

**SHENZHEN CHINA BICYCLE COMPANY
(HOLDINGS) LIMITED
2003 ANNUAL REPORT**

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SECTION I. IMPORTANT NOTICES:

Board of Directors of the Shenzhen China Bicycle Company (Holdings) Limited (hereinafter referred to as the Company) and its members 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.

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

Due to business, Director Mr. Shi Zhanxiong and Mr. Wan Nianqing were absent from the Board meeting, in which the 2003 Annual Report was examined, and respectively entrusted Mr. Li Hai and Mr. Yi Xiaoming to execute on his behalf.

K.C.OH & Company Certified Public Accountants issued a qualified Auditors' Report with reservation, the Board of Directors and the Supervisory Committee of the Company made explanations on the relevant matters in details; the investors are suggested to notice the content.

Mr. Zhang Xiaofeng, Chairman of the Board, Mr. Liu Linfeng, General Manager and Ms. Hu Eryi, Chief Accountant hereby confirm that the Financial Report of the Annual Report is true and complete.

SECTION II. COMPANY PROFILE

1. Legal Name of the Company

In Chinese: 深圳中华自行车（集团）股份有限公司

In English: SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

Short form of English Name: CBC

2. Legal Representative: Mr. Zhang Xiaofeng

3. Secretary of the Board of Directors: Mr. Li Hai

Liaison Address: No. 3008, Buxin Road, Shenzhen, Guangdong Province, PRC

Tel: (86) 755 – 25516998

Fax: (86) 755 – 25516620

E-mail: dmc@szcbc.com

4. Registered Address and Office Address:

No. 3008, Buxin Road, Shenzhen, Guangdong Province, PRC

Post Code: 518019

The Company's Internet Website: www.cbc.com.cn

E-mail: cbc@szcbc.com

5. Newspapers Chosen for Disclosing the Information: Securities Times and Ta Kung Pao

Internet Website Designated for Publishing the Annual Report: www.cninfo.com.cn

- Place Where the Annual Report is Prepared and Placed:
 Secretariat of the Board of Directors, No. 3008 Buxin Road, Shenzhen
6. Stock Exchange Listed with, Short Form of the Stock and Stock Code:
 Stock Exchange Listed with: Shenzhen Stock Exchange
 Short Form of the Stock: ST ZHONGHUA – A, ST ZHONGHUA – B
 Stock Code: 000017, 200017
7. Other Information about the Company
 Initial registered date: Aug. 24, 1984
 Initial registered place: Buxin Road, Shenzhen
 Registration number for business license of corporation: 101165
 Registration number of tax: 01001163
 Name of the Certified Public Accountants engaged by the Company:
 Domestic: Shenzhen Dahua Tiancheng Certified Public Accountants
 Address: Room 1102-1103, on 11th Floor, Tower B, United Plaza, No. 5022, Binhai Av., Futian District, Shenzhen
 International: K.C.OH & Company Certified Public Accountants
 Address: 8/F., New Henry House, No. 10 Ice House Street, Central, Hong Kong

SECTION III. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

1. Major profit indexes as of the year 2003	Unit: RMB'000
Total Profit	340,767
Net Profit	340,820
Profit from main operations	8,052
Operating profit	-9,479
Investment income	-1,679
Net non-operating income/expenses	6,720
Net cash flow arising from operating activities	-10,495
Net increase in cash and cash equivalents	-1,215

Note: Explanations on difference of auditing results: net profit as audited by domestic certified public accountants and overseas certified public accountants was RMB –32,947,808.38 and RMB 340,820,454.52 respectively, a difference of RMB 373,768,262.90 existing. There existed a bigger difference between the auditing result of domestic certified public accountant and the auditing result of overseas certified public accountant, resulted from the different accounting methods of IAS and CAS on accounting interest exempted by domestic financial institutions in debts reorganization. IAS accounted that part as income, while CAS as capital reserve.

Note: Items of net profit after deducting non-recurring gains and losses and related amounts: (Unit: RMB'000)

Item	Amount
Estimated loss on guarantee offered	0
Withdrew reserve for impairment of fixed assets	0

Withdrew reserve for impairment of construction-in-progress	0
Gains and losses on disposal of fixed assets	12,178
Other	-5,458
Total	6,720

2. Major accounting data and financial indexes over the recent three year at the end of report year

Unit: RMB'000

Item	2003	2002		2001
		Before adjustment	After adjustment	
Income from main operations	99,015	71,590	71,590	51,875
Net profit	340,820	6,780	8,191	-2,013,356
Total assets	431,741	484,429	499,868	558,088
Shareholder's equity (excluding minority interests)	-1,687,614	-2,028,434	-1,985,702	-1,993,893
Earnings per share (Fully diluted) (RMB)	0.711	0.014	0.017	-4.2
Earnings per share (Weighted average) (RMB)	0.711	0.014	0.017	-4.2
Net assets per share (RMB)	-3.52	-4.23	-4.14	-4.16
Net cash flow per share arising from operating activities (RMB)	-0.0025	0.0081	0.0081	-0.065

3. Supplemental statement of profit (return on equity and earnings per share) in the report year

Profit as of the year 2003	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	-0.477	-0.477	0.017	0.017
Operating profit	0.562	0.562	-0.020	-0.020
Net profit	-20.195	-20.195	0.711	0.711

4. Changes in shareholders' equity in the report period (Unit: RMB'000)

Items	Share capital	Reserve
Amount at the year-begin	479,433	-2,507,867
Increase in the report period	0	340,820
Decrease in the report period	0	0
Amount at the year-end	479,433	-2,167,047

SECTION IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

(I) Particulars about change in share capital

1. Change in shares

Unit: share

Items	Before the change	Increase/decrease of this time (+, -)						After the change
		Rationed share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Sub- total	
I. Unlisted Shares								
1. Sponsors' shares	224,060,354					-19,447,518	-19,447,518	204,747,836
Including: State-owned share								
Domestic legal person's shares	111,607,002							111,607,002
Foreign legal person's shares	112,453,352					-19,447,518	-19,447,518	93,005,834
Others								
2. Raised legal person's shares								
3. Inner employees' shares	135,000							135,000
4. Preference shares or others								
Total unlisted shares	224,195,354					-19,447,518	-19,447,518	204,747,836
II. Listed Shares								
1. RMB ordinary shares	76,617,000							76,617,000
2. Domestically listed foreign shares	178,620,649					+19,447,518	+19,447,518	198,068,167
3. Overseas listed foreign shares								
4. Others								
Total Listed shares	255,237,649					+19,447,518	+19,447,518	274,685,167
III. Total shares	479,433,003							479,433,003

2. Issuance and listing of the share:

(1) The Company has not issued new shares over the recent three years at the end of the report period.

(2) In the report period, the Company had never conducted any activities in connection with distributing bonus shares, transferring public reserve into shares capital, rationed share, additional issuance of new shares, consolidation by merger, transferring convertible bonds into shares, capital reduction, listing of employee's shares and whatsoever.

(3) The Company issued 5.3 million employee's shares at the issuance price of RMB 3.75 per share dated Dec. 28, 1991, of them, 135,000 shares were held by directors of the Company and were entrusted to Shenzhen Securities Registration Co., Ltd. for trustee; the rest 5,165,000 shares were listed for trading.

(II) About shareholders at the report period

1. Ended Dec. 31, 2003, the Company had 46,256 shareholders in total, including 30,170 shareholders of A-share and 19,979 shareholders of B-share.

2. Particulars about shares held by the top ten shareholders (Unit: share)

No.	Shareholders	Increase / decrease	Shares held at the year-end	Proportion in total shares	Types	Pledged or Frozen
1	China Huarong Assets Management Company	0	65,098,412	13.58%	State-owned shareholder	0

2	Hong Kong Zhuorun Technology Co., Ltd.	0	62,003,890	12.93%	Foreign shareholder	57,899,644
3	Hong Kong (Link) Bicycles Limited	0	26,000,000	5.42%	Foreign shareholder	26,000,000
4	Guangdong Sunrise Group Co., Ltd.		18,968,590	3.96%	State-owned shareholder	18,968,590
5	STEPHEN & PARTNERS LIMITED	-8,169,646	11,277,872	2.35%	Foreign shareholder	0
6	Shanghai Xinliyi Investment Management Co., Ltd.		11,200,000	2.34%	State-owned shareholder	0
7	Airline Trust and Investment Co., Ltd.	0	10,340,000	2.16%	State-owned shareholder	0
8	Shenzhen International Trust & Investment Co., Ltd.	0	6,000,000	1.25%	State-owned shareholder	0
9	Jingchao Investment Co., Ltd.		5,001,944	1.04%	Foreign shareholder	0
10	XAMMAX INTERNATIONAL LIMIT	+1,645,563	1,645,563	0.34%	Foreign shareholder	0

Note: Among the top ten shareholders, Guangdong Sunrise Group Co., Ltd. and Shenzhen International Trust & Investment are subsidiary companies of Shenzhen Investment Holding Corporation; Hong Kong Zhuorun Technology Co., Ltd. is subsidiary company indirectly controlled by Shenzhen Investment Holding Corporation. Except for that, there exists no associated relationship among the top ten shareholders.

