SHENZHEN TELLUS HOLDING COMPANY LIMITED

(Incorporated in the People's Republic of China)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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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 2004 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 2004 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 4 to the financial statements which indicates that the Group's current liabilities exceeded its current assets by RMB243,892,000 as at 31 December 2004. This condition, along with other matters as set out in note 4 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

11th March 2005

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	4	1,124,746	1,436,383
Cost of sales		(1,020,822)	(1,311,843)
Gross profit		**103,924**	**124,540**
Other operating income		55,700	37,138
Distribution costs		(50,953)	(52,861)
Administrative expenses		(52,440)	(62,416)
Other operating expenses		(35,418)	(24,723)
Profit from operations	5	**20,813**	**21,678**
Finance costs	6	(15,406)	(19,861)
Income from associates		2,550	2,697
Dividend income from investments		1,699	2,025
Gain from disposal of associates		--	3,203
Gain from disposal of investments		4,805	14,058
Loss from disposal of a subsidiary		--	(5,803)
Profit before tax		**14,461**	**17,997**
Income tax expense	7	(4,430)	(3,930)
Profit after tax		**10,031**	**14,067**
Minority interest		(5,293)	(4,370)
Net profit for the year		**4,738**	**9,697**
Profit per share	8		
Basic		RMB 0.01	RMB 0.04
Diluted		N/A	N/A

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Goodwill	9	11,119	12,808
Property, plant & equipment	10	120,500	135,262
Investment properties	11	270,532	268,702
Interests in associates	13	12,715	25,315
Long-term investments	14	88,405	83,775
		503,271	**525,862**
Current assets			
Properties held for sale	15	37,258	61,593
Inventories	16	126,728	88,025
Accounts receivable and prepayments		105,477	179,403
Amount due from ultimate holding company	17	95,203	95,389
Pledged bank deposits	18	38,599	179,117
Cash and bank balances		86,740	86,511
		490,005	**690,038**
Current liabilities			
Accounts payable		77,439	109,382
Accruals and other payables		164,922	161,955
Provision for staff welfare		5,838	7,344
Bills payable	18	100,175	272,092
Bank loans	19	207,132	233,162
Other loans	20	172,586	192,482
Tax payable		5,805	3,426
		733,897	**979,843**
Net current liabilities		**(243,892)**	**(289,805)**
		259,379	**236,057**
Capital and reserves			
Share capital	21	220,282	220,282
Reserves	22	(10,677)	(15,415)
Minority interests		49,774	31,190
		259,379	**236,057**

Director Director

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004	2003
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Cash received from sale of goods or rendering of services		1,327,288	1,708,985
Other cash received relating to operating activities		28,848	29,972
Cash paid for goods and services		(1,212,148)	(1,448,580)
Cash paid to and on behalf of employees		(60,344)	(60,860)
Tax paid		(34,107)	(57,364)
Cash paid relating to other operating activities		(129,459)	(71,403)
Interest paid		(13,903)	(21,468)
Net cash from operating activities		(93,825)	79,282
INVESTING ACTIVITIES			
Cash received from disposal of investments		3,567	36,317
Dividends received and interest received		1,845	9,732
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		5,857	5,983
Other cash received relating to investing activities		140,517	-
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(4,347)	(9,802)
Cash paid to acquire investments		(18,879)	(24,853)
Cash paid relating to other investing activities		-	(73,892)
Net cash used in investing activities		128,560	(56,515)
FINANCING ACTIVITIES			
Proceeds from borrowings		201,870	268,515
Other cash received relating to financing activities		-	-
Repayments of borrowings		(236,376)	(309,876)
Cash paid relating to other financing activities		-	-
Net cash used in financing activities		(34,506)	(41,361)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		229	(18,594)
Cash and cash equivalents at beginning of year		86,511	105,105
Cash and cash equivalents at end of year		86,740	86,511

