SHENZHEN TELLUS HOLDING CO., LTD.
ANNUAL REPORT 2004

Important Notes: Board of Directors of ShenZhen Tellus Holding Co., Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading. This report has been prepared in Chinese version and English version respectively. In the event of difference in interpretation between the two versions, the Chinese report shall prevail.

Shenzhen Nanfang Minhe Certified Public Accountants and Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants issued a standard unqualified Auditors' Report for the Company.

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

I. Company Profile

1. Legal Name of the Company in Chinese: 深圳市特力（集团）股份有限公司
   Legal Name of the Company in English: ShenZhen Tellus Holding Co., Ltd.
2. Legal Representative: Zhang Ruili
3. Secretary of the Board of Directors: Ren Yongjian
   Contact Tel: (86) 755-25536888-388
   Fax: (86) 755-25536658
   E-mail: szryj@tom.com
   Securities Affairs Representative: Li Mingjun
   Contact Tel: (86)755-25536888-351
   Fax: (86)755-25536658
   E-mail: szlmj@163.net
4. Office Address: 3/F, Tellus Bldg., No. 56 of Shui Bei Er Road, Luohu District, Shenzhen
   Post Code: 518020
   E-mail: sztljtgf@public.szptt.net.cn
5. Newspapers Chosen by the Company for Disclosing the Information:
   Securities Times (Shenzhen) and Ta Kung Pao (Hong Kong)
   Internet Website for Publishing the Annual Report: http://www.cninfo.com.cn
   The Place Where the Annual Report is Prepared and Placed: Secretariat of the Board of Directors of ShenZhen Tellus Holding Co., Ltd.
6. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock and Stock Code: ST Tellus-A (000025)
   ST Tellus-B (200025)
7. Other related information:
   (1) Initial registration date: Nov. 10, 1986
   Registration place: No. 104, Shui Bei Er Road, Luohu District, Shenzhen
   Registration number of enterprise legal person's business license: 19219221-0
   (2) Registered number of taxation: SDS Zi 440303192192210
   GS Zi 440301192192210
   (3) Certified Public Accountants engaged by the Company:
   Domestic: Shenzhen Nanfang Minhe Certified Public Accountants
   Address: 8/F, Electronics Tech. Bldg., No. 2072, Shennan Middle Road, Shenzhen
   International: Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants
   Address: 8/F, Electronics Tech. Bldg., No. 2072, Shennan Middle Road, Shenzhen

II. Summary of Financial Highlight and Business Highlight

(I) Accounting data and financial indexes as of the year 2004

Unit: RMB

Total profit	13,903,513.53
Net profit	4,319,754.28
Net profit after deducting non-recurring gains and losses	-2,056,290.71
Profit from main operations	102,997,365.14
Other operating profit	20,552,532.19
Operating profit	7,898,038.64
Investment income	6,505,503.79
Subsidy income	
Net non-operating income/expenses	-500,028.90
Net cash flow arising from operating activities	-79,921,661.82
Net increase in cash and cash equivalents	229,427.93
Note: Items of non-recurring gains and losses and the relevant amount	
1. Income from equity transfer	4,804,661.63
2. Reserve for impairment losses switched back	1,800,000.00
3. Non-operating income	1,738,351.79
4. Non-operating expenses after deducting reserve for impairment losses	-1,394,441.99
5. Losses from debts reorganization	-193,791.39
6. Funds occupied fee received from non-finance enterprises	428,802.29
6. Impact on income tax	-807,537.35
7. Subtotal amounts involved of the above items	6,376,044.98

Note: The Company's net profit as of year 2004 was RMB 4,320,000 audited by domestic certified public accountants and RMB 4,738,000 audited by international certified public accountants respectively, which has increased by RMB 418,000 than the domestic result. The reasons are as follows: the evaluation and amortization of long-term investment has decreased by RMB1,938,000, valuation with object investment has decreased by RMB 269,000, switching back excess deficit of subsidiaries has decreased by RMB 139,000, expenses for capital occupied due to related transaction has increased by RMB 730,000, income from debts reorganization has increased by RMB 204,000, and fair value of investment house property has increased by RMB 1,830,000.

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

Items	2004	2003	2002
Income from main operations	1,124,745,615.76	1,436,382,877.72	1,289,321,184.23
Net profit	4,319,754.28	5,175,063.43	-40,980,896.04
Total assets	1,063,458,822.65	1,274,704,955.23	1,232,230,347.02
Shareholders' equity	216,276,817.86	211,162,165.06	203,523,567.11

Fully diluted earnings per share	0.02	0.02	-0.19
Weighted average earnings per share	0.02	0.02	-0.19
Fully diluted earnings per share deducting non-recurring gains and losses	-0.0093	-0.02	-0.16
Weighted average earnings per share deducting non-recurring gains and losses	-0.0093	-0.02	-0.16
Net assets per sharer	0.98	0.96	0.92
Net assets per share after adjustment	0.14	0.10	0.04
Net cash flow per share arising from operating activities	-0.36	0.46	0.55
Fully diluted return on equity (%)	2.00	2.45	-20.14
Weighted average return on equity (%)	2.02	2.51	-18.56
Fully diluted return on equity deducting non-recurring gains and losses (%)	-0.95	-2.44	-17.21
Weighted average return on equity deducting non-recurring gains and losses (%)	-0.96	-2.50	-15.86

(III) Supplemental statement of profit as of year 2004

Return on equity and earnings per share are calculated according to Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) released by China Securities Regulatory Commission

Items	**2004**			
	Return on equity（%）		**Earnings per share（RMB/share）**	
	Fully diluted	**Weighted average**	**Fully diluted**	**Weighted average**
Profit from main operations	47.62	48.28	0.4676	0.4676
Operating profit	3.65	3.7	0.0357	0.0359
Net profit	2.00	2.02	0.0196	0.0196
Net profit after deducting non-recurring gains and losses	-0.95	-0.96	-0.0093	-0.0093

Note: Calculation formula for major financial indexes

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

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

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

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

Net assets per share after adjustment = (shareholders' equity as at the year-end – Net accounts receivable over more than 3 years – Expenses to be apportioned – Net losses from (current/fixed) assets in suspense – Organization expenses – Long-term expenses to be apportioned - Negative balance amount of house revolving fund) / total number of ordinary shares as at the year-end

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

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

Weighted average return on equity = P/ （EO*NP÷2+Ei÷MO-Ej×Mj÷MO）

Among them: P stands for the profit as of the report period; E_o stands for net assets at the period-begin; NP stands for net profit as of the report period; E_i stands for increased net assets due to issue of new share or debt-to-equity swap in the report period; E_j stands for decreased net assets due to counter purchase or distribute of cash bonus in the report period; M_o stands for number of months in the report period; M_i stands for number of months from the next month of increased assets to the end of the report period; M_j stands for number of months from the next month of decreased assets to the end of the report period.

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

Items	Share capital	Capital reserve	Surplus reserve	Statutory welfare fund	Retained profit	Unconfirmed investment losses	Total shareholders' equity
Amount at the period-begin	220,281,600.00	172,875,075.73	54,295,698.45	3,210,576.83	-236,247,697.83	-42,511.29	211,162,165.06
Increase in the report period	0	934,294,84	0	0	4,319,754.28	-	7,638,597.96
Decrease in the report period	0	0	0	0	0	139,396.32	0
Amount at the period-end	220,281,600.00	173,809,370.57	51,085,121.62	3,210,576.83	-231,927,943.55	-181907.61	216,276,817.86

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

Reason for increase of capital reserve:

(1) Reserve for equity investment as of the report period has increased by RMB 77,734.00; other capital reserve as of the report period has increased by RMB 126,749.84, because of debts reduction of RMB 1,537,751.83, from which the

Company came to an agreement of debts exemption with the debtee in 2004.

(2) Difference price due to related transaction as of the report period has increased by RMB 729,811.44, which the Company received the funds occupied fees exceeding interest rate of fixed deposit for one year from the related parties.

III. Changes in Share Capital and Particulars about Shareholders

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

Type of shares	Before the change	Increase/decrease in this time (+, -)						After the change
		Rationed share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Sub-total	
I. Unlisted Shares								
1. Sponsors' shares	159,558,000	0	0	0	0	0	0	159,558,000
Including:								
State-owned share	159,558,000	0	0	0	0	0	0	159,558,000
Domestic legal person's shares	0	0	0	0	0	0	0	0
Foreign legal person's shares	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
2. Raised legal person's shares	0	0		0	0	0	0	0
3. Inner employees' shares		0	0	0	0	0	0	
4. Preference shares or others	0	0	0	0	0	0	0	0
Total unlisted shares	159,588,000	0	0	0	0	0	0	159,588,000
II. Listed Shares								
1. RMB ordinary shares	34,284,600	0	0	0	0	0	0	34,284,600
2. Domestically listed foreign shares	26,400,000	0	0	0	0	0	0	26,400,000
3. Overseas listed foreign shares	0	0	0	0	0	0	0	0
4. Shares held by senior executives	9,500	0	0	0	0	0	0	9,500
Total listed shares	60,693,600	0	0	0	0	0	0	60,693,600
III. Total shares	220,281,600	0	0	0	0	0	0	220,281,600

(II) Issuance and listing of shares

1. Particulars about issuance of share and its derivative securities in the recent three years: the Company had issued neither additional shares nor derivative securities in recent three years.