3. The controlling shareholder and the actual controller of the Company remained unchanged in the report period.

4. Introduction of the controlling shareholder or actual controller of the Company
China Huarong Assets Management Company is a state-owned sole company limited, which was wholly-owned company possessed by the Ministry of Finance of PRC. Its registered capital is RMB 10 billion; legal representative is Mr. Yang Kaisheng. China Huarong Assets Management Company was located in No. 10, Baiyun Road, Xicheng District, Beijing. Business scope: purchase and operation of bad assets peeled off from China Industrial and Commercial Bank, recovery of debts, replacement of assets, transfer and sale; reorganization of debts and enterprise; debt-to-equity; staggered holding share, securitization of assets, listing recommendation, underwriting of bond and shares in the scope of assets management; direct investment; issuance of bond; commercial loan; loan from finance organization, application of reloan from People's Bank of China; investment, finance and law consultation; evaluation of assets and project; bankruptcy liquidation and enterprise auditing; and the other business approved by the financial supervisory department.

5. Legal person shareholder holding over 10% (including 10%) of total shares

Hong Kong Zhuorun Technology Co., Ltd.

Legal representative: Zhang Hanke

Date of foundation: In Sep. 2000

Business scope: IT industry, development of Internet, international trading and investment.

6. The top ten circulating shareholders of the Company:

Name of shareholders	Circulating shareholders held in the year-end (share)	Types of circulating shares (A-share, B-share, H-share or others)
CHEN YUAN FENG	1,631,040	B-share
JIANG LAN	1,200,000	B-share
CHEN XIONG	1,074,868	B-share
WANG LI SI	1,001,803	B-share
HUANG CAI XIANG	1,000,000	B-share
NGAI KWOK PAN	747,600	B-share
LIAO XIAO YAN	742,228	B-share
GU SHU MING	700,050	B-share
DENG GE	685,999	B-share
DBS VICKERS (HONG KONG) LTD A/C CLIENTS	647,600	B-share

The Company was unaware of whether there existed any associated relationship among the top ten circulation shareholders and whether there existed consistent actionist regulated in the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies.

SECTION V. PARTICULARS ABOUT DIRECTOR, SUPERVISOR, SENIOR EXECUTIVES AND STAFF

(I) Basis condition

1. Directors, supervisors and senior executives

Name	Title	Gender	Age	Office term	Holding shares at the year-begin	Holding shares at the year-end
Zhang Xiaofeng	Chairman of the Board	Male	33	Apr. 2002 – May 2004	0	0
Pan Shiming	Vice chairman of the Board	Male	33	May 2001 – May 2004	0	0
Liu Linfeng	Director, General Manager	Male	47	May 2001 – May 2004	0	0
Ye Qing	Director, Standing Deputy General Manager	Male	42	Apr. 2002 – May 2004	0	0
Hu Eryi	Director, Deputy General Manager	Female	40	May. 2001 – May 2004	0	0
Shi Zhanxiong	Director	Male	60	May 2001 –	75,000	75,000

				May 2004		
Yi Xiaoming	Director	Male	43	Apr. 2002 – May 2004	0	0
Wan Nianqing	Director	Male	30	Sep. 2003– May 2004	0	0
Yang Lixun	Independent Director	Male	40	May 2001 – May 2004	0	0
Wang Fuqing	Independent Director	Male	37	Sep. 2003– May 2004	0	0
Ma Hong	Independent Director	Male	37	Sep. 2003– May 2004	0	0
He Xionsen	Convener of the Supervisory Committee	Male	44	Jun. 2002 – Jun. 2005	0	0
Lan Qihua	Supervisor, Chairman of Labor Union	Male	53	Jun. 2002 – Jun. 2005	0	0
Peng Tiesheng	Supervisor	Male	54	Jun. 2002 – Jun. 2005	0	0

Note: (1) There was no change about shares of the Company held by directors, supervisors, and senior executives of the Company in the report period.

(2) Particulars about directors or supervisors holding the position in Shareholding Company

Name	Name of Shareholding Company	Title in Shareholding Company	Office term	Drawing the payment from the Shareholding Company (Yes / No)
Huang Junmin	China Huarong Assets Management Company, Shenzhen Office	Senior Manager	Since Apr. 2001	Yes
Pan Shiming	Guangdong Sunrise Group Co., Ltd.	General Manager	Since May 2002	Yes
Yi Xiaoming	China Huarong Assets Management Company, Shenzhen Office	Senior Manager	Since Sep. 2000	Yes
Wan Nianqing	China Huarong Assets Management Company, Shenzhen Office	Deputy Manager	Since Nov. 2001	Yes
He Xionsen	China Huarong Assets Management Company, Shenzhen Office	Senior Manager	Since Jan. 2002	Yes

2. Particulars about the annual salary of directors, supervisors and senior executives
Referring to the standard of the same industry and local salary situation, the Company decided the annual salary of the above personnel integrated the operating achievements of the Company.

(1) The total annual salary of directors, supervisors and senior executives received from the Company was RMB 637,071, the total annual payment of the top three directors drawing the highest payment was RMB 435,828, the total annual payment of the top three senior executives drawing the highest payment was RMB 435,828.

(2) The Company paid the allowance of independent director of RMB 20,000 respectively. The Company reimbursed the expenses for business trips according to

the actual situation, which independent directors attended the Board meeting and shareholders' general meeting.

(3) Of them, one enjoyed the annual salary over RMB 150,000; 3 enjoyed the annual salary between RMB 100,000 and RMB 150,000 respectively, one enjoyed below RMB 100,000.

(4) There were 14 directors, supervisors and senior executives, of which 9 persons didn't draw salary from the Company; Director Zhang Xiaofeng, Director Pan Shiming, Director Yi Xiaoming, Director Wan Nianqing and Convener of the Supervisory Committee Mr. He Xionsen drew salary from the controlling shareholder's company.

3. Directors, supervisors and senior executives leaving the office and the reason in the report year

Elected and approved by the 1st extraordinary shareholders' general meeting 2003, Director Mr. Huang Junmin resigned the posts of Director and Chairman of the Board due to work demand and Mr. Xie Ruxian resigned the posts of Director and Vice Chairman of the Board due to work change and Mr. Li Zhenping resigned the post of Independent Director due to work reason; Mr. Wan Nianqing was supplemented as Director of the 5th Board of Directors of the Company and Mr. Wang Fuqing and Ma Hong were engaged as the Independent Director of the 5th Board of Directors of the Company.

4. Engagement of senior executives:

Elected by the 16th meeting of the 5th Board of Directors of the Company, Director Zhang Xiaofeng took the post of Chairman of the 5th Board of Directors of the Company and Director Pan Shiming took the post of Vice Chairman of the Board.

(II) About staff

1. The Company has totally 542 employees at present, including:

(1) Classified according to professional/occupational composition: 419 production personnel; 22 salespersons; 17 technicians; 16 financial personnel and 68 administrative personnel.

(2) Classified according to the educational background: master degree or above (including the professionals who have once had advanced study abroad): 7 persons, bachelor degree: 37 persons; junior college graduates: 62 persons. Proportion of the personnel with education background of junior college or above in the whole staff: 11.23%.

2. The Company needs to bear the cost of 4 retirees.

SECTION VI. ADMINISTRATIVE STRUCTURE

(I) Administration of the Company

Pursuant to the guiding spirit of normative documents issued by CSRC including Administrative Rules for Listed Companies, Guide Lines of Articles of Association for Listed Companies, Normative Opinions of the Shareholders' General Meeting of Listed Companies etc. and in comparison with the Company's actual conditions, the Company believed that there existed no significant difference between the actual administration status and the requirements of above documents. In 2003, the work of

Shareholders' General Meeting, the Board, Supervisory Committee and the management of the company operated normatively according to the above documents and the requirements of the rules and systems. This year, the Board of the Company supplemented the independent director and strengthened the investeeship of management and consummated the administrative structure in further step.

1. Shareholders and the Shareholders' General Meeting:

The Company operates in a standardized way, and has been practically safeguarding the interests of medium and small shareholders, ensuring all shareholders fully implement their own rights, and could convene and hold the Shareholders' General Meeting strictly according to the normative requirements for the Shareholders' General Meeting.

2. Relationship Between the Controlling Shareholder and the Company:

The controlling shareholder behaviors in a standardized way, and hasn't overstepped the Shareholders' General Meeting to directly or indirectly interfere in the Company's decision-making and management activities; The Company has pursued the "Five Separations" from the controlling shareholder in respect of business, personnel, assets, organization and finance; The Board of Directors, the Supervisory Committee and internal organizations could function independently.

3. Directors and the Board of Directors:

The Company elected directors strictly according to the stated procedures in the Articles of Association; The number of members of the Board and its formation are in line with requirements of law and regulations; Every director could attend relevant trainings enthusiastically, get familiar with relevant laws and legislations, obtain an understanding of the rights, obligations and responsibilities of director, attend Board meeting and the Shareholders' General Meeting with a conscientious attitude, and seriously perform the obligations of director of listed company.

4. Supervisors and the Supervisory Committee:

The number of supervisors and the formation are in line with requirements of laws and legislations; Every supervisor could perform his obligations seriously, and make supervision on the Company's finance and performance of directors and other senior executives in terms of compliance with laws in the principle of being responsible to shareholders.