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital	Share premium	Asset revaluation reserve	Staff welfare fund	General reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1/1/2003	220,282	124,248	36,389	3,210	55,480	(244,439)	195,170
Profit for the Year						9,697	9,697
Addition							
At 31/12/2003	220,282	124,248	36,389	3,210	55,480	(234,742)	204,867
Profit for the Year						4,738	4,738
At 31/12/2004	220,282	124,248	36,389	3,210	55,480	(230,004)	209,605

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 2004

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 2004 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 RMB243,892,000as at 31 December 2004. 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 20). 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 is land and/or buildings held to earn rentals or for capital appreciation or both. Investment property is stated at fair value. Fair value is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Movements in fair value are recognised immediately in profit or loss.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties held for sale

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

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

Inventories

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

Long-term investments

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

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

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

Retirement benefit cost

In accordance with local government regulations, the Group is required to make contributions to a retirement insurance fund which is a defined contribution scheme and is administered by the local social security bureau in accordance with government regulations. The amount of contributions is determined at a fixed percentage of the basic salaries of the Group's existing PRC staff.

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

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

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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

Turnover and revenue recognition

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

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

Service income is recognized when the services are rendered.

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

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

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

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

Deferred income tax

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

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

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

Impairment of assets

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

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Borrowing costs

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

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

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions, contingent liabilities and contingent assets

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

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

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

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

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

Cash and cash equivalents

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

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

4.TURNOVER AND SEGMENT INFORMATION

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

Segment analysis by principal activities:

	Manufacturing and others		Property development and management		Import and export trading		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	107,833	127,089	33,963	32,928	982,950	1,276,366	1,124,746	1,436,383
Segment results	2,968	5,210	5,626	6,861	21,371	20,104	29,965	32,175
Unallocated Corporate expense							(9,152)	(10,497)
Profit / (loss) from operations							20,813	21,678
Finance costs							(15,406)	(19,861)
Income from associates							2,550	2,697
Dividend income from investments							1,699	2,025
Gain from disposal of associates							--	3,203
Gain from disposal of investments							4,805	14,058
Loss from disposal of a subsidiary							--	(5,803)
Profit / (loss) before tax							14,461	17,997
Income tax expense							(4,430)	(3,930)
Profit / (loss) after tax							10,031	14,067
Minority interest							(5,293)	(4,370)
Net Profit / (loss) for the year							4,738	9,697

4.TURNOVER AND SEGMENT INFORMATION (continued)

	Manufacturing and others		Property development and management		Import and export trading		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION								
Segment assets	269,951	255,498	260,041	316,071	448,740	580,941	978,732	1,152,510
Interests in associates	--	--	--	10,076	12,715	15,239	12,715	25,315
Unallocated corporate assets							1,830	38,075
Consolidated total assets							993,277	1,215,900
Segment liabilities	143,313	125,724	337,886	473,563	252,697	380,556	733,896	979,843
Capital expenditure	706	6,679	1,922	1,651	20,598	26,593		
Depreciation	6,635	10,145	7,394	7,044	4,363	4,017		
Non-cash expenses other than depreciation	1,502	1,949	953	1,605	658	658		

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

	2004	2003
Manufacturing and others	609	733
Property development and management	305	192
Import and Export trading	209	233
	1,123	1,158

5. PROFIT FROM OPERATIONS

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

	2004	2003
	RMB'000	RMB'000
Amortization	1,689	3,487
Staff costs	60,343	60,860
Depreciation	21,560	25,406
Provision for doubtful debts	--	1,600
Provision for impairment losses of assets:		
- long-term investments	974	(1,820)
- inventories	29	--
- property, plant & equipment	650	--
Exchange losses	87	42

6. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest expenses	15,406	19,861

7. INCOME TAX EXPENSE

	2004 RMB'000	2003 RMB'000
Income tax for the year	4,430	3,930

Income tax is calculated in accordance with applicable income tax regulations and at 15% (2003: 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:

	2004 RMB' 000	2003 RMB' 000
Accounting profit before tax under IFRS	12,631	17,997
Difference arising from accounting policies based on IFRS	1,272	(4,366)
Accounting profit before tax under Accounting Standards for Enterprise Business of the PRC	13,903	13,631
Tax at the domestic rate of 15%	2,085	2,045
Net tax effect of expenses not deductible for tax purposes and other factors	2,345	1,885
Tax expense	4,430	3,930

In respect of tax losses carried forward in the amount of RMB58,316,500 (2003:RMB50,595,000), 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 PER SHARE

(a) The calculation of basic profit per share is based on the consolidated profit of RMB2,908,000 (2003: profit of RMB9,697,000) and on the 220,281,600 shares (2003: 220,281,600 shares) in issue during the year.

(b) During the year ended 31 December 2004 and 2003, there were no dilutive potential shares. Fully diluted profit per share are not disclosed.

9. GOODWILL

	RMB'000
Cost	
At January 1, 2004	16,891
Disposals	--
At December 31, 2004	16,891
Amortization	
At January 1, 2004	4,083
Charge for the year	1,689
On disposals	--
At December 31, 2004	5,772

9. GOODWILL (continued)

Net book value	
At December 31, 2004	11,119
At December 31, 2003	12,808

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, 2004	142,077	31,784	34,544	15,791	8,827	--	233,023
Additions	3,119	2,312	716	2,100	796	--	9,043
Disposals	(1,320)	--	(679)	(1,638)	(202)	--	(3,839)
At December 31, 2004	143,876	34,096	34,581	16,253	9,421	--	238,227
Depreciation							
At January 1, 2004	31,564	23,062	22,249	11,735	5,570	--	94,180
Charge for the year	14,569	3,440	1,544	936	1,071	--	21,560
On disposals	(266)	--	(584)	(1,204)	(190)	--	(2,244)
At December 31, 2004	45,867	26,502	23,209	11,467	6,451	--	113,496
Provision for impairment							
At January 1, 2004	3,555	--	26	--	--	--	3,581
Additions	22	--	628	--	--	--	650
On disposals	--	--	--	--	--	--	--
At December 31, 2004	3,577	--	654	--	--	--	4,231
Net book value							
At December 31, 2004	94,432	7,594	10,718	4,786	2,970	--	120,500
At December 31, 2003	106,958	8,722	12,269	4,056	3,257	--	125,262

11.INVESTMENT PROPERTY

	Investment properties RMB'000
Fair value	
At January 1, 2004	268,702
Additions	1,830
At December 31, 2004	270,532

The group's investment properties were remeasured at fair value as of the balance sheet date. The fair value reflected the actual market state and circumstances. The evidence of fair value is given by current prices on an active market for similar property in the same location and condition and subject to similar lease and other contracts.

12. SUBSIDIARIES

Subsidiaries held at 31 December 2004:

Company name	Registered capital RMB'000	Proportion of shares held 2004	Proportion of shares held 2003	Principal activities	Consolidated or not
Shenzhen Te Fa Tellus Property Management Co. Ltd.	7,050	100%	100%	Provision of services and management of industrial districts and employees' residential quarters	Yes
Shenzhen Te Fa Tellus Real Estate Development Co. Ltd.	31,150	100%	100%	Property development and sale of properties	Yes
Shenzhen Tellus Xin Yong Tong Automobile Dev. Co. Ltd.	32,900	100%	100%	Manufacturing and sale of automobile testing equipment, provision of repairs and inspection services	Yes
Shenzhen Zhong Tian Industry Co. Ltd.	7,250	100%	100%	Leasing of property	Yes
Shenzhen Automobile Machinery Industry and Trading Co. Ltd.	58,960	100%	100%	Sale of automobile and fittings, property development	Yes
Shenzhen Te Fa Hua Ri Automobile Co. Ltd.	USD5,000	60%	60%	Provision of automobile repairs and inspection services, manufacturing and sale of automobile fittings	Yes
Shenzhen Tellus Real Estate Trading Co. Ltd.	2,000	100%	100%	Properties trading agency	Yes
深圳市华日丰田汽车销售有限公司	2,000	60%	60%	Sale of automobile	Yes