2. In the report period, the Company had never been involved in any events which

may cause change of the total shares and the equity structure such as bonus shares, share capital converted, rationed share, additional issuance, absorption and combination, transferring convertible company bonds into shares, reduction of capital, listing of inner employees' shares or company's employees' shares, etc..
3. The company had no present inner employees' share.

(III) About shareholders
1. Ended the end of the report period, the Company had totally 14976 shareholders, including 10973 shareholders of A-share and 4003 shareholders of B-share.
2. Particulars about shares held by the top ten shareholders

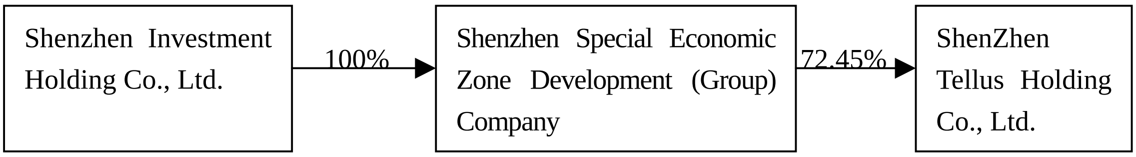
Full name of Shareholder	Increase / decrease in the report year (share)	Shares held at the year-end (share)	Proportion (%)	Type of shares	Share pledged or frozen	Nature of shareholders
Shenzhen Special Economic Zone Development (Group) Company	0	159588000	72.45	Non-circulation	0	State-owned shareholder
ZHUANG XIN JIAN	Unknown	490499	0.22	Circulation	Unknown	A-share
WANG FU CHANG	Unknown	330000	0.15	Circulation	Unknown	B-share
LIU ZI XIAN	Unknown	288387	0.13	Circulation	Unknown	A-share
DBS BICKERS (HONG KONG) LTD A/C CLIENTS	Unknown	261100	0.12	Circulation	Unknown	B-share
WANG XING	Unknown	210000	0.10	Circulation	Unknown	B-share
MEI ZHENG SHUI	Unknown	201000	0.09	Circulation	Unknown	A-share
YAO MING CHUN	Unknown	195800	0.09	Circulation	Unknown	A-share
YE JING	Unknown	194900	0.09	Circulation	Unknown	B-share
CAI XIAO LIN	Unknown	181148	0.08	Circulation	Unknown	A-share
Explanation on associated relationship among the top ten shareholders or consistent action	Among the top ten shareholders as listed above, there exists no associated relationship between Shenzhen Special Economic Zone Development (Group) Company and other shareholders, and they do not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies. For the shareholders of circulation share, the Company is unknown whether there exists associated relationship or not.					

(III) About the controlling shareholder of the Company
(1) Name of the controlling shareholder of the Company: Shenzhen Special Economic Zone Development (Group) Company (state-owned shareholder)
Legal representative: Hu Ge
Date of establishment: In October 1981
Registered capital: RMB 104.85 million
Company type: state-owned enterprise of Shenzhen City
Business scope: principal business: industry, traffic and transportation, land development, real estate, tourism, finance and trust, issuing securities, information consulting, textile, textile products, general merchandize, grains and oil, other products, hardware, traffic electrical appliances, chemicals. Minor businesses: cultural and office equipment, computer and components, feeds, general parts, steel materials,

pig iron, non-ferrous metal, building materials, mineral products, import of raw and auxiliary materials and equipment for self-use, local and animal by-products and fire extinguishing equipment and materials.
Equity structure: ended December 31, 2004, particulars about shares held by the shareholder of SDG: Shenzhen Investment Holding Co., Ltd. held 100% equity of Shenzhen Special Economic Zone Development (Group) Company.

(2) About the controlling shareholder or actual controller the of the Company's controlling shareholder:
Shareholder name: Shenzhen Investment Holding Co., Ltd.
Legal representative: Chen Hongbo
Date of foundation: Oct. 13, 2004
Registered capital: RMB 4 billion
Company type: Limited Company (state-owned sole corporation)
Principal businesses and products: providing guarantee for municipal state-owned enterprises; management of state-owned equity except for enterprises supervised by the State-owned Assets Supervision and Administration Commission of Shenzhen; assets reorganization, reformation and capital operation of enterprises; investment; and other operations authorized by Municipal SASAC.

The controlling relationship between the Company and the actual controller is as follows:



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

Full name of Shareholder	**Shares held at the year-end (share)**	**Type of shares（A-share, B-share, H-share or others）**
ZHUANG XIN JIAN	490499	A-share
WANG FU CHANG	330000	B-share
LIU ZI XIAN	288387	A-share
DBS BICKERS (HONG KONG) LTD A/C CLIENTS	261100	B-share
WANG XING	210000	B-share
MEI ZHENG SHUI	201000	A-share
YAO MING CHUN	195800	A-share
YE JING	194900	B-share
CAI XIAO LIN	181148	A-share
ZHUANG GONG DONG	180088	B-share

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

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

(I) Directors, supervisors and senior executives

1. Basis information

Name	Gender	Age	Title	Office term	Number of holding shares (share)	
					At the period-begin	At the period-end
Zhang Ruili	Male	41	Director, Chairman of the Board	Apr. 18, 2003- Apr. 18, 2006	0	0
Guo Dongri	Male	39	Director, Deputy General Manager	Apr. 18, 2003- Apr. 18, 2006	0	0
Wang Hailin	Male	44	Director	Apr. 18, 2003- Apr. 18, 2006	0	0
Yang Feng	Male	50	Director	Apr. 18, 2003- Apr. 18, 2006	0	0
Jiang Qinjian	Male	42	Director	Apr. 18, 2003- Apr. 18, 2006	9000	9000
Zhou Chengxin	Male	49	Independent Director	Apr. 18, 2003- Apr. 18, 2006	0	0
Shi Weihong	Female	37	Independent Director	Apr. 18, 2003- Apr. 18, 2006	0	0
Zhang Yuan	Male	44	Independent Director	Jun. 19, 2003- Apr. 18, 2006	0	0
Li Binxue	Male	46	Supervisor, Chairman of the Supervisory Committee	Apr. 18, 2003- Apr. 18, 2006	0	0
Feng Yu	Male	37	Supervisor	Jun. 8, 2004- Apr. 18, 2006	0	0
Luo Tao	Male	43	Supervisor	Apr. 18, 2003- Apr. 18, 2006	0	0
Hu Xiaomei	Female	44	Employee Supervisor	Apr. 18, 2003- Apr. 18, 2006	0	500
Li Mingjun	Female	39	Employee Supervisor	Oct. 12, 2004- Apr. 18, 2006	0	0
Wu Yonggang	Male	39	Deputy General Manager	Apr. 18, 2003- Apr. 18, 2006	0	0
Ren Yongjian	Male	41	Chief Financial Officer, Secretary of the Board	Apr. 18, 2003- Apr. 18, 2006		

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

Name	Name of Shareholding Company	Title in Shareholding Company	Office term

Wang Hailin	Shenzhen Special Economic Zone Development (Group) Company	Deputy Chief Economist	Nov. 2001 to now
Yang Feng	Shenzhen Special Economic Zone Development (Group) Company	Minister of human resource Dept.	Jun. 2000 to now
Jiang Qinjian	Shenzhen Special Economic Zone Development (Group) Company	Minister of Planing & Financial Dept.	Jan. 2004 to now
Luo Tao	Shenzhen Special Economic Zone Development (Group) Company	Minister of the 2^{nd} Dept. of the Group	Jul. 1996 to now
Feng Yu	Shenzhen Special Economic Zone Development (Group) Company	Director of Geneal Office	Jan. 2004 to now

(II) Main work experience of directors, supervisors and senior executives and particulars about holding the post in Shareholding Company

Name	Main work experience and holding the post
Zhang Ruili	He ever took the posts of Section Chief of Programming Office of Shanxi Province, Head in charge of business in International Business Dept. of Shanxi International Entrustment Investment Company, Divisional Manager of Financial Company of Shenzhen Special Economic Zone Development (Group) Company and Manager of Assets Department of Shenzhen Special Economic Zone Development (Group) Company; from Mar. 2003 to now, he took the post of Chairman of the Board of the Group. At the same time, he concurrently Chairman of the Board in Shenzhen Auto Industries & Trading Corporation (the controlling subsidiaires of the Company) and Chairman of the Board in Shenzhen Huari Automobile Co. Ltd. (the controlling subsidiaires of the Compan).
Guo Dongri	He ever took the posts of Manager in charge of products in Dalian Pfizer Pharmaceuticals Limited, Senior Representative of Chinese American International Partner Incorporation, Manager of Chinamarketing Department of Shanghai Pepsi Food Co., Ltd. and Assistant General Manager of the Group. He now acts as Director and Deputy General Manager of the Group. At the same time, he concurrently took the post of Director in Shenzhen New Yongtong Testing Equipment Co., Ltd. (the controlling subsidiaires of the Compan) and Shenzhen Teyao Development Company (the controlling subsidiaires of the Compan) respectively.
Wang Hailin	He ever took the posts of Section Chief Second Class of Import and Export Department of CATIC Shenzhen Enterprise Group, Section Chief First Class of Shenzhen Municipal Government Industry Development Committee, Director Deputy Section Chief of Shenzhen Municipal Government Industry Office, Director Section Chief of Shenzhen Municipal Government Industry Office and Economic Development Bureau, Researcher deputy dividsion class of Shenzhen Municipal Government Economic Development Bureau and Trade Development Bureau. Now he acts as Deputy Chief Economist of Shenzhen Special Economic Zone Development (Group) Company.
Yang Feng	He ever worked in supply and marketing section of Henan Textile Equipment Factory, and successfully took the posts of Head of Marketplace Dept. in Shenzhen World-copy Trading Co., Ltd., Director of General Office and Deputy Manager of HR in Shenzhen Special Economic Zone Development Center Co., Ltd.. He now acts as Manager of HR of Special Economic Zone Development (Group) Company and Director of the Group; at the same time, he concurrently took the post of Supervisor in Shenzhen SDG Co., Ltd..
Jiang Qinjian	He ever took the posts of Deputy Section Chief of Financial Section in Hunan Shatian Hydropower Station, Deputy Section Chief of Hunan Hengyang Auditing Bureau, Clerk of Auditing Dept. in Shenzhen Suibao Group, CFO of