5. Information Disclosures and Transparency:

The Company could disclose information in a true, accurate, complete and timely manner strictly according to regulations of laws, legislations and the Articles of Association and ensure equal chance for all shareholders to obtain information.

(II) Performance of Obligations by Independent Directors

The Company has established independent director system and engaged 3 independent directors in the Board of Directors. The independent directors performed their rights and obligations in their office term strictly according to the Articles of Association of the Company and the Guide Opinions of Establishing Independent Director System in Listed Company issued by CSRC, attended the Board Meeting and Shareholders' General Meeting actively and seriously and expressed independent

opinions regarding the Company's administration and operation status. The three independent directors fulfilled the obligations better.

(III) Separation from the Controlling Company in Respect of Business, Personnel, Organization and Finance etc.

1. In respect of business: The Company is absolutely separated from the controlling shareholder in business and has independent and integrated business system and self-management capability. The Company has independent production, sales and service system as well as its own leading industry. The Company is not competing with the controlling shareholder and related parties in the same domain. The Company has been carrying out management activities all along in the name of independent legal person enterprise.

2. In respect of personnel: The Company is absolutely independent in management of labor, human affairs and salaries, and has established independent function department of labor and personnel administration as well as a series of corresponding administration systems.

3. In respect of assets: The Company is strictly separated from its controlling shareholder in assets, and they conduct wholly independent management. The Company holds integrated and independent purchase system, production system, sales system and corresponding service system, and intangible assets such as industrial property right, trademark and non-patent technologies all belong to the Company independently.

4. In respect of finance: The Company has established independent financial and accounting department as well as a complete set of integrated accounting systems and financial management systems. The Company is independent in making financial decisions, and the controlling shareholder hasn't interfered in operation of funds. The Company has opened independent bank account, and never deposited money in the financial company or settlement center controlled by big shareholder or other related parties. The Company pays taxes according to law.

5. In respect of organization: The Company establishes organizations according to the normative requirements for listed company and the Company's actual business features, which have independent offices.

(IV) Establishment and Implementation of Performance Evaluation and Encouragement Mechanism and Relevant Rewarding System for Senior Executives
The Company has established open and transparent performance evaluation criteria and encouragement and binding mechanism for directors, supervisors and managers. Engagement of managers is open and transparent, which is in accordance with law.

SECTION VII. INTRODUCTION TO SHAREHOLDERS' GENERAL MEETING

In the report period, the Company totally held three shareholders' general meetings with details as follows:

I. Annual Shareholders' General Meeting 2002

According to the decision of the 14th Meeting of the 5th Board of Directors of the Company, the Company published notice on holding Annual Shareholders' General Meeting 2002 on Securities Times and Ta Kung Pao dated June 30, 2003. Annual Shareholders' General Meeting 2002 was held in Conference Room, 3/F, headquarter of the Company as scheduled at 9:30 A.M. on July 31, 2003. 2 shareholders and authorized representatives attended the Meeting, representing 151,072,836 shares, taking 31.51% in total share capital of the Company, including: 84,067,002 shares held by shareholders of A shares, taking 17.53% in total share capital of the Company and 67,005,834 shares held by shareholders of B shares, taking 13.98% in total share capital of the Company. Shenzhen Dadi Law Firm has issued Legal Opinion on this Shareholders' General Meeting. The following proposals have been considered and passed by means of signed voting at the Meeting:

1. Work Report of the Board of Directors 2002
2. Work Report of the Supervisory Committee 2002
3. Financial Settlement Report 2002
4. Profit and Profit Distribution Preplan 2002
5. Proposal on Amending the Articles of Association of the Company

The said resolutions were published on Securities Times and Ta Kung Pao dated Aug. 1, 2003.

II. The 1st Provisional Shareholders' General Meeting 2003

According to the decision of the 16th Meeting of the 5th Board of Directors of the Company, the Company published notice on holding the 1st Provisional Shareholders' General Meeting 2003 on Securities Times and Ta Kung Pao dated Aug. 29, 2003. The 1st Provisional Shareholders' General Meeting 2003 was held in Conference Room, 3/F, headquarter of the Company as scheduled at 9:30 A.M. on Sept. 29, 2003. 2 shareholders and authorized representatives attended the Meeting, representing 151,072,836 shares, taking 31.51% in total share capital of the Company, including: 84,067,002 shares held by shareholders of A shares, taking 17.53% in total share capital of the Company and 67,005,834 shares held by shareholders of B shares, taking 13.98% in total share capital of the Company. Shenzhen Dadi Law Firm has issued Legal Opinion on this Shareholders' General Meeting.

Proposal on Changing Partial Directors in the 5th Board of Directors of the Company has been considered and passed at the Meeting by means of signed voting item by item:

1. Agreeing Mr. Huang Junmin to resign from the position of Director in the 5th Board of Directors of the Company due to business need
2. Agreeing Mr. Xie Ruxian to resign from the position of Director in the 5th Board of Directors of the Company due to business change
3. Agreeing Mr. Li Zhenping to resign from the position of Director in the 5th Board of Directors of the Company due to business reason
4. Agreeing to elect Mr. Wan Nianqing as Director in the 5th Board of Directors of the Company
5. Agreeing to elect Mr. Wang Fuqing as Independent Director in the 5th Board of

Directors of the Company

6. Agreeing to elect Mr. Ma Hong as Independent Director in the 5th Board of Directors of the Company

The said resolutions were published on Securities Times and Ta Kung Pao dated Sept. 30, 2003.

III. The 2nd Provisional Shareholders' General Meeting 2003

According to the decision of the 18th Meeting of the 5th Board of Directors of the Company, the Company published notice on holding the 2nd Provisional Shareholders' General Meeting 2003 on Securities Times and Ta Kung Pao dated Nov. 25, 2003. The 2nd Provisional Shareholders' General Meeting 2003 was held in Conference Room, 3/F, headquarter of the Company as scheduled at 9:30 A.M. on Dec. 26, 2003. 2 shareholders and authorized representatives attended the Meeting, representing 151,072,836 shares, taking 31.51% in total share capital of the Company, including: 84,067,002 shares held by shareholders of A shares, taking 17.53% in total share capital of the Company and 67,005,834 shares held by shareholders of B shares, taking 13.98% in total share capital of the Company. Guangdong Shendadi Law Firm has issued Legal Opinion on this Shareholders' General Meeting.

The following proposals have been considered and passed at the Meeting by means of signed voting item by item:

1. Proposal on Engaging Domestic and Foreign Auditors of the Company in 2003
2. Proposal on Amending the Articles of Association of the Company

The said resolutions were published on Securities Times and Ta Kung Pao dated Dec. 27, 2003.

SECTION VIII. REPORT OF THE BOARD OF DIRECTORS

I. Discussion and analysis to the whole operation in the report period

1. Scope of main operations and management:

The Company was mainly engaged in the production and sales of production and sales of bicycles and accessories and fittings. In 2003, the Company faced the market and firmly implemented the mode of production, supply and sales of "Confirming production with sales, confirming supply with production and ready money and merchandise on hand". In the whole year, totally 25,288 pieces of electric bicycles and 187,000 pieces of bicycles were sold respectively, an increase of 61% and 85% respectively compared with the last year. At the same time, piercing progress was gained in the liabilities reorganization. The Company's financial institutions and creditors' cutting liabilities had no obstacle in policies. At present, the said creditors has exempted and stopped calculating all interests owed by the Company amounting to RMB 392 million. However, the operating results in the whole year was still not satisfactory since the whole operating environment of the Company was not improved basically. The Company realized income from main operations amounting to RMB 99.015 million, profit from main operations amounting to RMB 8.052 million and profit amounting to RMB 340.820 million.

(1) Statement of main operations classified according to industries and products

Unit: RMB'0000

Products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease of income from main operations compared with the last year (%)	Increase/decrease of cost of main operations compared with the last year (%)	Increase/decrease of gross profit ratio compared with the last year (%)
Bicycles	4,232.00	4172.00	1.44	19.87	45.49	-92.22
Electric bicycles	5,240.00	4570.00	14.66	73.05	113.36	-49.90
Including: related transaction	Naught	Naught	Naught	Naught	Naught	Naught
Principle of pricing of related transaction	Naught					
Explanation of necessity and durative of related transaction	Naught					

(2) Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease of income from main operations compared with the last year (%)
Shangdong	2,187.00	54.12
Jiangsu	1,429.00	62.55

2. Major suppliers and customers

Statement of major sales customers in 2003 (the top five)

Order	Name of customers	Sales amount (RMB'0000)	Total (RMB'0000)	Proportion in the total sales amount
1	Nantong Double-Wheel Automobile Co., Ltd.	433.00	1,351.00	14%
2	Yangzhou Jinshan Electric Bicycles Co., Ltd.	304.00		
3	Qufu Great Nature Trade Firm	236.00		
4	Nantong Department Stores Building Co., Ltd.	190.00		
5	Suzhou Jiaxin Economic & Trade Company	188.00		

Statement of major suppliers in 2003 (the top five)

Order	Name of suppliers	Name of supply commodities	Amount (RMB'0000)	Total (RMB'0000)	Proportion in the total purchase amount
1	Shanghai Weixing Electric Engine Factory	Electric engine	832.00		

2	Zhejiang Changxing Natural Energy Electric Co., Ltd.	Batteries	662.00	1,980.00	66%
3	Nanhai Yanbu Yale Vehicle Materials Co., Ltd.	Bicycle materials	237.00		
4	Shenzhen Chennuo Electric Technology Company	Chargers	136.00		
5	Shenzhen Longgang Minhuan Industrial Co., Ltd.	Vehicle materials	113.00		

4. Problems and difficulties from the operation and their solutions

(1) At present, the main operations have still not reached the operating scale supporting itself in the realistic sense.