13. INTERESTS IN ASSOCIATES

	2004 RMB'000	2003 RMB'000
Share of net assets	23,840	25,123
Amount due from associates	1,490	1,182
Amount due to associates	(12,615)	(990)
	12,715	25,315

13. INTERESTS IN ASSOCIATES (continued)

As at 31 December 2004, associates were:

Company name	Principal activities	Proportion of shares held 2004	2003
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	31.6%	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	28.83%	46.10%
Shenzhen Hua Tong Automobile Co. Ltd.	Leasing of automobile, sale of automobile fittings	30%	30%

14. LONG-TERM INVESTMENTS

	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	119,776	115,462
Listed shares, at cost	3,522	3,522
Debt securities	121	121
Less: provision for impairment	(35,014)	(35,330)
	88,405	83,775

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.

15. PROPERTIES HELD FOR SALE

	2004 RMB'000	2003 RMB'000
Developed properties held for sale, at cost	37,491	63,037
Properties under development, at cost	2,095	883
Less: provision for impairment	(2,327)	(2,327)
	37,259	61,593

16. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials, at cost	8,874	10,590
Work in progress, at cost	4,333	4,151
Finished goods, at cost	--	--
Merchandise purchased, at cost	128,591	88,325
Less: provision for impairment	(15,070)	(15,041)
	126,728	88,025

17. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

	2004 RMB'000	2003 RMB'000
Shenzhen Special Economic Zone Development (Group) Company ("SDG")		
- current account, net	102,947	104,133
- unsecured and interest bearing	(7,744)	(8,744)
	95,203	95,389

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 20).

18. BILLS PAYABLE

	2004 RMB'000	2003 RMB'000
Balance at December 31	100,175	272,092

Bank deposits totalling RMB 38,599,000.00 (2003: RMB 179,116,800) have been pledged as security for the Group's general banking facilities in respect of bills payable (see note 22).

19. BANK LOANS

	2004 RMB'000	2003 RMB'000
Secured and interest bearing	75,740	63,217
Unsecured and interest bearing	131,392	169,945
	207,132	233,162

All the above bank loans bear interest at rates ranging from 4.80% to 8.40% per annum and are repayable within one year except for RMB54,315,580 in which the Group is under negotiation with the banks for the new repayment terms (2003: RMB 61,707,189). Particulars of assets pledged for bank loans are set out in note 23.

20. OTHER LOANS

	2004 RMB'000	2003 RMB'000
Unsecured and non-interest bearing	146,186	161,482
Unsecured and interest bearing	6,000	6,000
Secured and interest bearing	--	4,600
Secured and non-interest bearing	20,400	20,400
	172,586	192,482

20. 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 RMB95,203,000 (see note 17 above) and amounts owed by other related companies to the Group of RMB9,864,000(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.

21. SHARE CAPITAL

	2004 RMB'000	2003 RMB'000
Registered, issued and paid-up (220,281,600 shares in total)		
193,881,600 "A" shares of RMB 1.00 per share	193,882	193,882
26,400,000 "B" shares of RMB 1.00 per share	26,400	26,400
	220,282	220,282

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

22. 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 1/1/2003	124,248	36,389	3,210	55,480	(244,439)	(25,112)
Profit for the year	--	--	--	--	9,697	9,697
Addition	--	--	--	--	--	--
At 31/12/2003	124,248	36,389	3,210	55,480	(234,742)	(15,415)
Profit for the year	--	--	--	--	4,738	4,738
At 31/12/2004	124,248	36,389	3,210	55,480	(230,004)	(10,677)

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.