	Management Company of Shenzhen Zhongnan Hotel, and Assistant Director of Financing Training Center of People's Bank of China Shenzhen Branch. He now acts as Manager of Planning & Financial Dept. of Shenzhen Special Economic Zone Development (Group) Company.
Zhou Chengxin	He successfully took the posts of Lector and Associate Professor in Wuhan University (during this period, he went to Law College of U.S.A Michigan University for advanced studies with U.S Commercial Law and Commercial Arbitration law as visiting scholar), Deputy Director, Director, Deputy Researcher and Researcher of Institute of Shenzhen Legal System. Now he acts Director and Law Professor of Institute of Shenzhen Legal System (Shenzhen WTO Affairs Center Law Service Department). At the same time, he concurrently holds the posts of Standing President of Chinese Society of International Economy Law, Intercessor of China International Economic and Trade Arbitration Commission, Intercessor of Shenzhen Arbitration Commission, of Zhuhai Arbitration Commission, of Nanjing Arbitration Commission and of Shanghai Arbitration Commission, and Lawyer of Guangdong Law Firm Shenzhen Branch. He now acts as Independent Driector of the Group and concurrently holds the post of Independent Director of Shenzhen Nanshan Power Station Co., Ltd. simultaneity.
Shi Weihong	She successfully took the post of Accountant in Shenzhen Sunshine Certified Public Accountants, Head of Sunshine Certified Public Accountants, as a convener of Sunshine Certified Public Accountants, she reformed the said CPA into a partnership with corporation responsiblity system and acted as chief partner. She obtained certificate for CPA, Certificate for Chinese Certified Assets Appraiser, Certificate for Chinese Certified Tax Agents and Certificate for Professional of Budgetary Estimation and Budget of Guangdong Province Construction Engineering. She took charge the auditing, evaluation and liquidation of all kind of enterprises early and late, and accumulated a plenty of experiences. He now acts as Independent Director of the Group.
Zhang Yuan	He successfully took the posts of young intellectuals of Lianghe community, Zhong County, Sichuan, Assistant Economist of Economic Forecast Center of State Development Planning Commission, Deputy Division Chief of State Information Center Economic Information Dept.. He obtained Doctor Degree of Economics of Chinese Academy of Social Science in 1990, while he went to University of Pennsylvania, USA, Department of Economics with studing of postdoctoral research in 1991, and studied the major of Financing and International Commercial Management in New York University Stern and obtained MBA degree. He took the Deputy Geneal Manager of Shenzhen International Commercial Co., Ltd., Assistant of Chairman of the Board of Shenzhen SEG Group Corporation. He now acts as Chairman of the Board in Huayi Commercial Co., Ltd., Chairman of the Board in Beijing Yingpin Digital Technology Co., Ltd. and concurrently holds Guest Professor of Management College of Beijing University Of Aeronautics And Astronautics.
Li Binxue	He successfully took the posts of young intellectuals sent down to Lishu Production Brigade of Shihe Group, Sangou Community, Shucheng County, Anhui Province, Teacher of University Of Staff And Workers of Hunan Xiangtan Electric Machinery Plant, Deputy Manager of Project in Shenzhen Keshen Photoelectricity Company, Manager of Technology Dept. and Production Dept. of Shenzhen Shenguang Industrial Company, Business Manager of Enterprise Dept. in Shenzhen Special Economic Zone Development (Group) Company, Deputy Director of Technology Development Center and Deputy Manager of Investment Development Dept. of Shenzhen Special Economic Zone Development (Group) Company. He took the post of Chairman

	of the Supervisory Committee of the Group since Mar. 2003. He now concurrently acts as Chairman of Labor Union of the Group.
Feng Yu	He ever took the posts of Deputy Director of Liaoning Haicheng Foreign Economic and Trade Committee, Director of Liaison Department of Younth President Committee of the National State-owned Assets Administration Bureau, Deputy General Manager of Shenzhen Xianke Real Estate Company, and Manager of Investment Dept. of Zhongti Industrial Co., Ltd.. He now acts as Director of Geneal Office of Shenzhen Special Economic Zone Development (Group) Company and Supervisor of the Group.
Luo Tao	He ever took the posts of Teacher of Jilin University Of Technology, Researcher of Center of postdoctoral of electronics and communication of Southeast University, Deputy Chief Engineer of Shenzhen Changhong Communication Equipment Co., Ltd., Deputy Manager of Development Dept. and Deputy Manager of Enterprise Dept. of Shenzhen Special Economic Zone Development (Group) Company. He now acts as Manager of the No. 2 Enterprise Dept. of Shenzhen Special Economic Zone Development (Group) Company and Supervisor of the Group. At the same time, he concurrently holds the post of Director of Shenzhen SDG Co., Ltd..
Hu Xiaomei	She ever took the posts of Deputy Secretary of Youth League Committee of Institute of Computer of Electronic Industries Ministry, Secretary of General Manager of China Computer System Engineering Company of Machinery Electric Ministry, Director of General Office of Shenzhen Tianda Electronic Science and Technology Company, Director of General Office of Shenzhen Auto Industrial Trading Corporation. He now acts as Deputy Secretary of Party Committee and Secretary of Committee for Discipline Inspection in Shenzhen Auto Industrial Trading Corporation. From 2003 to now, she took the post of Employee Supervisor of the Group.
Li Mingjun	She ever took the posts of Accountant of Financial Dept. of Shenzhen Wantong Industrial Co., Ltd., Director of Settlement Center and Manager of Financial Dept. in Shenzhen Tellus Group. She now acts as Manager of Planning & Financial Dept. and Employee Supervisor of the Group. At the same time, she concurrently took the posts of Supervisor of Shenzhen Tellus New Yongtong Automobile Development Co., Ltd. (the controlling subsidiary of the Company), of Shenzhen Zhongtian Industrial Co., Ltd. (the controlling subsidiary of the Company), and of Shenzhen Auto Industrial Trading Corporation (the controlling subsidiary of the Company).
Wu Yonggang	He took the posts of Manager of Development in Shenzhen SEG Group, Adviser Engineer of Singapore Chinese Computer Private Co., Ltd., Factory Director and Deputy Chief Engineer of Auto Maintenance Factory of New Yongtong Company, subsidiary of Tellus Group. He now acts as Deputy General Manager of the Group, at the same time, he concurrently holds Executive General Manager of Shenzhen SDG Huari Automobile Enterprise Co., Ltd..
Ren Yongjian	He ever took the posts of Director of Cost Office of Financial Division in the No. 221 Factory of Ministry of Aviation, Financial Manager of Investment Company under China Aviation Technology General Company; Deputy Manager of Planning & Financial Dept. and Manager of Auditing Dept. in Shenzhen Special Economic Zone Development (Group) Company. He now acts as CFO of the Group and concurrently holds the post of Secretary of the Board. At the same time, he concurrently takes the posts of Director of Shenzhen Auto Industrial Trading Corporation (the controlling subsidiary of the Company), of Shenzhen Tellus Property Company (the controlling subsidiary of the Company), of Shenzhen Teyao Development Company (the controlling subsidiary of the Company) and of Shenzhen Xinglong Mould (share-holding company of the Company).

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

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

2. In the report period, the Company has 15 directors, supervisors and senior executives in office at present, among them, 8 persons drew the remuneration from the Company. The total annual remuneration received from the Company was RMB 940,000. The total annual remuneration of the top three directors drawing the highest payment was RMB 410,000, and the total annual remuneration of the top three senior executives drawing the highest payment was RMB 560,000.

As decided by the extraordianry shareholders' general meeting 2002 of the Company, the allowance of three independent directors of the Company was respectively RMB 30,000 per year.

3. Among present directors, supervisors and senior executives, one enjoyed the total annual payment between RMB 130,000 and RMB 150,000, and 3 enjoyed the total annual payment between RMB 150,000 and RMB 180,000 respectively, and one enjoyed the total payment between RMB 200,000 and RMB 220,000.

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

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

1. In the report period, Chen Shuipu asked for the resignation from the post of Supervisor of the Company due to work reason, which was passed by the 2003 Shareholders' General Meeting held on June 8, 2004, and approved by the 2003 Shareholders' General Meeting, Mr. Feng Yu was by-elected as Supervisor of the 4th Supervisory Committee. The public notice on resolution of shareholders' general meeting was published on Securities Times and Ta Kung Pao dated June 9, 2004 respectively.