(2) Under the great background of reorganization of Shenzhonghua, uncertain factors were still excessive.

Facing the said problems, on the one hand, the Company would actively expand the product sales, especially the production and sales of electric bicycles with relatively high added value; on the other hand, the Company would actively push the whole reorganization progress including liabilities reorganization.

5. Explanation on reasons of material changes in profitability capability (Gross profit ratio) of main operations compared with the last year

In the year, there was no great adjustment in the Company's product structure compared with last year and there was great change in the profitability capability of main operations (Gross profit ratio) compared with the last year.

II. Investment of the Company

In the report period, the Company did not raise proceeds or had no material investment.

III. Financial position and operating results of the Company

Schedule of main indexes of financial position of the Company (Unit: RMB'000)

	In 2003	In 2002		Increase/decrease amount	Increase/decrease rate (%)	Main reasons for changes
		After adjustment	Before adjustment			
Total assets	431,741	484,429	499,868	-52,688	-10.88	Settlement in the 2 nd stage of Zhonghua
Long-term liabilities	1,650,309	1,945,083	1,938,290	-294,774	-15.15	Interests exemption of Huarong
Shareholders' equity	-1,687,614	-2,028,434	-1,985,702	340,820	-16.80	Interests exemption of the domestic financial institutions and losses at that year
Profit from main	8,052	7,312	8,139	740	10.12	Increase in sales scale

operations						
Net profit	340,820	6,780	8,191	334,040	4926.84	Interests exemption of domestic financial institutions
Cash	5,585	6,800	6,800	-1,095	-16.39	Expanding productive scale and occupying large cash amount
Net increase in cash equivalents	-1,215	3,506	3,506	-4,721	-134.65	Expanding productive scale and occupying large cash amount

IV. Explanation of the Board of Directors on auditors' report with reservation presented by K.C.Oh & Company Certified Public Accountants

The Board of the Company agreed the auditors' report presented by K.C.Oh & Company Certified Public Accountants. Since the Company's liabilities reorganization was still not accomplished finally in 2003 and liabilities risks with great amount still existed, the Certified Public Accountants expressed doubt to the Company's sustainable operating capability in the auditors' report and expressed reserved opinion. Thus, the Board of the Company made explanation as follows:

Since China Huarong Assets Management Company, the largest creditor of the Company, occupied Shenzhonghua formally since Mar. 2002, based on gaining progress in the last year, the Company has gained piercing progress again in the liabilities reorganization, namely the Company's financial institutions and creditors' cutting liabilities had no obstacle in policies. At present, the said creditors has exempted and stopped calculating all interests owed by the Company amounting to RMB 392 million. While gaining progress of liabilities reorganization, the Company's main operations also had increase by great margin and main operations continued to realize profitability.

Thus, the Board of the Company considered that the Company's pressure in short-term payments was reduced greatly and the sustainable operating capability had been improved in a relatively great margin. Along with the continuous progress of the Company's liabilities and assets reorganization and the continuous increase in the Company's achievements, the Company's operating environment and operating position would be further improved.

V. Business plan of the new year of the Board of Directors

1. Quicken the general reorganization progress including liabilities reorganization in order to improve the wicked internal and external operating environment of the Company in the several years.
2. Further enlarge the present scale of production and sale of main business and make efforts to realize the increase with high speed of main business.
3. Strengthen the power of technology research and development of electric bicycles; quicken the step of research and development.
4. Continue to quicken liquidizing the present remnant assets to supply current capital for the production and operation and further relax the intense situation of current

capital.

5. Further perfect legal person administration structure and establish high-efficiency encouragement and binding mechanism.

VI. Routine work of the Board of Directors

In the report period, the Board of Directors totally held seven meetings.

(I) The meetings and the content of the resolutions of the Company in the report period:

1. The 12th meeting of the 5th Board of Directors was held on Apr. 23, 2003 and the meeting examined and approved the following proposals: Annual Report 2002, Work Report of General Meeting, Financial Settlement Report 2002, Financial Budget Proposal 2003, Independent Directors System, Proposal on Authorization of Assets Disposal and Operation Rule for Asset Disposal of the Company.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Apr. 24, 2003.

2. The 13th meeting of the 5th Board of Directors was held on Apr. 8, 2003 and the meeting examined and approved the 1st Quarterly Report of 2003 and Explanation on Financial Situation of the 1st Quarterly Report of 2003.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Apr. 30, 2003.

3. The 14th meeting of the 5th Board of Directors was held on June 30, 2003 and the meeting examined and approved Proposal on Amendment of Articles of Association of the Company and confirmed the time of holding the 12th Shareholders' General Meeting.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated July 1, 2003.

4. The 15th meeting of the 5th Board of Directors was held on Aug. 18, 2003 and examined and approved Semiannual Report 2003.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Aug. 20, 2003.

5. The 16th meeting of the 5th Board of Directors was held on Aug. 28, 2003, examined and approved Proposal on Change of Partial Directors of the 5th Board of Directors and Proposal on Commending New Chairman of the Board and Deputy Chairman of the Board of the 5th Board of Directors and confirmed the time of holding the 1st Provisional Shareholders' General Meeting in 2003.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Aug. 29, 2003.

6. The 17th meeting of the 5th Board of Directors was held on Oct. 23, 2003, examined and approved the 3rd Quarterly Report of 2003.

7. The 18th meeting of the 5th Board of Directors was held on Nov. 24, 2003, examined and approved Proposal on Engagement of Domestic and Foreign Certified Public Accountants of the Company in 2003 and Proposal on Amendment of Articles of Association of the Company and confirmed the time of holding the 2nd Provisional Shareholders' General Meeting in 2003.

The public notice of relevant resolutions was published on Securities Times and Ta

Kung Pao dated Nov. 25, 2003.

(II) Implementation of resolutions of Shareholders' General Meeting by the Board of Directors

1. The Board of Directors strictly implemented all resolutions of Shareholders' General Meeting in the report period with no material warps and errors.

2. In the report period, the Company had no profit appropriation plan, plan of converting public reserve into share capital, proposal on shares allotment or proposal on additionally issuing new shares.

VII. Profit appropriation plan or preplan of capitalization

As audited by Hong Kong K.C. Oh & Certified Public Accountants Company, the Company realized profit amounting to RMB 340,820,000 in 2003 and has neither distribution nor transfer from capital public reserve into share capital. The proposal should be approved by the Shareholders' General Meeting.

VIII. Other issues

The Company designated Securities Times and Hong Kong Ta Kung Pao as newspapers for information disclosures.

SECTION IX. REPORT OF THE SUPERVISORY COMMITTEE

In the spirit of being responsible to shareholders and strictly according to regulations in PRC Company Law and the Articles of Association, the Supervisory Committee has been loyally performing its obligations endowed by relevant laws and legislations, carrying out work positively and hard, safeguarding the legal rights and interests of the Company and shareholders, could put forward its opinions and suggestions promptly towards significant decisions made for productions, management and investment, has carried out supervision on the behaviors of directors and senior executives in terms of implementation of their obligations.

I. Work of the Supervisory Committee in the Report Year

In the report year, the Company held altogether two meetings of the Supervisory Committee.

1. The 3rd meeting of the 4th Supervisory Committee was held on Apr. 23, 2003 and the meeting examined and approved Annual Report 2002.

2. The 4th meeting of the 4th Supervisory Committee was held on Aug. 18, 2003 and the meeting examined and approved Semiannual Report.

II. Opinions on Relevant Issues in 2003 Expressed by the Supervisory Committee

1. Operation according to law:

Pursuant to relevant national laws and legislations, the Supervisory Committee has carried out superintendence on the holding procedures of Shareholders' General Meetings and Board meetings, resolution events, implementation of resolutions of Shareholders' General Meetings by the Board of Directors, performance of duties of senior executives as well as the Company's administration system etc.; It believed that in 2002, the Board of Directors strictly complied with PRC Company Law, Securities Law, Rules for Stock Listing, Articles of Association and other relevant systems, operated in a standardized manner, worked conscientiously, conducted business and made decisions in a scientific and reasonable way, and further improved internal

administration and internal control system; The directors and managers haven't violated law, legislation, the Articles of Association or damaged the interests of the Company and shareholders when performing duties.

2. Financial Inspection

In the report period, Hong Kong K.C. Oh & Company Certified Public Accountants issued qualified auditor's report for the financial statement of the Company in 2003. The auditor's report of the Company objectively and truly reflected the financial situation and operation result of the Company in this year.

3. Use of raised funds:

The Company had no issue regarding raised funds in the report year.