23. PLEDGE OF ASSETS

At 31 December 2004, certain of the Group's leasehold land and buildings with an aggregate net carrying value of RMB98,302,000 and fixed deposits amounting to RMB38,599,000 were pledged to secure bank and other loans of RMB129,080,000 and general banking facilities in respect of bills payable of RMB100,174,500 granted to the Group. Facilities amounting to RMB229,254,500 were utilized at 31 December 2004.

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 20 above).

As set out in note 26(b), 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 year end.

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

24. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)

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

	2004 RMB'000	2003 RMB'000
Shenzhen Te Fa Dev. Center Construction Management Co. Ltd.:		
Interest paid	--	325
Shenzhen Te Fa Swan Industry Co.:		
Interest received	917	929
Shenzhen Te Fa Hua Tong Packing Industry Co. Ltd.:		
Interest received	--	146
Shenzhen Xing Long Mechanical Models Co.:		
Interest received	75	--

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 2004 is waived by both lenders.

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

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

Some net balances due from / (to) related companies at 31 December 2004 and 2003 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:

	2004 RMB'000	2003 RMB'000
Shenzhen Te Fa Swan Industry Co. Ltd.	22,714	21,571
Shenzhen Mechanical Equipment Import & Export Co.	4,944	4,811
Shenzhen Te Long Fa Industry Co. Ltd.	(7,922)	(8,478)
Hong Kong Yu Jia Investment Co. Ltd.	(2,546)	210
Tellus (Jinbian) Development Co. Ltd.	360	299
Shenzhen Tellus Real Estate Dev. (Yue Yang) Co.	256	220
Shenzhen Te Fa Dev. Center Construction Management Co. Ltd.	(6,515)	(6,000)
Shenzhen Tellus Yang Chun Property Dev. Co. Ltd.	(331)	(256)
Shenzhen Long Gang Tellus Property Dev. Co. Ltd.	(1,096)	(1,096)
	9,864	11,281

24. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS(continued)
The above amounts are included in the consolidated balance sheet of the Group as follows:

	2004 RMB'000	2003 RMB'000
Accounts receivable and prepayments	28,828	27,110
Other loans- unsecured and interest bearing	(6,000)	(6,000)
Accruals and other payables	(6,909)	(3,774)
Accounts payable	(6,055)	(6,055)
	9,864	11,281

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 20 above).

25.CONTINGENT LIABILITIES

At 31 December 2004, the Group had provided guarantee in respect of short-term bank loans granted to the following party:

	2004 RMB'000	2003 RMB'000
Shenzhen Automobile Industry Import and Export Co.	36,000	36,000

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

26. MATERIAL LAWSUIT AND ARBITRATION

(a). Shenzhen Tellus Real Estate Development Co. Ltd. ("Real Estate Co."), a wholly-owned subsidiary of the Company, entered into a Joint Property Construction Contract with Shenzhen Jinlu Industrial and Trade Company ("Jinlu Company") on 29 November 1994 to build a real estate in Shenzhen. Real Estate Co. paid RMB9.8 million to Jinlu Company as of 31 December 1996. However, Jinlu Company breached the contract and cooperated with Guangzhou Military Area Shenzhen Property Administrative Department ("GMAA") to develop the real estate and paid the RMB9.8 million received from Real Estate Co. to GMAA. Therefore, Real Estate Co. lodged a claim against Jinlu Company. The Futian District People's Court admitted GMAA as the third party of this case according to the law of the PRC. It was ruled by the Futian District People's Court that the contract was of no effect; GMAA shall repay Jinlu Company the principal of RMB9.8 million plus interest, which shall be transferred to Real Estate Co. within three days of the reception by Jinlu Company. GMAA applied for further trial that was allowed, and the original judgement was suspended during the retrial. Since the target of the litigation was located out of Futian District, the second trial was undertaken by the Shenzhen Intermediate People' Court on 18 March 2003, which overruled the judgement of the Futian District People's Court. The Shenzhen Intermediate People's Court admitted that the original contract entered between Real Estate Co. and Jinlu Company is still effective. Provision of RMB4.9 million has been made by the Group. As Real Estate Co. is still under negotiation with Jinlu Company, in the opinion of directors, no further provision is deemed necessary as of the balance sheet date.