2. In the report period, the 6th Extraordinary Meeting of the Board passed the proposal on dismissing Mao Songbai from the post of General Manager, which was approved by the 1st Extraordinary Shareholders' General Meeting 2004 dated Oct. 12, 2004. The public notice on resolution of extraordinary shareholders' general meeting was published on Securities Times and Ta Kung Pao dated Oct. 13, 2004 respectively.

3. In the report period, Li Mingjun was additionally elected as Employee Supervisor of the Company. The public notice of the supervisory committee was published on Securities Times and Ta Kung Pao dated Oct. 13, 2004 respectively.

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

(V) About employees

By the end of the year 2004, the Group had totally 1123 on-the-job employees, including 79 financial personnel, 146 administration personnel; the Company has 16 master, 100 bachelor, 181 persons graduated from 3-years regular college and 826 persons graduated form senior higher or lower. The Company needs bear the expenses of 448 retirees.

Ⅴ. Administrative Structure

(Ⅰ) The Company's Administrative Structure

The Company established and perfected a series of regulations and rules strictly in accordance with the Company Law, Securities Law and the standardized documents related with Administration Rules of Listed Companies promulgated by CSRC in order to further perfect the Company's administrative structure. In accordance with Company Law, Securities Law and the relevant regulations of CSRC, the Company set down the Articles of Association of the Company, Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of Board of Directors, Working System of Information Disclosure, Provisional Measure on Management for Special Funds of Board of Directors, Management Measure on Classification Aauthorization, Work Detailed Rules of General Manager and Management System of Investor Relationship etc.. In the report period, revised the Articles of Association of the Company in line with Circular on Standarding Current Capital between Listed Companies and Related Parties and External Guarantee and other Some Problems. The Company's administritive situation was basicly unanimous with the standardized documents related with administation rules of listed companies promulgated by CSRC.

(II) Performance of Independent Directors:

In the report period, three independent directors performed their duties in line with the relevant laws and regulations, actively knew the Company's business and operation situations and issued independent opinion to the significant events of the Company, and gave full play to active function in order to ensure the benefit of the Company and medium and small shareholders.

1. Particulars about independent directors' presenting the Board meeting:

Name of independent directors	Times that should be attend the Board meeting	Times of personal presence	Times of commission presence	Times of absence	Remark
Shi Weihong	9	9	0	0	
Zhou Chengxin	9	9	0	0	
Zhang Yuan	9	4	4	1	Business trip

2. In the report period, the Company's independent directors did not propose the objection on the relevant matters.

(III) The Company is separated from the controlling shareholder in terms of Business, Personnel, Assets, Organization and Finance, the Company possessed the whole business and independent operating capability.

1. Separation in Business: The Company was an independent a corporate body. The Company was absolutely independent from its controlling shareholder in business, and had an independent and complete business system and independent management capability. The Company has independent production, sales and service system and own leading industry. There exists no competition in the same line among the Company, controlling shareholders and related parties.

2. Separation in Personnel: The Company was absolutely independent in management of labor, human affairs, and salaries, enacted a independent administration systems. All the senior executives of the Company receive emoluments from the Company and have taken no office concurrently in the Shareholder Company.

3. Separation in Assets: The Company was strictly separated from its controlling shareholder, and they conducted completely independent management. The Company has complete and independent purchase system, production system, marketing system and the relevant service systems. The Company exclusively owns such intangible assets as industrial property rights, trademarks and non-patent technologies.

4. Separation in Finance: The Company set up an independent financial accounting department, and established a complete set of accounting systems and financial administration systems. The controlling shareholder has never interfered the Company in fund operation; The Company has opened independent bank account and has never been involved in such activities as depositing funds in the accounts of the financial company or the clearing center controlled by any of the principal shareholders or other related parties. The Company independently pays taxes according to the law.

5.Separation in Organization: The Board of Directors and the Supervisory Committee and the other inner organization operate independently. The Organization of the Company was set up according to the standardized requirements of listed company and actual business features, and took office independently.

(IV) At the end of report period, the Company's Board of Directors evaluated senior executives aiming at work outstanding achievement.

VI. Brief of the Shareholders' General Meeting

During the report period, the Company held once annual shareholders' general meeting 2003 and once 1st extraordinary shareholders' general meeting.

(I) Annual Shareholders' General Meeting 2003

The Board of Directors of the Company published the notification on holding Annual Shareholders' General Meeting 2003 on the designated newspapers namely Securities Times and Ta Kung Pao dated Apr. 19, 2004. On the morning of June 8, 2004, the Company held the Annual Shareholders' General Meeting 2003 of Shenzhen Tellus Holding Co., Ltd. at the meeting room on 5/F, Yongtong Building, Renmin North Road, Shenzhen. Two shareholders attended the said Meeting, including two shareholders of A-share and 0 shareholder of B-share, representing 159,590,000 shares (including 159,590,000 shares of A-share and 0 share of B-share) and taking 72.45% of total shares of the Company, which was in compliance with the valid shares regulated in the Articles of Association of the Company. The Company's directors, supervisors and senior executives above the middle-level attended the said Meeting. The following proposals were approved in the said Meeting by means of disclosed ballot:

1. Examined and approved Annual Report 2003 and its Summary (domestic and international version);

2. Examined and approved 2003 Work Report of the Board of Directors;
3. Examined and approved 2003 Work Report of the Supervisory Committee;
4. Examined and approved 2003 Profit Distribution Plan;
5. Examined and approved proposal on engaging auditor for the year 2004;
6. Examined and approved proposal on resignation of Chen Shuipu from the post of Supervisor of the Company;
7. Examined and approved proposal on additionally electing Supervisor;
The lawyers of Guangdong Junyan Law Firm witnessed the said Meeting in locale and issued Legal Opinion with the aforesaid resolutions valid.
The Public Notice on Resolutions of the Annual Shareholders' General Meeting 2003 was published in Securities Times and Ta Kung Pao respectively dated Jun. 9, 2004.

(II) The 1st Extraordinary Shareholders' General Meeting of 2004
The Board of Directors of the Company published the notification on holding the 1st Shareholders' General Meeting 2004 on the designated newspapers namely Securities Times and Ta Kung Pao dated Sep. 9, 2004. On the morning of Oct. 12, 2004, the Company held the 1st Shareholders' General Meeting 2004 of Shenzhen Tellus Holding Co., Ltd. at the meeting room on 5/F, Yongtong Building, Renmin North Road, Shenzhen. Two shareholders attended the said Meeting, including two shareholders of A-share and zero shareholder of B-share, representing 159,590,900 shares (including 159,590,900 shares of A-share and 0 share of B-share) and taking 72.45% of total shares of the Company, which was in compliance with the valid shares regulated in the Articles of Association of the Company. The Company's directors, supervisors and partial senior executives attended the said Meeting. The following proposals were approved in the said Meeting by means of disclosed ballot:
1. Examined and approved proposal on dismissing Mao Songbai's post of Director;
2. Examined and approved proposal on amending partial articles of the Articles of Association of the Company.
The lawyers of Shenzhen Wuwei Law Firm witnessed the said Meeting in locale and issued Legal Opinion with the aforesaid resolutions valid.
The Public Notice on Resolutions of the 1st Shareholders' General Meeting 2004 was published in Securities Times and Hong Kong Ta Kung Pao respectively dated Oct. 13, 2004.

(III) During the report period, election and changing of directors and supervisors
1. Chen Shuipu resigned from the post of Supervisor of the Company due to work reason, which was passed by the Shareholders' General Meeting 2003 held on June 8, 2004; and approved by the Shareholders' General Meeting 2003, Mr. Feng Yu was by-elected as Supervisor of the 4th Supervisory Committee.

2. The proposal on dismissing Mao Songbai from the post of Director, which was approved by the 1st Extraordinary Shareholders' General Meeting 2004 dated Oct. 12, 2004.

3. On Oct. 13, 2004, Li Mingjun was elected as Employee Supervisor of the 4th Supervisory Committee by the Company's enlarged meeting of Labor Union

Committee.

VII. Report of the Board of Directors

(I) Discussion and analysis to operation of the Company

In the report period, under the correct lead of the Board of Directors, after collective efforts of all employees and tacit cooperation, the Company surmounted difficulties, settled problems, adjusted in advancement, developed amidst adjustment, gained better outstanding achievement of operations and achieved main operation target. The new point of profit growth of the Group is forming, and the Company entered into a phase with continual payoff and steady development.

In 2004, Tellus Holding realized sales income amounting to about RMB 1.124 billion in the whole year; and realized total profit of RMB 13.9 million and net profit of RMB 4.32 million.