4. Purchase and sales of assets:

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

5. Opinions towards correlative transactions

The Company conducted fair correlative transactions, haven't damaged the interests of listed company, and there was no inside trading.

6. Opinion on auditor's report with reservation opinion issued by Hong Kong K.C. Oh & Company Certified Public Accountants

The Supervisory Committee agreed the explanation on auditor's report with reservation opinion issued by Hong Kong K.C. Oh & Company Certified Public Accountants by the Board of Directors.

SECTION X. SIGNIFICANT EVENTS

I. Material Lawsuit and Arbitration in the Report Year:

The Company had no new material lawsuit or arbitration in the report year; Details about the material lawsuit or arbitration that occurred in the previous years see the notes of financial statement.

II. The Company had no active purchase and sales of assets in the report year

III. Significant Correlative Transactions in the Report Year

In the report year, there was no new significant correlative transaction; Details about the significant correlative transactions that occurred in the previous years see the notes of financial statement.

IV. Significant Contracts and Implementation of Contracts

1. In the report year, the Company hadn't kept as custodian, contracted and leased any other company's assets and vice versa.

2. In the report year, the Company had no new offering of guarantee; Details about the significant guarantee events that occurred in the previous year see the notes of financial statement.

3. In the report year, the Company hadn't entrusted any other party to manage assets.

V. Commitment of the Company and the shareholders holding more than 5% equity in the report period or lasting in the report period

The Company or the shareholders holding more than 5% equity had no commitment happened in the report period or happened in previous period but carried forward to the report period that possibly had significant influence on the operation result and financial situation of the Company.

VI. Engagement and Disengagement of Certified Public Accountants of the Company

In the report period, the Company engaged Hong Kong K.C.Oh & Company Certified Public Accountants as foreign audit organization and it has provided service for the Company for six years and the Company paid the audit expense amounting to RMB 0.23 million to it in 2003.

VII. In the report period, the Board of Directors of the Company and the directors have neither been checked, given administrative punishment and public criticism by CSRC and publicly condemned by Stock Exchange.

(VII) Other Significant Events:

In the report period, the Company published the occurred significant events on Securities Times and Ta Kung Pao dated Jan. 15, 2003, June 20, 2003 and Oct. 23, 2003 as follows:

1. The unlisted foreign share of 19,447,518 shares held by STEPHEN & PARTNERS LIMITED, the sponsor's shareholder of the Company has been authorized by CSRC (ZJGSZ [2002] NO. 2) to be changed into listed foreign share in circulation and was listed and circulated in B-share market of Shenzhen Stock Exchange on Jan. 20, 2003.
2. CSRC has authorized the unlisted foreign share amounting to 62,003,890 shares held by the second shareholder of the Company, Hong Kong Zhuorun Technology Co., Ltd. to be changed into B share on June 18, 2003 and listed and circulated in B-share market of Shenzhen Stock Exchange after one year since June 18. The equity has 57,899,644 shares pledged and frozen at present.
3. Receiving the notification of the shareholder, China Huarong Asset Management Corporation as authorized by the state authorization organizations, the financial creditors of the Company have right to negotiate with the Company to derate partial liabilities.

SECTION XI. FINANCIAL REPORT

(Attachment)

SECTION XII. DOCUMENTS AVAILABLE FOR REFERENCE

1. Accounting statements carried with the personal signatures and seals of legal representative, person in charge of the accounting affairs and person in charge of the accounting department.
2. Original of auditors' report carried with seal of the Certified Public Accountants as well as personal signatures and seals of certified public accountants.
3. Originals of all documents and public notices disclosed in public on the newspapers as designated by China Securities Regulatory Commission in the report period.
4. Annual reports disclosed in other securities markets.

The Company will provide the above documents for reference timely provided that CSRC or Stock Exchange demands or shareholders requires according to the regulations and Articles of Association.

**Board of Director of
Shenzhen China Bicycle Company (Holdings) Limited
April 21, 2004**

Shenzhen China Bicycle Company (Holdings) Limited

**(A joint stock limited company incorporated
in the People's Republic of China)**

**Auditors' report and financial statements
for the year ended December 31, 2003**

Shenzhen China Bicycle Company (Holdings) Limited

**(A joint stock limited company incorporated
in the People's Republic of China)**

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**Report of the auditors to the members of
Shenzhen China Bicycle Company (Holdings) Limited**

(A joint stock limited company incorporated in the People's Republic of China)

We have audited the accompanying balance sheet of the Group as of December 31, 2003 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

However, the evidence available to us was limited in the following manner. As explained in note 2 to the financial statements, the company's adoption of going concern basis is based on the probable outcome of the debt restructuring as well as the resulting improvement in the financial position. As we were unable to obtain sufficient evidence and explanation to assess the adequacy of the going concern basis, our opinion is qualified in this respect. In addition, we were unable to estimate the financial impact on the Group should the going concern basis not be adopted.

Except for the matter as referred to above, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

K. C. Oh & Company
Certified Public Accountants

Hong Kong : April 19, 2004

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated income statement for the year ended December 31, 2003

	Note	2003 RMB'000	2002 RMB'000 Restated
Turnover	(5)	99,015	71,590
Cost of sales		(90,963)	(64,278)
Gross profit		8,052	7,312
Other revenue		19,932	49,362
		27,984	56,674
Distribution costs		(9,104)	(8,713)
Administrative expenses		(27,882)	(30,892)
Other operating expenses		(477)	(190)
Operating profit/(loss)		(9,479)	16,879
Finance costs		(3,906)	(21,278)
Operating loss before exceptional items	(6)	(13,385)	(4,399)
Exceptional items	(7)	355,831	12,625
Operating profit after exceptional items		342,446	8,226
Share of loss from associates		(1,679)	(1,419)
Profit before taxation		340,767	6,807
Taxation	(8)	(2)	-
Profit after taxation		340,765	6,807
Minority interests		55	(27)
Profit for the year		340,820	6,780
Earnings per share	(9)	RMB0.7109	RMB0.0141

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated balance sheet as at December 31, 2003

	Note	2003 RMB'000	2002 RMB'000 Restated
Non-current assets			
Fixed assets	(10)	262,108	310,919
Interests in associates	(11)	19,059	20,738
Other investments	(12)	6,903	8,603
		<u>288,070</u>	<u>340,260</u>
Current assets			
Inventories	(13)	68,882	73,441
Accounts receivable	(14)	8,887	14,477
Others receivable and prepayments	(15)	60,042	49,301
Amounts due from related companies	(16)	-	-
Bills receivable		275	150
Cash and bank balances		5,585	6,800
		<u>143,671</u>	<u>144,169</u>
Total assets		<u>431,741</u>	<u>484,429</u>
Capital and reserves			
Share capital	(17)	479,433	479,433
Reserves		<u>(2,167,047)</u>	<u>(2,507,867)</u>
		<u>(1,687,614)</u>	<u>(2,028,434)</u>
Minority interests	(18)	-	-
Non-current liabilities			
Long-term loans due to related companies	(19)	951,063	1,177,321
Loan-term borrowings	(20)	532,975	601,491
Provision for loss on guarantees	(21)	166,271	166,271
		<u>1,650,309</u>	<u>1,945,083</u>
Current liabilities			
Amounts due to related companies		59,408	59,408
Accounts payable		120,738	118,497
Bills payable		716	-
Others payable and receipts in advance		210,292	190,108
Accruals		44,156	165,991
Tax payable		33,736	33,776
		<u>469,046</u>	<u>567,780</u>
Total equity and liabilities		<u>431,741</u>	<u>484,429</u>

The financial statements on pages 2 to 24 were approved and authorised for issue by the board of directors on April 19, 2004 and are signed on its behalf by :

Director

Director

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated statement of changes in equity for the year ended December 31, 2003

	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated loss RMB'000	Total RMB'000
Balance as at January 1, 2002	479,433	588,205	185,011	24,284	32,673	(3,303,499)	(1,993,893)
Prior period adjustments (note 24)	-	-	-	-	-	(41,321)	(41,321)
Restated balance	479,433	588,205	185,011	24,284	32,673	(3,344,820)	(2,035,214)
Profit for the year	-	-	-	-	-	6,780	6,780
Reclassification	-	(588,205)	(185,011)	(24,284)	-	797,500	-
Balance as at December 31, 2002	479,433	-	-	-	32,673	(2,540,540)	(2,028,434)
Balance as at January 1, 2003	479,433	-	-	-	32,673	(2,497,808)	(1,985,702)
Prior year adjustment (note 24)	-	-	-	-	-	(42,732)	(42,732)
Restated balance	479,433	-	-	-	32,673	(2,540,540)	(2,028,434)
Profit for the year	-	-	-	-	-	340,820	340,820
Balance as at December 31, 2003	479,433	-	-	-	32,673	(2,199,720)	(1,687,614)

According to the Company's Articles of Association and the PRC's relevant laws and policies, as well as after making up the Company's loss, the Company is required to make a transfer at the rate of 10% from the profit after taxation, determined in accordance with the PRC accounting standards, of the Company to the statutory surplus reserve until the reserve balance has reached 50% of the registered capital of the Company. Again, after making up the loss, the Company is also required to transfer 5% from the profit after taxation to the statutory public welfare fund.