(b). 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 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.

(c). The Company signed a "Guarantee Contract for a limited loan" with Shenzhen Petroleum & Chemical Limited Company ("Petroleum & Chemical Limited") and China Agricultural Bank Shenzhen Shangbu Subbranch in 14 December 1995. Our company guaranteed Petroleum & Chemical Limited to borrow a loan of RMB57.6 million from China Agricultural Bank Shenzhen Shangbu Subbranch, which would expire on 14 December 2000.

On 29 December 2000, China Agricultural Bank Shenzhen Branch, China Gratewall Asset Management Corporation Shenzhen Branch ("Gratewall Corporation Shenzhen Branch") and Petroleum & Chemical Limited signed an "Loan for Investment & Stock Transfer Agreement ". Three parties agreed that China Agricultural Bank Shenzhen Branch would transfer a loan of RMB 270 million (the above-mentioned RMB 57.6 million loan included), that he extended to Petroleum & Chemical Limited, to Gratewall Corporation Shenzhen Branch, as a way of investment. In the agreement, they promised that "From the date on which the contract become effective, Party A, Gratewall Corporation Shenzhen Branch, will be entitled with the rights as a invester; Party B, China Agricultural Bank Shenzhen Branch, will not be a lender again." The agreement " will become effective with the signitures of the representatives or agents from the three parties".

On the same date, Gratewall Corporation Shenzhen Branch, Petroleum & Chemical Limited and Shenzhen Petroleum & Chemical Group Limited Company ("Petroleum & Chemical Group") signed an "Agreement". Three parties agreed that Gratewall Corporation Shenzhen Branch changed his investor's equity of RMB 270 million in Petroleum & Chemical Limited as the investment returns in Petroleum & Chemical Group.

Meanwhile, Petroleum & Chemical Group and Gratewall Corporation Shenzhen Branch signed a "Stock Tranfer Contract". They agreed that Gratewall Corporation Shenzhen Branch would use his investment returns of RMB 270 million in Petroleum & Chemical Group to invest as a stockholder in a new-regsitered company of Petroleum & Chemical Group. The contract " will become effective with the signitures and chops from the two parties".

On 20 August 2004, the China Agricultural Bank Shenzhen Branch claimed that Agreement" , "Loan for Investment & Stock Transfer Agreement " and "Stock Tranfer Contract" have not been carried out. They appealed to the Shenzhen Municipal Court and required the borrower, Petroleum & Chemical Limited, to repay the loan of RMB 57.6 million , interest of RMB 16,652,286.37 and other overdued penalty. He also required our company to assure the guarantee responsibility.

The Company thought that the guarantee responsibility had been of no effect after series contracts were signed and became effective among China Agricultural Bank Shenzhen Branch, Gratewall Corporation Shenzhen Branch, Petroleum & Chemical Limited and Petroleum & Chemical Group. The Company will attend this lawsuit and expose the development of it immediately.

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	4,320	216,277
Adjustment for interest capitalized as cost of property, plant & equipment	--	(4,617)
Reversed amortization of investments in associates	(1,938)	(5,535)
Revaluation of workshops invested	(269)	1,881
Profit from subsidiaries not recognized previously	(139)	(231)
Interest received from the related parties	730	--
Gain from waiver of accounts payable	204	--
Gain from addition of investment properties' fair value	1,830	1,830
As reported in the consolidated financial statements prepared in accordance with IFRS	4,738	209,605

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 11 March 2005.