(II) Production and operation in the report period

1. Scope of main operations and particulars about business

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

(1) In the report period, the Company's income from main operations and profit from main operations was RMB 1124.75 million and RMB 103.00 million respectively. The Company's main operations was classified as follows according to industrial and products:

Unit: RMB

Products	Income from main operations	Cost of main operations	Gross profit ratio (%)
Automobile inspection and maintenance	97,662,052.77	64,325,703.18	34.13
Automobile trade	979,642,400.58	937,674,375.18	4.28
Lease service	47,441,162.41	15,252,974.61	67.85

(2) Particulars about the Company's main products or providing service and its market share

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

Unit: RMB'0000

Name of company	Sales income	Sales cost	Gross profit realized
Shenzhen Auto Industries Trading Corporation	78,813	74,401	4,204
Shenzhen Tellus New Yongtong Automobile Development Co., Ltd.	4,684	3,332	1,252
Shenzhen SDG Huari Automobile Co.	5,160	3,553	1,588

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

2. Operations and achievements of main holding companies and share-holding companies

In the report period, the main holding and share-holding companies of the Company were: Shenzhen Auto Industries Trading Corporation (hereinafter referred to as Auto Industrial Trading), Shenzhen Tellus New Yongtong Automobile Development Co., Ltd. (hereinafter referred to as New Yongtong Company), Shenzhen SDG Tellus Property Management Co., Ltd. (hereinafter referred to as Property Company), Shenzhen SDG Tellus Real Estate Co., Ltd. (hereinafter referred to as Real Estate Company), Shenzhen Zhongtian Industrial Co., Ltd. (hereinafter referred to as Zhongtian Company), Shenzhen SDG Huari Automobile Co. (hereinafter referred to as Huari Automobile) and Shenzhen New Yongtong Motor Vehicle Inspecting Equipments Company (hereinafter referred to as Inspecting Equipments), Shenzhen Huari Toyota Auto Sales Co., Ltd. (Huari Auto Trading) . The main operations and managements of the aforesaid holding enterprises was as follows:

Unit: RMB’0000

	Auto Industrial Trading	New Yongtong	Property Company	Zhongtian Company	Huari Automobile	Inspecting Equipments	Real Estate	Huari Auto Trade
Registered capital	5,896	3,290	705	725	USD500	1,000	3,115	200
Income from main operations	78,813	4,684	1567	428	5,160	939	1	11,948
Profit from main operations	4,204	1,252	744	368	1,588	384	11	766
Net profit	1,542	-331	48	100	437	34	25	87

3. Main suppliers and customers of the Company

In the report period, the Company’s total purchase amount from the top five suppliers was RMB 800 million, accounting for 90% in total purchase amount in the whole year. The Company’s main sales customers were terminal consumers and the sales income from the top five customers occupied no more than 3% in the income from main operations.

4. Problems and difficulties from the operation and their solutions

In 2004, though the Company realized continual payoff, and entered into the track of sustaining development, however, viewing from the whole, the Company still face the following problems, such as how to enhance the profitability capability of assets and strengthened management benefit, how to increase the cash flow and enhance financing capability, how to effectively solve problems left over by history, and how to establish talent introduction and encouragement mechanism for the long-term development of the Company.

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

(1) To shorten enterprise’s management chain, reduce management levers, strengthen management, increase income and save expenses, gain benefit from management;

(2) To resolve the legal crisis, appropriative settle bank liabilities, widen financing channel and enhance financing capability.

(3) To Fix attention on doing well in the two new projects of Benz and Quick Repairing Chain, exploit new point of market growth, make high quality assets to give

play to its income capability, and realize large-scale management of the same assets step by step;
(4) To establish a favorable talent introduction and effective encouragement mechanism in the scope of the Group, make a group of talents with strong health, responsible heart and enterprise heart enter into key positions of Tellus, at the same time, make a part of positions into market-style in order to supplement the fresh talent to staffs group of the Group.

(III) Investment
1. In the report period, the Company had no proceeds raised through share offering or there was no such situation that the application of proceeds raised through previous share offering continuing to the report period.
2. In the report period, there was no significant project invested with proceeds not raised through share offering.

(IV) Financial position and operating results of the Company

Unit: RMB

Items	Dec. 31, 2004	Dec. 31, 2003	Increase/decrease (%)
Total assets	1,063,458,822.65	1,274,704,955.23	-16.57
Shareholders' equity	216,276,817.86	211,162,165.06	2.42
Long-term liabilities	6,612,736.66	8,365,096.20	-20.95
Income from main operations	1,124,745,615.76	1,436,382,877.72	-21.70
Profit from main operations	102,997,365.14	124,539,718.81	-17.30
Net profit	4,319,754.28	5,175,063.43	-16.53
Net increase in cash and cash equivalents	229,427.93	-18,593,865.89	101.23

Explanations:
Income from main operations in the report year decreased by 21.70% compared with the last year, which was mainly because that the sales market of auto was stagnation due to influence of macro-economy situation, thus cost and profit from main operations was played down along with it.

Profit from other operations in the report year increased by 9.28 million compared with the last year, an increase of 82%, which was mainly because that the houses shared by Shenzhen Auto Industries Trading Corporation, a subsidiary of the Company, in the cooperative house construction, realized sales in the year.

Operating expense in the report year decreased by RMB 1.91 million compared with the last year, an decrease of 3.6%, which was mainly because that the sales promotion expenses of automobile of Shenzhen Biaoyuan Auto Co., Ltd., of Shenzhen Steyr Auto Sales Co., Ltd. and of Shenzhen Huari TOYOTA Auto Sales Co., Ltd., subsidiaries of the Company, was played down.

Administrative expenses in the report year decreased by RMB 9.98 million compared with the last year, an decrease of 20.96%, which was mainly because that the Company no longer consolidated income statement of Shenzhen Huatong Automobile Co. in 2004, resulting in the decrease; and the Company adopted multi-measures to control expenses in 2004.

Financial expenses in the report year decreased by RMB 5.3 million compared with the last year, a decrease of 30%, which was mainly because of decrease of bank loan and adjustment on profit and loss of Yen exchange of Shenzhen SDG Huari Enterprise Co., Ltd., a subsidiary company of the Company.

Investment income in the report year decrease by RMB 5.95 million compared with the last year, a decrease of 48%, which was mainly because that investment income disposed in this period was less than the last year, and allotted impairment losses for long-term investment.

Non-operating income in the report year decreased by RMB 3.45 million compared with the last year, a decrease of 66%, which was mainly because that income of difference from housing system reform in the last year has decreased in the report period.

Non-operating expense in the report year decreased by RMB 4.88 million compared with the last year, a decrease of 69%, which was mainly because that there existed no guarantee losses in the report year and decrease of staff's compensation expenses.

(V) Business plan for 2005

In 2005, the guiding thought in work of Tellus Group is: to strengthen management, integrate resources, perfect mechanism, settle crisis and steady development. The following some aspects were included:

1. To strengthen management, increase income save expenses, gain benefit from management and further perfect budget checking system;
2. To integrate internal resources of the Group, integrate assets, and enhanced integration of management level and human resource simultaneity;
3. To perfect corporative administrative mechanism, standardize enterprise's business and operation and explore scientific long-effective encouragement mechanism;
4. To settle legal crisis, appropriative settle bank liabilities, widen financing channel and enhance financing capability;
5. To solidify existing market, strengthen industrial basis, fix attention to doing well in the two new projects of Benz and Quick Repairing Chain, and actively and reliably exploit new point of market growth.

(VI) Routine work of the Board of Directors

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

In 2004, the Board of the Company totally held 9 meetings with details as follows:
(1) The 4th Extraordinary Meeting of the 4th Board of Directors of the Company was held in Lotus Flower Village of Dongguan on Mar. 12, 2004. 8 directors attended the Meeting, taking 89% of total number of directors. The Meeting examined and approved the following proposals: Proposal on Signing Agreement on Auditing Business; Proposal on Business Budget for 2004; Proposal on Exploiting Project of Logistical Market of Auto by Tellus Group; Proposal on Changing of Secretary of the Board. The relevant public notice on resolutions of the Meeting was published on Securities Times and Ta Kung Pao dated Mar. 16, 2004.

(2) The 5th Meeting of the 4th Board of Directors of the Company was held in Shenzhen Guest House on Apr. 15, 2004. 9 directors should be present and actually 7 of them attended the Meeting. Director Yang Feng asked for leave, Independent Director Zhang Yuan entrusted Independent Director Shi Weihong to attend the Meeting and vote on his behalf. 4 supervisors and the relevant senior executives attended the Meeting as non-voting delegates. The Meeting examined and approved the following proposals: Annual Report 2003 and its Summary (A and B shares), Auditors' Report 2003 (Domestic and oversea versions), Profit Distribution Preplan 2003, 2003 Work Report of the Board of Directors, Proposal on Engaging Auditors for 2004 and Proposal on Holding Annual Shareholders' General Meeting 2003. The relevant public notice on resolutions of the Meeting was published on Securities Times and Ta Kung Pao dated Apr. 19, 2004.

(3) The 6th Meeting of the 4th Board of Directors of the Company was held on Apr. 23, 2004 by means of communication. 9 directors should be present and actually 8 of them attended the Meeting. Director Guo Dongri asked for leave due to business. 4 supervisors and the relevant senior executives attended the Meeting as non-voting delegates. The Meeting examined and approved the 1st Quarterly Report for 2004 of Shenzhen Tellus Holding Co., Ltd. (Including Financial Report). The1st Quarterly Report for 2004 was published on Securities Times and Ta Kung Pao dated Apr. 27, 2004.

(4) The 5th Extraordinary Meeting of the 4th Board of Directors of the Company was held at the Meeting Room on 5/F, Yongtong Building, Shenzhen on Jul. 23, 2004. 9 directors should be present and actually 8 of them attended the Meeting. Independent Director Zhang Yuan entrusted Independent Director Shi Weihong to attend the Meeting and vote on his behalf. All supervisors attended the Meeting as non-voting delegates. The Meeting examined and approved the following proposals: Proposal on Implementing Rectification and Reform on Problems Found by Shenzhen Securities Regulatory Bureau Inspection; Proposal on Amending the Relevant Articles of the Articles of Association of the Company. The relevant public notice on resolutions of the Meeting was published on Securities Times and Ta Kung Pao dated Jul. 31, 2004.

