Capital of the Listed Company Occupied by its Controlling Shareholders and Other Related Parties in 2003

Shenzhen Nanfang-Minhe
Certified Public Accountants
Shenzhen. China

Chinese CPA
Chinese CPA
Apr. 15, 2004

Shenzhen Tellus (Group) Co., Ltd.

List of capital of the listed company occupied by the controlling shareholder and other associated parties in 2003

Unit: RMB

Name of the party occupying capital	Way of occupying capital	Reason of occupying capital	Amount when occupying capital			Accumulated occupied amount of the whole year		Note
			Name of subject	Balance at year-beginning	Balance at year-end	Total debit	Total credit	
Shenzhen Special Development Group Co., Ltd.	Non-operational occupancy	Loan and advance money for	Other receivables	170,622,013.49	149,286,616.41	10,298,271.76	31,633,668.84	
			Other payables	(45,139,632.59)	(45,153,248.50)	--	13,615.91	
			Short-term loan	(27,000,000.00)	(8,744,160.00)	24,155,840.00	5,900,000.00	
			Subtotal	98,482,380.90	95,389,207.91	34,454,111.76	37,547,284.75	
Shenzhen SD Swan Industrial Co., Ltd.	Non-operational occupancy	Loan and interest	Other receivables	20,857,573.18	21,786,895.19	929,322.01	--	

SHENZHEN TELLUS HOLDING COMPANY LIMITED

Shenzhen SD Development Center Construction Supervision Co., Ltd.	Non-operational occupancy	Loan	Short-term loan	(6,000,000.00)	(6,000,000.00)	--	--	
Shenzhen Machine Import & Export Co., Ltd.	Non-operational occupancy	Loan and interest	Other receivables	4,763,482.53	4,811,101.23	1,997,244.46	1,949,625.76	
Shenzhen SD Huatong Packaging Industrial Co., Ltd.	Non-operational occupancy	Advance money for	Other receivables	4,619,013.51	--	--	4,619,013.51	
HK Yujia Investment Co., Ltd.	Non-operational occupancy	Loan and advance money for	Other receivables	1,054,549.86	210,158.62	54,409.09	898,800.33	
Tellus (Jinbian) Development Co., Ltd.	Non-operational occupancy	Loan and advance money for	Other receivables	237,066.17	298,932.27	61,866.10	--	
Shenzhen Tellus Real Estate Yueyang Company	Non-operational occupancy	Advance money for	Other receivables	194,747.57	219,522.35	24,774.78	--	
Shenzhen Tellus Yangchun Real Estate Company	Non-operational occupancy	Advance money for	Other receivables	34,124.06	34,124.06	--	--	The Company occupied capital of Tellus Yangchun.
			Other payables	(169,512.00)	(255,982.49)	--	86,470.49	
			Subtotal	(135,387.94)	(221,858.43)	--	86,470.49	
Shenzhen Telongfa Co., Ltd.	Non-operational occupancy	Advance money for	Other receivables	554,973.30	554,973.30	--	--	The Company occupied capital of Telongfa.
			Other payables	(2,395,526.25)	(2,395,526.25)	--	--	
			Accounts payables	(6,054,855.46)	(6,054,855.46)	--	--	
			Subtotal	(7,895,408.41)	(7,895,408.41)	--	--	
			Total	116,178,017.37	108,571,522.97	37,521,728.20	45,101,194.84	

*The main content of other receivables at year-beginning of the Company from SDG: a. The taken-back amount from transfer of Telongfa's equity in 1997-1998 was deposited into SDG Settlement Center, because SDG Settlement Center ended operation, the amount deposited into SDG Settlement Center was undertaken by SDG and formed the credit against SDG amounting to RMB 152,540,000; b. because SDG owed to China Everbright Bank Guangzhou Branch and Tianjin Entrust Company, China Everbright Bank Guangzhou Branch and Tianjin Entrust Company entrusted SDG to pay the above amount for repaying their acreage totally RMB 23.90 million for purchase of building of Shenzhen Huatong Automobile Company, the subsidiary of the Company.

The main content of current occurred amount is: 1. The right of operation and management of Huatong Company was handed over with Shenzhen Pingtai Investment Development Co., Ltd. on Sep. 30, 2003, the profit statement and cash flow statement from Jan. to Sep. of 2003 of Huatong Company was only consolidated this year. Because of the change of consolidation scope, the current of Huatong Company with SDG decreased this year; 2. The Company paid the compensation of the staffs of Huatong Company in place of SDG and the compensation was received and paid. 3. The Company's net repayment of borrowings of SDG was RMB 18,255,800.

The capital of the related parties occupied by the Company is listed as "()".

Legal representative: _____ Person in charge of financing: _____ Person in charge of accounting institution: _____

Date: _____ Date: _____ Date: _____

2. Special explanation and independent opinion of the independent directors on the accumulated and current guarantee for external parties and implementation

Ended as at Dec. 31, 2003, please refer to IX. (IV) of this report for the guarantee of the Company for external parties. The independent directors of the Company, Zhou Chengxin, Shi Weihong and Zhang Yuan agreed the special explanation on capital occupancy of the controlling shareholder and other related parties of the Company issued by CPA and expressed the following opinion on the guarantee of the Company for external parties: in the report period, the Company had not added guarantee for external parties and the procedures of examination and approval of the guarantee for external parties of the Company was in accordance with Articles of Association of the Company and Notification of Problems on Standardizing Current Capital between Listed Companies and Related Parties and Guarantee for External Parties of Listed Companies.