The statutory surplus reserve and the capital reserve may be applied only for the following purposes :

- i may be used to make up loss; and
- ii may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, but when the statutory surplus reserve is converted into share capital, the amount remaining in the reserve shall be no less than 25% of the newly increased registered capital.

In 2002, the directors approved to make up the accumulated loss by transferring all balances from capital reserve, statutory surplus reserve and discretionary surplus reserve. The directors do not recommend the payment of any dividend in respect of the year ended December 31, 2003.

The statutory public welfare fund shall only be applied for the collective welfare of the Company's employees, and upon utilisation, an amount equal to expenditure spent on the collective staff welfare shall be transferred from the statutory public welfare fund to discretionary surplus reserve.

Prior to making up the Company's loss and the relevant appropriations to the statutory surplus reserve and the statutory public welfare fund, no dividend shall be payable.

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated cash flow statement for the year ended December 31, 2003

	2003 RMB'000	2002 RMB'000 Restated
Cash flow from operating activities		
Operating profit before taxation	340,767	6,807
Adjustment items :		
Interest income	(38)	(32)
Interest expense	3,906	20,719
Depreciation	15,914	18,699
Debt restructuring income	(374,993)	-
Share of loss from associates	1,679	1,419
Provision for impairment loss of property, plant and equipment reversed	-	(3)
Profit on disposal of property, plant and equipment	(10,773)	(40,086)
Provision for impairment loss of construction in progress reversed	(2,320)	-
Provision for impairment loss of other investments	1,700	40
Provision for impairment loss of obsolete inventories made/(reversed)	3,909	(10,407)
Provision for doubtful debts made/(reversed)	9,518	(2,203)
Provision for loss on minority interests made/(reversed)	<u>55</u>	<u>(27)</u>
Net operating cash outflow before movement in working capital	(10,676)	(5,074)
Decrease in amounts due from associates	-	2,892
Decrease in inventories	650	125
(Increase)/decrease in accounts receivable	4,452	(5,670)
(Increase)/decrease in others receivable and prepayments	(18,820)	2,125
(Increase)/decrease in amounts due from related companies	(281)	13,655
Increase in bills receivable	(125)	-
Increase in amounts due to related companies	-	10,028
Increase in accounts payable	2,241	6,701
Increase/(decrease) in bills payable	716	(100)
Increase/(decrease) in others payable and receipts in advance	12,684	(17,655)
Decrease in accruals	<u>(1,116)</u>	<u>(239,146)</u>
Net cash outflow from operating activities before interest and income tax payments	(10,275)	(232,119)
Interest paid	(178)	-
Income taxes recovered/(paid)	<u>(42)</u>	<u>40</u>
Net cash outflow from operating activities c/f	<u>(10,495)</u>	<u>(232,079)</u>

(to be cont'd)

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated cash flow statement for the year ended December 31, 2003

(cont'd)

	2003 RMB'000	2002 RMB'000 Restated
Net cash outflow from operating activities b/f	(10,495)	(232,079)
Investing activities		
Interest received	38	32
Proceeds from disposal of property, plant and equipment	1,516	75,556
Payment for acquisition of property, plant and equipment	(594)	(905)
Proceeds from construction in progress	2,320	-
Net cash inflow from investing activities	3,280	74,683
Net cash outflow before financing activities	(7,215)	(157,396)
Financing activities (*)		
Increase in long-term loans due to related companies	6,000	161,630
Decrease in long-term borrowings	-	(728)
Net cash inflow from financing activities	6,000	160,902
Increase/(decrease) in cash and cash equivalents	(1,215)	3,506
Cash and cash equivalents as at beginning of the year	6,800	3,294
Cash and cash equivalents as at end of the year	5,585	6,800
(*) Cash flow from financing		
	Long-term loans due to related companies RMB'000	Long-term borrowings RMB'000
Balance as at beginning of the year	1,170,528	601,491
Cash flows from financing activities	6,000	-
Debt restructuring income (note 7)	(243,346)	-
Increase in others payable	11,088	(18,088)
Proceeds from disposal of property, plant and Equipment	-	(50,428)
Balance as at end of the year	944,270	532,975

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

1. Corporate information

Shenzhen China Bicycle Company (Holdings) Limited (the “Company”) is established in the People’s Republic of China (the “PRC”) as a joint stock limited company. The principal activities of the Company are manufacture of bicycles and investment holding.

2. Basis of presentation of the financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Federation of Accountants. These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IFRS, adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the net asset value as at December 31, 2003 and on the operating results for the year then ended are included in notes 26 and 27 to the financial statements. In addition, the financial statements have been prepared under the historical cost convention.

The principal activity of the Group is production and sales of “deluxe” bicycles to overseas customers. However, owing to the worldwide anti-dumping measures, the turnover has dropped drastically for the past few years, leading to repeatedly operating losses and significant liabilities. Commencing 2001, the major shareholder China Huarong Asset Management Corporation has taken over the management of the Group and has taken active measures to carry out market research and explore new product lines with an expectation of a remarkable improvement in the principal activity. It is anticipated that the operating result will improve in the future. In addition, the Group is currently keen on the debt restructuring process and the waiver of outstanding debts is expected to come soon. The Group is also now seeking external funding process and is confident that new funds will be raised to meet the working capital requirements in the future. In view of the above, the financial statements have been prepared on a going concern basis.

3. Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and its subsidiaries made up to December 31, 2003 and include the Group’s attributable share of post-acquisition results of its associates. Results of subsidiaries and associates acquired or disposed of during the year are consolidated/equity accounted for from or to their effective dates of acquisition or disposal, respectively. Except for those subsidiaries not consolidated for the reason stated below, all significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

A subsidiary is a company in which the company holds, directly or indirectly, more than 50% of the equity interest as a long-term investment and/or has the power to cast the majority of votes at meetings of the board of directors/management committee.

i) *Subsidiaries consolidated*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
China Bicycles (Hong Kong) Co., Limited	Hong Kong	100%	Bicycle and spare part distribution
Shenzhen Augule Property Management Co., Ltd.	PRC	100%	Property management
Shenzhen China Bicycle (Gansu) Distribution Co., Ltd.	PRC	80%	Bicycle and spare part distribution
Shenzhen China Bicycle (Shanxi) Distribution Co., Ltd.	PRC	70%	Bicycle and spare part distribution
Shenzhen China Bicycle (Harbin) Distribution Co., Ltd.	PRC	60%	Bicycle and spare part distribution

ii) *Subsidiaries not consolidated*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Jiu Jiang Hua Tian Property Co., Ltd.	PRC	100%	Property development
Shenzhen China Bicycle (Guangzhou) Distribution Co., Ltd.	PRC	100%	Bicycle and spare part distribution
Zoria Pte. Ltd.	Singapore	100%	Bicycle and spare part distribution
Well Gain Enterprise (Shenzhen) Co., Ltd.	PRC	98%	Material supplies
Shenzhen China Bicycle (Hainan) Distribution Co., Ltd.	PRC	70%	Bicycle and spare part distribution
Shenzhen China Bicycle (Jiangxi) Distribution Co., Ltd.	PRC	55%	Bicycle and spare part distribution

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

ii) *Subsidiaries not consolidated (cont'd)*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Huangzhou Chung Jiang Industrial Co., Ltd.	PRC	51%	Property development
Jiangxi Hong Ji Property Development Co., Ltd.	PRC	51%	Property development

The board of directors is of the opinion that there is no need to consolidate the above subsidiaries as they have ceased the business, are under liquidation or are unable to transfer funds to the parent because of long-term restrictions over their operations. The directors consider that their operating results and net assets have no significant effect on the Group. After being taken into consideration the expected impairment loss, investments in above companies are accounted for at cost less provision for diminution in value.

(b) Associates

An associate is a company, not being a subsidiary, in which the Company holds, directly or indirectly, not less than 20% and not more than 50% equity interest as a long-term investment and is able to exercise significant influence on this company. Investment in associates is stated at cost plus the Group's share of post-acquisition reserves. Profit/loss from associates represents the Group's share of post-acquisition results by the associates during the year.

The details of the Group's principal associates are as follows :

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Jiang Xi Li Hua Enterprise Ltd.	PRC	39.83%	Commercial service
Shenzhen Jinhuan Print Plate Co., Ltd.	PRC	38%	Manufacture of bicycle and motorcycle spare parts
Shan Tou Special Economic Zone Da Peng Industrial Co., Ltd.	PRC	30%	Manufacture of bicycle aluminum spare parts
Shenzhen Canghai Enterprise Co., Ltd.	PRC	30%	Manufacture of machinery

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

3. Basis of consolidation (cont'd)

(b) Associates (cont'd)

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Yang Zhou Xing Hua Bicycle Parts Co., Ltd.	PRC	30%	Manufacture of bicycle spare parts and motors, etc.
Jian Xu Huai Yin Huayu Bicycle Parts Co., Ltd.	PRC	25%	Manufacture of bicycle spare parts
Shenzhen Tange Bicycle Parts Co., Ltd.	PRC	20%	Manufacture of bicycle spare parts

4. Summary of significant accounting policies

(a) Turnover

Turnover represents income from customers outside the group in respect of the sales of the goods and the property management, net of returns, discounts and sales tax.