(5) The 7th Meeting of the 4th Board of Directors of the Company was held in of

Fuying Hotel of Dongguan on Aug. 11, 2004. 9 directors should be present and actually 8 of them attended the Meeting. Director Guo Dongri asked for leave due to matters. 4 supervisors and the relevant personnel such as Head in charge of Planning & Financial Dept. attended the Meeting as non-voting delegates. The Meeting examined and approved the 2004 Semi-annual Report and its Summary (Domestic and oversea versions). The relevant public notice on resolutions of the Meeting was published on Securities Times and Ta Kung Pao dated Aug. 16, 2004.

(6) The 6th Extraordinary Meeting of the 4th Board of Directors of the Company was held in Yongtong Hotel of Shenzhen on Sep. 2, 2004. 9 directors should be present and actually 7 of them attended the Meeting. Director Mao Songbai asked for leave, Independent Director Zhang Yuan entrusted Independent Director Shi Weihong to attend the Meeting and vote on his behalf. The Meeting examined and approved the following proposals: Proposal on Reestablishing Underground Packing by Huari Company; Proposal on Taking Back Investment Funds of Pufa Plaza; Proposal on Dismissing Mao Songbai from the post of General Manager; Proposal on Holding the 1st Extraordinary Shareholders' General Meeting 2004. The relevant public notice on resolutions of the Meeting was published on Securities Times and Ta Kung Pao dated Sep. 9, 2004.

(7) The 8th Meeting of the 4th Board of Directors of the Company was held on Oct. 22, 2004 by means of communication. 8 directors should be present and actually 7 of them attended the Meeting. The Meeting examined and approved the 3rd Quarterly Report for 2004 of Shenzhen Tellus Holding Co., Ltd. (Including Financial Report). The 3rd Quarterly Report for 2004 was published on Securities Times and Ta Kung Pao dated Oct. 25, 2004.

(8) The 7th Extraordinary Meeting of the 4th Board of Directors of the Company was held in Yongtong Hotel of Shenzhen on Dec. 9, 2004. 8 directors should be present and actually 8 of them attended the Meeting. Directors attending the meeting discussed the case on Shenzhen Agricultural Bank of China prosecuted the Company due to Guarantee for SPEC, and agreed to entrust Guangdong Tongren Law Firm to surrogate the said case by means of complete risk agency.

(9) The 8th Extraordinary Meeting of the 4th Board of Directors of the Company was held in Lilac Garden Hotel of Qingyuan on Dec. 16, 2004. 8 directors should be present and actually 7 of them attended the Meeting. Independent Director Zhang Yuan entrusted Independent Director Shi Weihong to attend the Meeting and vote on his behalf. Supervisors and senior executives attended the Meeting as non-voting delegates. The Meeting examined and approved the following proposals: the Equity Transfer Contract on Transferring Equity of Xinhua Cable Company; Proposal on Reorganization Biaoyuan Auto; Proposal on Adjusting Directors and Supervisors of Subsidiaries; Work System on Internal Control of Tellus Group; and studied SZJF Zi [2004] No. 305 document issued by Shenzhen Securities Regulatory Bureau and new

Listing Rules.

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

According to the resolutions passed by Annual Shareholders' General Meeting 2003, the Company would not distribute profits nor convert reserve into share capital in 2004.

(VII) The profit distribution preplan

In 2004, the Company realized net profit amounting to RMB 4, 319,754.28. In 2004, neither profit distribution nor capitalization would be conducted. The retained profit of the Company would make up the losses of the previous years. This profit distribution plan still should be submitted to Annual Shareholders' General Meeting 2004 for consideration and approval.

Independent directors didn't present independent opinion on reason for no cash profit distribution preplan: Independent director Shi Weihong, Zhou Chengxin, and Zhang Yuan agreed the decision of 2004 profit distribution. The retained profit was used to make up the losses of the previous years.

(VIII) Other issues

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

(IX) Special explanation

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

Special Opinion of Shenzhen Nanfang-Minhe Certified Public Accountants on Capital Occupied by the Controlling Shareholder and Other Related Parties of Shenzhen Tellus Holding Co., Ltd. in 2004

SNZSBZ (2005) No. ZA039

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

We have audited the accompanying balance sheet of Shenzhen Tellus Holding Co., Ltd. (Hereinafter referred to as the Company) as of Dec. 31, 2004 and the accompanying income statement and cash flow statement (Hereinafter referred to as Accounting Statements) for the year then ended according to Independent Auditing Standards of Chinese CPA and have issued the unqualified auditors' report with SNCSBZ (2005) No. CA088 document on 2005.

According to the requirements in Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Some Problems released by China Securities Regulatory Commission and State-owned Assets Supervision and Administration Commission of the State Council, the Company has prepared attached ended Dec. 31, 2004 Table of Explanation on Capital and Guarantees of the Listed Company Occupied by its Controlling Shareholder and Other Related Parties (Hereinafter referred to as Table).

Preparing and disclosing the Table externally and ensuring its truthfulness, legality and completeness are the responsibility of the Company. We have checked the materials carried in the Table with the accounting information rechecked and relevant contents in the financial report audited while auditing the financial report for 2004 of the Company and have not found any variance in all material aspects. Except for implementing the auditing procedures related to related transactions carried out in the auditing of accounting statements for 2004 to the Company, we have not conducted extra auditing procedures on the materials carried in the Table.

In order to better understand the capital and guarantees occupied by Tellus Company's controlling shareholder and other related parties in 2004, the Table of Explanation on Capital and Guarantees of the Listed Company Occupied by its Controlling Shareholder and Other Related Parties in 2004 should be read along with the accounting statements ever audited.

Appendix: Table of Explanation of Shenzhen Tellus Holding Co., Ltd. on Capital of the Listed Company Occupied by its Controlling Shareholders and Other Related Parties in 2004

Shenzhen Nanfang-Minhe Chinese CPA
Zheng Lihong
Certified Public Accountants Chinese CPA
Zhou Wuzhong
Shenzhen. China Mar. 15, 2005

Explanation on related parties occupying capital of listed companies:

Ended Dec. 31, 2004, the balance of related parties occupying capital of listed company was RMB 186,215,500, of which this year increasing RMB 8,966,800 and related parties returning capital amounting to RMB 5,232,400.

Explanation on principal shareholder (actual controller) and enterprises controlled by principal shareholders

Ended Dec. 31, 2004, the balance of principal shareholders and enterprises controlled by principal shareholders occupying capital of listed company was RMB 177,061,600, of which this year increasing RMB 1,816,800 and principal shareholders and enterprises controlled by principal shareholders returning capital amounting to RMB 1,512,400.

In addition, the guarantee provided by the Group on related parties was as follows:

Item	Currency	Amount ('0000)
Provide guarantee for each other in Group	RMB	6,609.10
Guarantee for affiliated company	RMB	3,600.00

The Company didn't collect guarantee fee for the above guarantee.

The Group receiving the guarantee provided by related parties and paying guarantee fee

Item	Related relationship	Amount ('0000)
Shenzhen Special Zone Development (Group) Company	Controlling shareholder	RMB 5,712.00 HKD 450.00

The Company didn't pay guarantee fee for accepting the above guarantee.

Shenzhen Tellus (Group) Co., Ltd.

Table of capital of the listed company occupied by the controlling shareholder and other associated parties in 2004

Unit: RMB

Name of the party occupying capital	Relationship of related parties and listed company	Items of accounting statement	Balance in the period-begin	Debit amount	Credit amount	Amount in the period end	Bad debts reserve withdrawn	Way and reason of occupation	Way of refunding	Whether belong to capital occupation forbid by No. 56 Document	Note
Shenzhen Special Zone Development (Group) Company	Control shareholder of the Company	Other accounts receivable	149,286,616.41	207,273.60	1,030,529.06	148,463,360.95	-	Non-operating occupation	Refund in cash	Yes	The Company occupied capital of control shareholder amounting to RMB 45,516,091.03 and borrowed RMB 7,744,160.00 from it.
SDG Swan Industrial Co., Ltd.	Subsidiary of control shareholder	Other accounts receivable	21,786,895.19	926,775.94		22,713,671.13	-	Non-operating occupation		No	
Shenzhen Machinery Equipment Import &Export Company	Subsidiary of control shareholder	Other accounts receivable	4,831,576.27	585,691.64	473,299.73	4,943,968.18	-	Non-operating occupation		Yes	The Company occupies capital amounting to RMB 8,477,409.47
Shenzhen Telongfa co., Ltd.	Subsidiary of control shareholder	Other accounts receivable	554,973.30			554,973.30	-	Non-operating occupation			
Tellus (Ginbian) Development Co., Ltd.	Subsidiary of control shareholder	Other accounts receivable	298,932.27	61,044.30		359,976.57	-	Non-operating occupation	Refund in cash	No	
Shenzhen Tellus Real Estate Yueyang Company	Subsidiary of control shareholder	Other accounts receivable	219,522.35	36,003.30			-	Non-operating occupation	Refund in cash	Yes	

Shenzhen Tellus Yangchun Real Estate Company	Subsidiary of control shareholder	Other accounts receivable	34,124.06		8,600.00	25,524.06	-	Non-operating occupation		No	The Company occupied capital amounting to RMB 330,632.49.
Labor Union Commission of Shenzhen Tellus	Labor union of the Company	Other accounts receivable		1,920,000.00	720,000.00	1,200,000.00	36,000.00	Advanced investment expenses		Yes	
Shenzhen Advanced Chemical New Materials Co., Ltd.	Affiliated company of the Company	Other accounts receivable	553,662.86	154,409.40		708,072.26	21,242.17	Advanced expenses	Refund in cash	Yes	
Shenzhen Xinglong Machinery Mould Company	Affiliated company of the Company	Other accounts receivable	1,197,836.59	75,624.99		1,273,461.58	598,918.30			No	
China Pufa Machinery Industry General Company	Affiliated company of the Company	Other accounts receivable	3,000,000.00		3,000,000.00	-				Inapplicable	
Shenzhen Huatong Automobiles Company	Affiliated company of the Company	Other accounts receivable	454,082.95			454,082.95	13,622.48				
Total			182,218,222.25	3,966,823.17	5,232,428.79	180,697,090.98	669,782.95				

Explanation: SDG, Control shareholder of the Company occupied capital of the Company, balance of most of which was over two years. This year, SDG paid back RMB 1,030.529.06. According to spirit of debit-to-equity document issued by Shenzhen Bureau of Finance, loan RMB 60 mil and interest RMB 430,529.06 payable to Shenzhen Bureau of Finance were transferred for offsetting arrearages of SDG.