VIII. 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.

IX. Significant Events

(I) Material lawsuit and arbitration

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

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.

(II) In the report period, the events of purchase and sale of assets, consolidation and merge of the Company

1. On Mar.5, 2002, 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 appealed to Shenzhen Municipal Intermediate People's Court. On Sep. 2, 2003, Shenzhen Municipal Intermediate People's Court verdict that the Company should continue to conducting the equity transfer. The Company published public notice in Securities Times and Hong Kong Ta Kung Pao respectively dated Oct. 24, 2003. At present, the procedures of equity transfer all accomplished.

2. On July 9, 2003, the Company signed equity transfer agreement with 11 natural person including Mr. Li Ruizheng etc., in which 20% share equity of Shenzhen Space Far-east Industrial Company held by the Company was transferred to 11 managers including Mr. Li Ruizheng etc.. The transaction price was RMB10.12 million. The said assets purchasing belongs to the non-related transaction. All procedure of the said equity transfer has been finished.

3. On Dec.5, 2003, the Company signed equity transfer agreement with Sichuan Atlantic Jointing Material Co., Ltd., in which 19.05% share equity of Shenzhen Atlantic Jointing Material Co., Ltd. held by the Company was transferred to Shenzhen Atlantic Jointing Material Co., Ltd.. The transaction price was RMB 8.63 million. The said assets purchasing belongs to the non-related transaction. All procedure of the said equity transfer has been finished.

4. On Dec.12, 2003, the Company signed equity transfer intention agreement with Ingersoll-Rand (China) Investment Company Limited (hereinafter referred to as Ingersoll-Rand), in which 5% share equity of Big Thermoking Transportation & Refrigeration Co., Ltd. held by the Company was transferred to Ingersoll-Rand. The transaction price was RMB10.76 mil. The Company published public notice about the transaction in Securities Times and in Hong Kong Ta Kung Pao dated Dec. 16, 2003. All procedure of the said equity transfer has been finished.

The purpose of the above selling assets was for adjust industry structure of the Company. The redux capital facilitated the Company to concentrate on developing the post automobile market and produced certain positive effect on the operation of the Company.

(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) Significant contracts and implementation

1. In the report period, the Company has no significant trusteeship and contract of other companies' assets and vice versa;

2. Significant guarantee;

(1) In the report period, the guarantee contract implemented or implementing Ended Dec.31, 2003, the Company presented loan guarantee paper for the following companies:

Items	Equity Relationship	Amount of Guarantee	Contents	Term	Way of Guarantee
Gintian Industry (Group) Co., Ltd.	No	USD2 mil	Short-term loan	Aug.1, 1997-Aug.1, 1998	Joint liability

Ended Dec. 31, 2003, Automobile Industry & Trade, subsidiary of the Company, issued bank loan guarantee paper for Shenzhen Automobile Industry Import & Export Co.:

Items	Amount of Guarantee	Contents	Term	Way of Guarantee
Shenzhen Automobile Industry Import & Export Co.	RMB 28,000,000.00	Short-term loan	2003.08.08-2004.08.07	Credit
Shenzhen Automobile Industry Import & Export Co.	RMB 8,000,000.00	Short-term loan	2003.03.28-2004.03.28	Credit

(2) Amount of Guarantee provided for the holding companies this year

Name of warrantee	Equity Relationship	Amount of Guarantee	Contents	Term	Way of Guarantee
Shenzhen Tellus Xinyongtong Company	Wholly-owned	RMB2.45 mil	Short-term debt	Dec.22, 2003-July 21, 2004	Credit
Shenzhen Tellus Xinyongtong Company	Wholly-owned	RMB3.9 mil	Short-term debt	Jun.24, 2003-Apr. 25, 2004	Credit
Shenzhen Tellus Xinyongtong Company	Wholly-owned	RMB4.5 mil	Short-term debt	Aug.27, 2003-Apr. 26, 2004	Credit
Shenzhen SD Tellus Real Estate Company	Wholly-owned	RMB1.3 mil	Short-term debt	Sep.2, 2003-Sep.2, 2004	Credit

(3) The Company has not entrusted others to manage cash assets and has no entrusted loan.

(4) In the report period, the Company has no other significant contracts.

(V) Commitment

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.

(VI) Engagement of Certified Public Accountants

In the report period, the Company reengaged Shenzhen Nanfang Minhe Certified Public Accountants as domestic financial audit institution of 2003 and engaged Ma Shiyun (Shenzhen) Certified Public Accountants as overseas financial audit institution of 2003. 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 three years.

(VII) 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.

(VIII) Other Significant Matters

1. The frozen share equity of the Company held by the first principal shareholder SDG was unfrozen automatically on Dec.3, 2003.