(b) Revenue recognition

- (i) Sales of goods are recognised when the goods are delivered and the title has passed.
- (ii) Rental income under operating leases is accounted for on a straight-line basis over the terms of the respective leases.
- (iii) Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- (iv) Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

(c) Property, plant, equipment and depreciation

Such assets are stated at cost less accumulated depreciation. 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. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are charged to consolidated income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditures are capitalised as an additional cost of the assets.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(c) Property, plant, equipment and depreciation (cont'd)

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any profit or loss resulting from their disposal is included in consolidated income statement.

Depreciation is provided to write off the cost of depreciable assets, after taking into account of their estimated residual values, over their estimated useful lives on a straight-line basis.

The estimated useful lives of property, plant and equipment are as follows :

Land and buildings	20 years
Plant and machinery	10 years
Office equipment	5 years
Transport equipment	5 years
Others	5 years

(d) Construction in progress

Construction in progress represents properties under construction and equipment purchased prior to installation and is stated at cost. Cost comprises direct costs, attributable overheads and where applicable finance expenses arising from borrowings used specifically to finance the construction of the properties and the acquisition of the equipment until the construction or installation is completed.

The cost of completed construction work is transferred to appropriate category of property, plant and equipment, and depreciation commences when the assets are ready for their intended use. However, for construction in progress that is pending for further process and is functionally or technologically obsolete, its carrying amount is reduced to its recoverable amount by reference to the impairment loss.

(e) Investments

Long-term investments are stated at cost less provision for diminution in value that is other than temporary whilst short-term investments are stated at the lower of cost and market value or net realizable value. Income from investments is accounted for to the extent of dividend and/or interest income received or receivable.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(f) Inventories and work in progress

Inventories are stated at the lower of cost, on the weighted average method, and net realisable value. The cost of finished goods and work in progress includes the actual costs of direct materials and direct labour together with an appropriate proportion of production overheads. Net realisable value is based on the estimated selling prices less further costs expected to be incurred to completion and disposal.

(g) Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when 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 capitalised.

(h) Operating leases

Leases under which all the risks and rewards of ownership of assets substantially remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to consolidated income statement on a straight-line basis over the lease terms.

(i) Foreign currency transactions

The PRC group companies maintain their books and records in Renminbi. Foreign currency transactions are translated into Renminbi at the applicable rates of exchange prevailing on the first of January every year. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing as at the balance sheet date. Exchange differences arising from changes of exchange rates subsequent to the dates of transactions are included in the determination of the current year's results.

(j) Related companies

A related company is a company, not being a subsidiary or an associate, in which the major shareholders or directors of the Company or its group companies have a beneficial interest therein, or are in a position to exercise significant influence over that company.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(k) Cash equivalents

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

(l) Impairment loss

As at each balance sheet date, the Group reviews the carrying amounts of its 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss arising is recognised as an expense immediately.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment loss are credited to the income statement in the year in which the reversals are recognised.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation subsequent to a past event, which will result in a probable outflow of economic benefits that can be reasonably estimated.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(n) Taxation (cont'd)

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed as at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

5. Segment analysis of turnover and results

The turnover and results of the Group, analysed by business activity are as follows :

	2003	2002
	RMB'000	RMB'000
		Restated
Turnover		
Sales of goods	95,380	68,527
Property management	3,062	2,264
Others	573	799
	<u>99,015</u>	<u>71,590</u>
Gross profit		
Sales of goods	7,083	6,381
Property management	835	625
Others	134	306
	<u>8,052</u>	<u>7,312</u>

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

6. Operating loss before exceptional items

	2003	2002
	RMB'000	RMB'000
		Restated
The Group's operating loss before exceptional items is arrived at after crediting		
Interest income	38	32
Profit on disposal of property, plant and equipment	10,773	40,086
License fee income from trademark	706	363
Rental income	7,374	8,073
And after charging		
Depreciation	15,914	18,699
Exchange loss	-	556
Interest expense	3,906	20,719

7. Exceptional items

	2003	2002
	RMB'000	RMB'000
		Restated
Exceptional items comprise		
Debt restructuring income (*)	374,993	25
Surcharge imposed by the Customs (**)	(6,300)	-
Provision for impairment loss of construction in progress reversed	2,320	-
Provision for impairment loss of other investments	(1,700)	(40)
Provision for impairment loss of other assets (made)/reversed	(13,427)	12,613
Provision for loss on minority interests (made)/reversed	(55)	27
	355,831	12,625

- (*) According to the Announcement No. 6 in 2004 issued by the Office of the China Banking Supervisory Committee on January 7, 2004, various banks and financial institutions were required to waive the interest expense of the Group for a period of three years commencing January 1, 2002. In addition, all interest (including interest penalty) outstanding and accrued by the Group as at December 31, 2001 was also waived. The above stated debt restructuring income has been classified as an exceptional item for the year, with details as follows :

	2003	2002
	RMB'000	RMB'000
Interest expense waived by China Huarong Asset Management Corporation	243,346	-
Waiver of interest expense by bankers, financial Institutions and interest over-provided in prior years	131,647	25
	374,993	25

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

7. Exceptional items (cont'd)

(**) The Group had under-reported imported processing materials when carrying out the subcontracting services. Apart from the imported duty that was demanded (note 24), a surcharge of RMB6,300,000 was imposed on the Group during the year.

8. Taxation

PRC income tax is determined by reference to the profit reported in the audited financial statements under PRC Accounting Standards, and after adjustments for income and expense items that are not assessable or deductible for income tax purposes.

	2003	2002
	RMB'000	RMB'000
Income tax		
Company and subsidiaries	2	-
Associates	-	-
	<u>2</u>	<u>-</u>
Deferred tax	-	-
	<u>2</u>	<u>-</u>

The reconciliation between tax expense and accounting profit is as follows :

	2003	2002
	RMB'000	RMB'000
		Restated
Profit before taxation	<u>340,767</u>	<u>6,807</u>
Tax at the income tax rate of 15% (2002 - 15%)	51,115	1,021
Tax effect of disallowable surcharge	945	-
Tax effect of certain tax-exempted		
Debt restructuring income	(56,249)	(4)
Tax effect of unrecognised tax losses	4,189	(1,017)
Effect of different tax rates for subsidiaries operating in different jurisdictions	<u>2</u>	<u>-</u>
Current tax expense	<u>2</u>	<u>-</u>

9. Earnings per share

The calculation of the basic earnings per share is based on the current year's profit of RMB340,820,000 (2002 - RMB6,780,000) attributable to the shareholders and on the existing number of 479,433,003 shares that are in issue.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

10. Fixed assets

	Land and buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Transport equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
Balance as at January 1, 2003	471,523	255,384	19,044	8,011	18,735	2,320	775,017
Reclassification	(394)	-	287	135	(28)	-	-
Additions	-	-	462	-	132	-	594
Disposals	(35,734)	-	(35)	-	(1,051)	(2,320)	(39,140)
Balance as at December 31, 2003	<u>435,395</u>	<u>255,384</u>	<u>19,758</u>	<u>8,146</u>	<u>17,788</u>	<u>-</u>	<u>736,471</u>
Accumulated depreciation/provision for impairment loss							
Balance as at January 1, 2003	(167,572)	(238,461)	(16,522)	(7,090)	(16,694)	(2,320)	(448,659)
Prior period adjustments (note 24)	(15,439)	-	-	-	-	-	(15,439)
Restated balance	(183,011)	(238,461)	(16,522)	(7,090)	(16,694)	(2,320)	(464,098)
Reclassification	(551)	-	(358)	477	432	-	-
Charged for the year	(15,412)	(41)	(232)	(94)	(135)	-	(15,914)
Written back on disposals	<u>2,305</u>	<u>-</u>	<u>7</u>	<u>-</u>	<u>1,017</u>	<u>2,320</u>	<u>5,649</u>
Balance as at December 31, 2003	<u>(196,669)</u>	<u>(238,502)</u>	<u>(17,105)</u>	<u>(6,707)</u>	<u>(15,380)</u>	<u>-</u>	<u>(474,363)</u>
Net book value							
Balance as at December 31, 2003	<u>238,726</u>	<u>16,882</u>	<u>2,653</u>	<u>1,439</u>	<u>2,408</u>	<u>-</u>	<u>262,108</u>
Balance as at December 31, 2002	<u>288,512</u>	<u>16,923</u>	<u>2,522</u>	<u>921</u>	<u>2,041</u>	<u>-</u>	<u>310,919</u>

A portion of the Group's land and buildings and plant and machinery had been taken for auction sale in order to repay the relevant secured loans. The title of these assets had not been transferred as at the balance sheet date. As the auction price was well below their net book value, the Group had made a provision for impairment loss of RMB76,569,000.