Legal representative: Zhang Ruili Person in charge of financing: Ren Yongjian Person in charge of accounting institution: Li Mingjun

Date: Mar. 15, 2005 Date: Mar. 15, 2005 Date: Mar. 15, 2005

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

The independent directors of the Company, Zhou Chengxin, Shi Weihong and Zhang Yuan agreed the special explanation on capital occupancy of the controlling shareholder and other related parties of the Company issued by CPA.

Ended as at Dec. 31, 2004, please refer to IX. (IV) of this report for the guarantee of the Company for external parties.

Independent directors expressed the following opinion on the guarantee of the Company for external parties:

1. The accumulated external guarantee of the Company was RMB 62,491,000 (including guarantee for Gintian Company amounting to USD 2 mil and guarantee for controlling subsidiaries amounting to RMB 9,951,000), taking 28.89% of net assets RMB 216.28 mil of consolidated accounting statements of the Company in the latest accounting year, no more than the limit required by documents of supervision departments.

2. Of the above external guarantee, guarantee provided for Gintian Industry (Group) Co., Ltd. by the Company amounting to USD 2 mil happened in 1997, which belonged to historical residual problem of the Company. At present, the Company undertook joint liabilities responsibilities.

3. Of the above guarantee, subsidiary of the Company, Shenzhen Automobile Industry Trade General Company (hereinafter referred to as “ Automobile Industry and Trade”) provided guarantee amounting to RMB 36 mil fro Shenzhen Automobile Import & Export Company (hereinafter referred to as “ Import & Export”). At first, the guarantee term was year. At that time, Import & Export was wholly subsidiary of Automobile Industry and Trade. In July 2002, after the reform of Import & Export, Automobile Industry and Trade held 35% share equity of Import & Export. According to the requirements of agreements among shareholders of Import & Export, every shareholder should conduct guarantee for loan of Import & Export according to proportion. The Company would cut down the guarantee responsibilities according to requirements of policies year by year.

VIII. Report of the Supervisory Committee

The Supervisory Committee totally held seven entire meetings in the report period and the main content: 1. Examine the significant matters of the Company, successively examine and approve Proposal on Revising relevant terms of the Articles of the Association, Trial Regulations on Accident Disposal of Working Quality of Tellus Group, and Trial Regulations on Salary Management of the headquarters of Tellus Group; examine and approve Proposal on share equity of Xinhua Cable Co., Ltd., Answering Lawsuit Plan about Agricultural Bank of China indicted the Company for bank guarantee and relevant proposal on changes on share equity of wholly enterprise; present independent opinion on Dongguan automobiles marketing program of Xinyongtong Company. 2. Seriously examine Work Report of the Board, Business Report pf Operating

Group, Financial Quarterly Report and Annual Report of the Company and Profit Distribution Plan. 3. Approve Work Report 2004 of the Supervisory Committee and form resolutions.

For one year, the members of the Supervisory Committee of the Company attended all meetings of the Board of the Company. According to the duty scope stated in relevant laws, regulations and Articles of Association of the Company, the Supervisory Committee of the Company supervised over and knew the operation according to law of the Company, work and behavior of the members of the Board of Directors and other senior executives through attending the meeting of the Board as non-voting delegates and other approaches, strictly fulfilled supervision obligations.

The Supervisory Committee expressed the following independent opinion on relevant events of the Company in 2004:

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

According to Company Law, Administration Rules for Listed Companies, Articles of Association of the Company and other relevant laws and regulations, the Supervisory Committee supervised over the procedure of holding and resolutions of the Shareholders' General Meeting and the Board of Directors, implementation of resolutions of the Shareholders' General Meeting by the Board of Directors, implementation of duties of senior executives of the Company and the Company's management system. The Supervisory Committee believes that every decision-making procedure of the Company was in accordance with the Company Law, Administration Rules for Listed Companies and Articles of Association of the Company, the Company can carry out resolutions of Shareholders' General Meeting and corrected emerging problems in operation timely, and actively protected interests of the Company. In the report period, there found no actions of breaking laws, regulations and Articles of Association of the Company and damaging the interest of the Company when the directors and senior executives of the Company implemented their duties of the Company.

2. Opinion on inspection of the Company's financing

The Supervisory Committee inspected patiently and carefully the financial system and financial status of the Company and believed that the Company had sound inner control system and perfect management, and 2004 Financial Report of the Company could reflect truly the financial status and operation result of the Company. Shenzhen Nanfang Minhe Certified Public Accountants and Moore Stephens (Shenzhen) Certified Public Accountants has issued the unqualified auditor's report.

3. In the report period, the Company had no raised capital.

4. Opinion on purchase and sale of assets of the Company

In this accounting year, as researched and decided by the Board of Directors of the Company and authorized by the relevant superior departments, the Company transferred 15.54% equity of Shenzhen Xinhua Cable Co., Ltd.. The transfer price of share equity transfer was reasonable, and the procedures of it were lawful. There found unreasonable transaction and insider trade, which didn't cause the outflow of the assets of the Company and harm the interests of shareholders.

5. In the report period, to respite actual difficulties of capital turnover, through negotiation of both parties, the loan amounting to RMB 6 mil from SD Supervision, controlling subsidiary of SDG, the controlling shareholder of the Company would extend

for one year. The related transaction didn't cause significant influence on the Company.

IX. Significant Events

(I) Material lawsuit and arbitration

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

On Aug. 20, 2004, about the case that Shenzhen Shangbu sub-branch of Agricultural Bank of China indicted Shenzhen Petrochemical Industrial Group Co., Ltd. didn't pay loan amounting to RMB 57.6 million over due and the Company provided guarantee for it, Shenzhen branch of Agricultural Bank of China appealed to Shenzhen Intermediate People's Court, and claimed the borrower Shenzhen Petrochemical Industrial Group Co., Ltd. paid back loan 57.6 million and interest RMB 16,652,286.37, loan interests lasting to the implementation period, of which Shenzhen Petrochemical Industrial Group Co., Ltd. didn't fulfill the obligation overdue that the Court verdict it should pay double interests, and expenses for realizing creditors' rights, the Company bore clearing responsibilities for total liabilities of Shenzhen Petrochemical Industrial Group Co., Ltd.. At present, the case was in hearing. On Sept. 11, 2004, the Company published Public Notice on Lawsuit on Securities Times and Ta Kung Pao respectively.

Explanation on the resolution of original significant lawsuits and arbitrations of the Company were as follows:

1. About the case that Shenzhen Development Bank indicted Gintian Industry (Group) Co., Ltd. paid back USD 2 million over due and the Company provided guarantee, Shenzhen Intermediate People's Court frozen 95% share equity of Xinyongtong Industrial Company held by the Company. In addition, the court frozen partial share equity and assets in Guangzhou and Shenzhen of Gintian Industrial (Group) Co., Ltd.. In 2002, the Company estimated projected liabilities amounting to RMB 25088400.00 (USD 3.03 mil). Ended the approval date of the financial report, the guarantee was still in negotiation.

2. About the case subsidiary of the Company Tellus Real Estate Company indicted Shenzhen Jinlu Industrial and Commercial Company (hereinafter referred to as 'Jinlu Company") on contract of operating to construct houses, on Mar. 18, 2003, Shenzhen Intermediate People's Court heard the case and verdict to turn down the claim of Tellus Real Estate Company and the original contract of operating to construct houses was lawful, and both parties should implement the contract. Tellus Real Estate Company has withdrawn 50% bad debts reserve for the accounts receivable.

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

On Dec. 29, 2004, the Company signed share equity transfer agreement with Chen Yibin, in which the Company transferred 15.54% share equity of Shenzhen Xinhua Wire and Cable Co., Ltd. held by the Company to Chen Yibin with the transaction price amounting to RMB 64.1 million. On Dec. 31, 2004, the Company published Public Notice on Selling Assets on Securities Times and Hong Kong Ta Kung Pao. Ended the reporting date, all procedures of transferring share equity accomplished.

The purpose of the above selling assets was for adjusting industry structure of the Company, for consummating capital structure of the Company and increasing cash flow of the Company and for enlarging core business of the Company with all efforts and implement mid term and long-term development strategy, and for exploring core business market with all efforts, which had certain active on production and operation of the Company.