2. Disclosed significant items of the Company

(1) The public notice on the equity of the Company held by the first principal shareholder being frozen was published in Securities Times and Hong Kong Ta Kung Pao dated Jan.28, 2003.

(2) The public notices on electing members of the 4th Board of the Company was published in Securities Times and Hong Kong Ta Kung Pao dated Apr.21, 2003.

(3) The public notice, in which Mr. Zhang Ruili was elected as Chairman of the 4th Board, Mr. Mao Songbai as General Manager of the Company, Mr. Ren Yongjian as CFO of the Company, Mrs Li Chunxiu as the secretary of the Board, and Mr. Guo Dongri and Mr. Wu Yonggang as Deputy General Manager of the Company, was published in Securities Times and Hong Kong Ta Kung Pao dated Apr.21, 2003.

(4) The public notice, in which the subsidiary of the Company, Shenzhen Automobile Industry & Trade Company reformed the system of its subsidiary Shenzhen Automobile Industry Export & Import Company and the operators of Shenzhen Automobile Industry Export & Import Company held shares, was published in Securities Times and Hong Kong Ta Kung Pao dated Apr.29, 2003.

(5) The public notice, in which proposal on supplementing candidates for supplementing independent director and proposal on amending the Articles of Association were examined and approved by the 1st provisional meeting of 4th Board, was published in Securities Times and Hong Kong Ta Kung Pao dated May 20, 2003.

(6) The public notice on the estimated loss of the first half of 2003 was published in Securities Times and Hong Kong Ta Kung Pao dated Jun. 13, 2003.

(7) The public notice on the accomplishment of procedures of registration business of Huari Automobile was published in Securities Times and Hong Kong Ta Kung Pao dated Sep. 2, 2003.

(8) The public notice on the estimated loss of the third quarter of 2003 was published in Securities Times and Hong Kong Ta Kung Pao dated Oct. 9, 2003.

(9) The public notice about the lawsuit in which Shenzhen Pingtai Investment & Development Co., Ltd. indicted the Company for the share equity transfer dispute, was published in Securities Times and Hong Kong Ta Kung Pao dated Oct. 24, 2003.

(10) The public notice on the estimated loss of 2003 was published in Securities Times and Hong Kong Ta Kung Pao dated Dec. 11, 2003.

(11) The public notice about transferring 5% share equity of Big Thermoking Transportation & Refrigeration Co., Ltd. held by the Company to Ingersoll-Rand was published in Securities Times and Hong Kong Ta Kung Pao dated Dec. 16, 2003.

X. Financial Report (Attachment)

XI. Documents Available for Reference

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

1. Original of 2003 Accounting Statements carried with the signatures and seals of the legal representative, Chief Financial Officer and manager of Plan & Financial Dept.;
2. Original of the Auditors' Report carried with the seal of Domestic 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 International 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.**

Apr. 19, 2004

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 RMB'000	2002 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

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 RMB'000	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	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 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 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							<u>38,075</u>	<u>30,438</u>
Consolidated total assets							<u>1,215,900</u>	<u>1,153,110</u>
Segment liabilities	125,724	175,545	473,563	461,559	380,556	293,093	<u>979,843</u>	<u>930,197</u>
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:

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

5. PROFIT/(LOSS) FROM OPERATIONS

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

	<u>2003</u>	<u>2002</u>
	<u>RMB'000</u>	<u>RMB'000</u>
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	2002
------	------

	<u>RMB'000</u>	<u>RMB'000</u>
Interest expenses	<u>19,861</u>	<u>30,026</u>
7. INCOME TAX EXPENSE		
	<u>2003 RMB'000</u>	<u>2002 RMB'000</u>
Income tax for the year	<u>3,930</u>	<u>2,201</u>

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:

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

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

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

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		Principal activities	Consolidated or not
		2003	2002		
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	2002
RMB'000	RMB'000

Share of net assets	25,123	33,042
Amount due from associates	1,182	1,182
Amount due to associates	(990)	(990)
	<u>25,315</u>	<u>33,234</u>

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)
	<u>83,775</u>	<u>57,548</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

	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)
	<u>61,593</u>	<u>86,912</u>

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)
	<u>88,025</u>	<u>54,329</u>

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)
	<u>95,389</u>	<u>98,482</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

	2003 RMB'000	2002 RMB'000
Balance at December 31	<u>272,092</u>	<u>173,000</u>

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
	<u>233,162</u>	<u>283,663</u>

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
	<u>192,482</u>	<u>179,642</u>

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
	<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	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.

	<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.

	<u>2003</u> <u>RMB'000</u>	<u>2002</u> <u>RMB'000</u>
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)
	<u>11,281</u>	<u>16,329</u>

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)
	<u>11,281</u>	<u>16,329</u>

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.	<u>36,000</u>	<u>46,000</u>

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's 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)
	<u>(49,763)</u>	<u>--</u>	<u>(49,763)</u>
Pledged bank deposits	--	108,453	108,453
Cash and bank balances	<u>213,558</u>	<u>(108,453)</u>	<u>105,105</u>
	<u>213,558</u>	<u>--</u>	<u>213,558</u>

29. APPROVAL OF THE FINANCIAL STATEMENTS

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