Shenzhen China Bicycle Company (Holdings) Limited

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

Auditors' report and financial statements for the year ended December 31, 2004

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Contents	**Pages**

Report of the auditors to the members of

Shenzhen China Bicycle Company (Holdings) Limited

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

We have audited the accompanying balance sheet of the Group as of December 31, 2004 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Except for the matter as referred to above, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

K. C. Oh & Company
Certified Public Accountants

Hong Kong : April 20, 2005

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated income statement for the year ended December 31, 2004

	Note	2004 RMB'000	2003 RMB'000 restated
Turnover	(5)	138,192	99,015
Cost of sales		(127,116)	(90,963)
Gross profit		11,076	8,052
Other revenue		11,336	19,932
		22,412	27,984
Distribution costs		(10,706)	(9,104)
Administrative expenses		(23,218)	(28,070)
Other operating expenses		(618)	(477)
Operating loss		(12,130)	(9,667)
Finance costs		(3,436)	(3,906)
Operating loss before exceptional items	(6)	(15,566)	(13,573)
Exceptional items	(7)	675	355,831
Operating profit/(loss) after exceptional items		(14,891)	342,258
Share of loss from associates		(1,525)	(1,679)
Profit/(loss) before taxation		(16,416)	340,579
Taxation	(8)	(2)	(2)
Profit/(loss) after taxation		(16,418)	340,577
Minority interests		16	55
Profit/(loss) for the year		(16,402)	340,632
Earnings/(loss) per share	(9)	(RMB0.0342)	RMB0.7105

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated balance sheet as at December 31, 2004

	Note	2004 RMB'000	2003 RMB'000 restated
Non-current assets			
Fixed assets	(10)	242,787	257,654
Interests in associates	(11)	17,534	19,059
Other investments	(12)	2,800	6,903
		263,121	283,616
Current assets			
Inventories	(13)	71,998	68,882
Accounts receivable	(14)	16,026	8,887
Others receivable and prepayments	(15)	55,345	60,042
Amounts due from related companies	(16)	-	-
Bills receivable		1,192	275
Cash and bank balances		6,781	5,585
		151,342	143,671
Total assets		414,463	427,287
Capital and reserves			
Share capital	(17)	479,433	479,433
Reserves		(2,185,111)	(2,168,709)
		(1,705,678)	(1,689,276)
Minority interests	(18)	-	-
Non-current liabilities			
Long-term loans due to related companies	(19)	954,450	951,063
Loan-term borrowings	(20)	532,804	532,975
Provision for loss on guarantees	(21)	166,790	166,271
		1,654,044	1,650,309
Current liabilities			
Amounts due to related companies		59,408	59,408
Accounts payable		119,455	117,946
Bills payable		1,419	716
Others payable and receipts in advance		208,895	210,292
Accruals		43,169	44,156
Tax payable		33,751	33,736
		466,097	466,254
Total equity and liabilities		414,463	427,287

The financial statements on pages 2 to 25 were approved and authorised for issue by the board of directors on April 20, 2005 and are signed on its behalf by :

Director **Director**

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated statement of changes in equity for the year ended December 31, 2004

	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated loss RMB'000	Total RMB'000
Balance as at January 1, 2003	479,433	-	-	-	32,673	(2,540,540)	(2,028,434)
Prior period adjustments (note 24)	-	-	-	-	-	(1,474)	(1,474)
Restated balance	479,433	-	-	-	32,673	(2,542,014)	(2,029,908)
Profit for the year	-	-	-	-	-	340,632	340,632
Balance as at December 31, 2003	479,433	-	-	-	32,673	(2,201,382)	(1,689,276)
Balance as at January 1, 2004	479,433	-	-	-	32,673	(2,199,720)	(1,687,614)
Prior year adjustments (note 24)	-	-	-	-	-	(1,662)	(1,662)
Restated balance	479,433	-	-	-	32,673	(2,201,382)	(1,689,276)
Loss for the year	-	-	-	-	-	(16,402)	(16,402)
Balance as at December 31, 2004	479,433	-	-	-	32,673	(2,217,784)	(1,705,678)