A portion of the Group's land and buildings with an area of 15,740 square metres have been secured to the banker to obtain export bill facilities.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

11. Interests in associates

	2003	2002
	RMB'000	RMB'000
Capital contributions, at cost	64,704	64,704
Share of post-acquisition loss	<u>(14,597)</u>	<u>(12,918)</u>
Share of net assets of associates	50,107	51,786
Provision for impairment loss	<u>(17,939)</u>	<u>(17,939)</u>
Amounts due to associates	<u>32,168</u> <u>(13,109)</u>	<u>33,847</u> <u>(13,109)</u>
	<u>19,059</u>	<u>20,738</u>

12. Other investments

	2003	2002
	RMB'000	RMB'000
Subsidiaries not consolidated, at cost	18,743	18,743
Unlisted equity investments, at cost	<u>9,304</u>	<u>9,304</u>
Provision for impairment loss	<u>28,047</u> <u>(21,144)</u>	<u>28,047</u> <u>(19,444)</u>
	<u>6,903</u>	<u>8,603</u>

13. Inventories

	2003	2002
	RMB'000	RMB'000
Raw materials	254,580	265,109
Work in progress	3,615	3,616
Finished goods	76,762	66,962
Consumable stores	2,185	2,105
Provision for diminution in value of obsolete inventories	<u>(268,260)</u>	<u>(264,351)</u>
	<u>68,882</u>	<u>73,441</u>

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

14.	Accounts receivable		
	2003	2002	
	RMB'000	RMB'000	
Amounts receivable	638,118	642,570	
Provision for doubtful debts	<u>(629,231)</u>	<u>(628,093)</u>	
	<u>8,887</u>	<u>14,477</u>	
 15.	 Others receivable and prepayments		
	2003	2002	
	RMB'000	RMB'000	
Others receivable	414,432	395,504	
Advance payments	2,588	2,824	
Prepayments	<u>630</u>	<u>482</u>	
	417,650	398,810	
Provision for doubtful debts	<u>(357,608)</u>	<u>(349,509)</u>	
	<u>60,042</u>	<u>49,301</u>	
 16. Amounts due from related companies			
	2003	2002	
	RMB'000	RMB'000	
Amounts due from related companies	1,108,207	1,107,926	
Provision for doubtful debts	<u>(1,108,207)</u>	<u>(1,107,926)</u>	
	<u>-</u>	<u>-</u>	
 17. Share capital			
	2003	2002	
	RMB'000	RMB'000	
Registered, issued and fully paid capital, at par value of RMB1 each			
224,435,655 (2002 - 224,435,655) domestic shares	224,435	224,435	
76,376,700 (2002 - 76,376,700) "A" shares	76,377	76,377	
178,620,648 (2002 - 178,620,648) "B" shares	<u>178,621</u>	<u>178,621</u>	
	<u>479,433</u>	<u>479,433</u>	

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

18. Minority interests

	2003 RMB'000	2002 RMB'000
Minority interests	(2,865)	(2,810)
Absorption of loss	<u>2,865</u>	<u>2,810</u>
	<u><u>-</u></u>	<u><u>-</u></u>

19. Long-term loans due to related companies

	2003 RMB'000	2002 RMB'000 Restated
China Huarong Asset Management Corporation	718,656	964,313
Guangdong Sunrise Holdings Company Limited *	<u>232,407</u>	<u>213,008</u>
	<u><u>951,063</u></u>	<u><u>1,177,321</u></u>

* Formerly known as Shenzhen Lionda Holdings Company Limited

20. Long-term borrowings

	2003 RMB'000	2002 RMB'000
Secured bank loans	78,850	327,187
Guaranteed bank loans	454,125	223,876
Other loans	<u>-</u>	<u>50,428</u>
	<u><u>532,975</u></u>	<u><u>601,491</u></u>
The above borrowings are repayable as follows :		
Overdue but pending, and are expected for restructuring soon	532,975	551,063
More than one year	<u>-</u>	<u>50,428</u>
	<u><u>532,975</u></u>	<u><u>601,491</u></u>

The Group's bank loans are secured by the properties of the Group and the guarantees from the related companies.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

21. Contingent liabilities and losses

As at December 31, 2003, the Group had contingent liabilities and losses as follows :

	2003	2002
	RMB'000	RMB'000
Guarantees given to bankers, in respect of banking facilities utilised by subsidiaries, associates and related companies	191,542	191,542
Contingent loss on guarantees provided	<u>(166,271)</u>	<u>(166,271)</u>
Contingent liabilities not provided	<u>25,271</u>	<u>25,271</u>

22. Assets under security

As at December 31, 2003, the buildings and the machinery of the Group at net book value of 217,200,000 (2002 - RMB267,027,000) together with the guarantees from related companies were used to secure the borrowings of RMB534,890,000 (2002 - RMB534,890,000) made available to the Group. However, the Group's collateral with net book value of RMB38,408,000 (2002 - RMB38,408,000) was disposed of under auction sales and the transfer of ownership had not yet been completed by the end of this financial year.

23. Related party transactions

During the year, the Group had material transactions with the following related parties :

Related parties	Transactions	2003	2002
		RMB'000	RMB'000
Guangdong Sunrise Holdings Company Limited *	Repayment of bank loan on behalf of the Group	19,399	-
China Huarong Asset Management Corporation	Loan advanced to the Group	6,000	-
	Debt restructuring - waiver of interest expense	243,346	-

* Formerly known as Shenzhen Lionda Holdings Company Limited

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

24. Prior period adjustments

	2003 RMB'000	2002 RMB'000 Restated
Import duty under-accrued	(20,500)	(20,500)
Interest under-provided	(6,793)	(6,793)
Depreciation under-provided	(15,439)	(14,028)
	<u>(42,732)</u>	<u>(41,321)</u>

(a) Pursuant to the "Additional Duty Demand Notice" issued by the Office of Shenzhen Customs on March 15, 1999, the Group was required to pay for the import duty totalling RMB21,000,000 in respect of six imported processing materials under category 95(01) during the period from December 29, 1995 to March 14, 1998 because the import values of these items were under-reported. The Group had paid the sum of RMB500,000. However, the remaining balance payable of RMB20,500,000 was not recorded due to the oversight by the accounting department. To remedy this error, the Group has made a retrospective adjustment when preparing the financial statements. As a result of this adjustment, the brought-forward accumulated loss for both years 2002 and 2003 increased by RMB20,500,000.

(b) During the year, the Group discovered that the loan interest payable to Guangdong Sunrise Holdings Company Limited* in prior years was under-provided by RMB6,793,661. To remedy this error, the Group has made a retrospective adjustment when preparing the financial statements. As a result of this adjustment, the brought-forward accumulated loss for both years 2002 and 2003 increased by RMB6,793,661.

* Formerly known as Shenzhen Lionda Holdings Company Limited

(c) During the year, the Group discovered that no amortisation was made for the land use right in relation to a piece of land that had an area of 108,242 square meters. The period of the land use right was from July 1990 to June 2040. To remedy this error, the Group has made a retrospective adjustment when preparing the financial statements. As a result of this adjustment, the brought-forward accumulated loss for years 2002 and 2003 increased by RMB14,028,085 and RMB15,438,795 respectively and the profit for the both years 2002 and 2003 decreased by RMB1,410,710.

25. Financial instruments

The financial assets of the group include cash and bank balances, bills receivable, accounts receivable, others receivable, prepayments and amounts due from related companies. The financial liabilities include bank and other loans, bills payable, accounts payable, others payable, receipts in advance, amounts due to related companies and accruals.

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

25. Financial instruments (cont'd)

(A) Credit risk

Cash and bank balances: the group's bank balances are mainly deposited in the banks and financial institutions situated in the PRC. They do not have a significant exposure to credit risk.

Accounts receivable: as adequate provision has been made, the group does not have a significant exposure to any individual customer or counterpart. The major concentrations of credit risk arise from exposures to a substantial number of accounts receivable that are mainly located in the PRC.

(b) Fair value

The fair value of financial assets and financial liabilities is not materially different from their carrying amount.

The carrying value of short-term borrowings is estimated to approximate its fair value based on the borrowing terms and rates of similar loans. The fair value of long-term borrowings is estimated, by applying discounted cash flow method using carrying market interest rates for similar financial instruments, to approximate its carrying value.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties on matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

26. Impact of IFRS adjustments on profit/loss attributable to shareholders

	2003 RMB'000	2002 RMB'000 Restated
As reported by PRC Certified Public Accountants	(32,948)	22,163
Adjustments to conform to IFRS		
Debt restructuring income	357,994	25
Interest expense waived	16,999	(16,999)
Absorption of operating loss in a subsidiary	(1,170)	(814)
Reversal of loss from minority interests	(55)	27
Write-back of deferred assets	-	2,378
	<u>340,820</u>	<u>6,780</u>
As restated in conformity with IFRS		

Shenzhen China Bicycle Company (Holdings) Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

27. Impact of IFRS adjustments on net assets

	2003 RMB'000	2002 RMB'000 Restated
As reported by PRC Certified Public Accountants	(1,684,749)	(2,008,625)
Adjustments to conform to IFRS		
Interest expense waived	-	(16,999)
Absorption of loss from minority interests	<u>(2,865)</u>	<u>(2,810)</u>
As restated in conformity with IFRS	<u>(1,687,614)</u>	<u>(2,028,434)</u>

28. Language

The translated English version of financial statements is for reference only. Should any disagreement arise, the Chinese version shall prevail.

29. Comparative figures

As a result of prior period adjustments and in order to conform to the current year's presentation, certain comparative figures have been reclassified.