(III) Significant related transaction

1. In the report period, the Company had no related transaction of purchase and sale of commodity and supply of labor and service with the related parties.

2. In the report period, the Company had no related transaction of transfer of assets and equity with the related parties.

3. In the report period, the Company had no related transactions invested by the related parties and the Company.

4. On credit and liability and guarantee between the Company and the related parties, please read note of accounting statement for detail Note VIII.

5. Other significant related transactions.

In the report period, the loan from Shenzhen Special Zone Development Center Construction Supervision Co., Ltd. (hereinafter referred to as “Special Zone Development Supervision”) amounting to RMB 6 million expired on Feb. 26, 2004. Through friendly negotiation, Special Zone Development Supervision agreed to extend the loan and Shenzhen Special Zone Development (Group) Company (hereinafter referred to as “SDG”) continued to provide guarantee. The loan term was one year. From Feb. 27, 2004 to Feb. 27, 2005, the annual interest rate of loan was 6.5% and the interests were paid per month. The Company paid interest to Special Zone Development Supervision before 21st of every month.

Because Special Zone Development Supervision was controlling subsidiary of SDG, controlling shareholder of the Company, the transaction belonged to related transaction.

The purpose of related transactions was for respiting actual difficulties of capital turnover of the Company, which didn’t cause significant influence on the Company.

The Company published public notice on related transactions on Securities Times and Ta Kung Pao on Oct. 18, 2004.

(IV) Significant contracts and implementation

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

2. Significant guarantee;

(1) In the report period, the guarantee contract implemented or implementing

Ended Dec. 31, 2004, the Company presented loan guarantee paper for the following companies:

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

Ended Dec. 31, 2004, Automobile Industry & Trade, subsidiary of the Company, issued bank loan guarantee paper for Shenzhen Automobile Industry Import & Export Co.:

Items	Amount of Guarantee	Contents	Term	Way of Guarantee

Shenzhen Automobile Industry Import & Export Co.	RMB 8,000,000.00	Short-term loan	Mar. 26, 2004-Mar. 26, 2005	Credit
Shenzhen Automobile Industry Import & Export Co.	RMB 10,000,000.00	Short-term loan	Aug. 13, 2004-Aug. 13, 2005	Credit
Shenzhen Automobile Industry Import & Export Co.	RMB 8,000,000.00	Short-term loan	Aug. 17, 2004-Aug. 17, 2005	Credit
Shenzhen Automobile Industry Import & Export Co.	RMB 10,000,000.00	Short-term loan	Aug. 10, 2004-Aug. 5, 2005	Credit

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

Name of warrantee	Equity Relationship	Amount of Guarantee	Contents	Term	Way of Guarantee
Shenzhen Tellus Xinyongtong Company	Wholly-owned	RMB1.84 mil	Short-term debt	Jul. 21, 2004-Apr. 20, 2005	Credit
Shenzhen Tellus Xinyongtong Company	Wholly-owned	RMB3.5 mil	Short-term debt	Jun. 28, 2004-Feb. 28, 2005	Credit
Shenzhen Tellus Xinyongtong Company	Wholly-owned	RMB4.1 mil	Short-term debt	Apr. 29, 2004-Feb. 28, 2005	Credit
Shenzhen SD Tellus Property Company	Wholly-owned	RMB0.511 mil	Short-term debt	Sep. 2, 2003-Sep. 2, 2004	Credit

Among the above guarantee, the guarantee provided for Shenzhen Automobile Industry Import & Export Co. by Automobile Industry & Trade, subsidiary of the Company, firstly happened in 1996. At that time, Import & Export Co. didn't reform and was the subsidiary of Automobile Industry & Trade. In July 2002, Import & Export Co. conducted reform. Before reform, the guarantee line provided for Import & Export Co. by Automobile Industry & Trade was RMB 84 mil. After reforming, according to the requirements of agreements among shareholders, ever shareholder provided loan guarantee for Import & Export Co. base on proportions. The guarantee line of Automobile Industry & Trade went down to RMB 36 mil, and other shareholders of Import & Export Co. pledged their share equity to Automobile Industry & Trade. According to <Circulars on Standardizing Capital Current between the Listed Companies and Related Parties and Several Problems about External Guarantee of Listed Companies> (ZJF [2003] No. 56 Document, the guarantee was out of requirements of No.

56 Document. The company would decrease guarantee responsibilities year by year according to the policy requirements.
Ended Dec. 31, 2004, total guarantee out of line of the Company was RMB 36 mil, taking 16.65% of the net assets of the Company.
(3) In the report period, the Company has not entrusted others to manage cash assets and has no entrusted loan.
(4) In the report period, the Company has no other significant contracts.
(V) Commitment
In 1997, the Company transferred equity of Telongfa Company, the subsidiary of the Company, to SDG and other business and it produced credit to the principal shareholder.
Related creditors and SDG negotiated to change from credit to share equity to the principal shareholder on the balance of part short-term loan and interest payable. Because the work of debt-to-equity swap is in the process, SDG made commitment not reversible as follows on the debt owed to the Company:
SDG takes in charge of dealing with the legal procedure of debt-to-equity swap as soon as possible. If debt-to-equity swap is not implemented due to any reason, SDG will accept the aforesaid bank debts and corresponding interest of the Company to repay the debts SDG owed to the Company. The commitment letter is subject to Chinese law and binds SDG.
(VI) Engagement of Certified Public Accountants
In the report period, the Company reengaged Shenzhen Nanfang Minhe Certified Public Accountants as domestic financial audit institution of 2004 and engaged Ma Shiyun (Shenzhen) Certified Public Accountants as overseas financial audit institution of 2004. The domestic and overseas audit expense was totally RMB 550,000. At present, the two Certified Public Accountants have provided auditing service for the Company for consistent four years.
(VII) In the report period, the Company, the Board of Directors and the directors of the Company have not been checked by CSRC, have no administrative punishment and circling criticism by the CSRC and not been publicly accused by Stock Exchange.
Shenzhen Securities Supervision branch of CSRC conducted itinerate inspection on the Company from Jun. 7, 2004 to Jun. 11, 2004 and issued SZJFZ[2004] No. 150 Notification on Requiring Rectification of Shenzhen Tellus (Group) Co., Ltd. within limit (For short “Rectification Notification”) on Jul. 7, 2004. With the problems involved in Rectification Notification, the Company conducted corresponding rectification and explanation. Relevant rectification report was published on Securities Times and Ta Kung Pao on Jul. 31, 2004 respectively.
(VIII) Other Significant Matters
1. Significant matters disclosed by the Company
(1) Public Notice on Engaging Mr. Ren Yongjian as Secretary of the Board and Disengaging Ms. Li Chunxiu as Secretary of the Board was published on Securities Times and Ta Kung Pao on Mar. 16, 2004.
(2) Public Notice on Estimated Losses in 1st Quarterly Report of 2004 was published on Securities Times and Ta Kung Pao on Apr. 23, 2004.
(3) Public notice on Supervisor Chen Shuipu resigning the post of Supervisor of the Company and Supplementing Mr. Feng Yu as member of the Supervisory Committee was

published on Securities Times and Ta Kung Pao on Jun. 9, 2004.

(4) Public Notice on Estimated Losses in first half of 2004 was published on Securities Times and Ta Kung Pao on Jul. 9, 2004.

(5) Public Notice on Removing Post of General Manager and Director of Mao Songbai was published on Securities Times and Ta Kung Pao on Sep. 9, 2004 and Oct. 13, 2004 respectively.

(6) Public notice on Supplementing Mr. Li Minjun as Employee was published on Securities Times and Ta Kung Pao on Oct. 13, 2004 respectively.

(7) Public notice on the case that Shenzhen Shangbu sub-branch of Agricultural Bank of China indicted Petrochemical Company for overdue loan and the Company for guarantee was published on Securities Times and Ta Kung Pao on Oct. 13, 2004 respectively.

(8) Public Notice on Estimated Profit of 3rd Quarter of 2004 was published on Securities Times and Ta Kung Pao on Oct. 18, 2004.

(9) Public Notice on 15.54% share equity of Xinhua Cable Company held by the Company was published on Securities Times and Ta Kung Pao on Dec. 31, 2004.

X. Financial Report

(Attachment)

XI. Documents Available for Reference

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

1. Original of 2003 Accounting Statements carried with the signatures and seals of the legal representative, Chief Financial Officer and manager of Plan & Financial Dept.;
2. Original of the Auditors' Report carried with the seal of Domestic Certified Public Accountants as well as the signatures and seals of certified public accountants; Original of the Auditors' Report prepared under the International Accounting Standards carried with the seals of International Certified Public Accountants (Chinese and English version).
3. Original of the Company's documents and manuscripts of the public notices disclosed in the newspapers designated by the CSRC;
4. Annual Report or its summary published in other stock exchange.

Signature of Chairman of the Board:_______________

Board of Directors of

Shenzhen Tellus Holding Co., Ltd.

May 15, 2005

SHENZHEN TELLUS HOLDING COMPANY LIMITED

(Incorporated in the People's Republic of China)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

CONTENTS	PAGES

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	2003
		RMB'000	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 RMB'000	2003 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 RMB'000	Share premium RMB'000	Asset revaluation reserve RMB'000	Staff welfare fund RMB'000	General reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1/1/2003	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

	Manufacturing and others		Property development and management		Import and export trading		Total	
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 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 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 RMB'000	2003 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	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.