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

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

i may be used to make up loss; and

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

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

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

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated cash flow statement for the year ended December 31, 2004

	2004 RMB'000	2003 RMB'000 restated
Cash flow from operating activities		
Operating profit/(loss) before taxation	(16,416)	340,579
Adjustment items :		
Interest income	(79)	(38)
Interest expense	3,539	3,906
Depreciation	16,036	16,102
Debt restructuring income	-	(374,993)
Waiver of liabilities	(691)	-
Provision for loss from guarantees	519	-
Share of loss from associates	1,525	1,679
Profit on disposal of property, plant and equipment	(63)	(10,773)
Provision for impairment loss of construction in progress reversed	-	(2,320)
Loss on disposal of other investments	944	-
Provision for impairment loss of other investments	-	1,700
Provision for impairment loss of obsolete inventories made/(reversed)	(5,429)	3,909
Provision for doubtful debts	4,311	9,518
Provision for loss on minority interests	16	55
Net operating cash inflow/(outflow) before movement in working capital	4,212	(10,676)
Decrease in inventories	2,313	650
(Increase)/decrease in accounts receivable	(7,151)	4,452
Increase in others receivable and prepayments	(680)	(18,820)
(Increase)/decrease in amounts due from related companies	1,078	(281)
Increase in bills receivable	(917)	(125)
Increase in accounts payable	2,200	2,241
Increase in bills payable	703	716
Increase/(decrease) in others payable and receipts in advance	(1,397)	12,684
Decrease in accruals	(4,100)	(1,116)
Net cash outflow from operating activities before interest and income tax payments	(3,739)	(10,275)
Interest paid	(426)	(178)
Income taxes recovered/(paid)	13	(42)
Net cash outflow from operating activities c/f	(4,152)	(10,495)

(to be cont'd)

Shenzhen China Bicycle Company (Holdings) Limited

Consolidated cash flow statement for the year ended December 31, 2004

(cont'd)

	2004 RMB'000	2003 RMB'000 restated
Net cash outflow from operating activities b/f	(4,152)	(10,495)
Investing activities		
Interest received	79	38
Proceeds from disposal of property, plant and equipment	63	1,516
Payment for acquisition of property, plant and equipment	(1,169)	(594)
Proceeds from construction in progress	-	2,320
Proceeds from disposal of other investments	3,159	-
Net cash inflow from investing activities	2,132	3,280
Net cash outflow before financing activities	(2,020)	(7,215)
Financing activities (*)		
Increase in long-term loans due to related companies	3,387	6,000
Decrease in long-term borrowings	(171)	-
Net cash inflow from financing activities	3,216	6,000
Increase/(decrease) in cash and cash equivalents	1,196	(1,215)
Cash and cash equivalents as at beginning of the year	5,585	6,800
Cash and cash equivalents as at end of the year	6,781	5,585

(*) Cash flow from financing

	Long-term loans due to related companies RMB'000	Long-term borrowings RMB'000
Balance as at beginning of the year	951,063	532,975
Loan obtained during the year	3,387	-
Change of exchange rate	-	(171)
Balance as at end of the year	954,450	532,804

1. Corporate information

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

2. Basis of presentation of the financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Federation of Accountants. These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IFRS, adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the net asset value as at December 31, 2004 and on the operating results for the year then ended are included in notes 27 and 28 to the financial statements. In addition, the financial statements have been prepared under the historical cost convention.

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

3. Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and its subsidiaries made up to December 31, 2004 and include the Group's attributable share of post-acquisition results of its associates. Results of subsidiaries and associates acquired or disposed of during the year are consolidated/equity accounted for from or to their effective dates of acquisition or disposal, respectively. Except for those subsidiaries not consolidated for the reason stated below, all significant inter-company transactions and balances within the Group have been eliminated on consolidation.

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

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

i) Subsidiaries consolidated

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

ii) Subsidiaries not consolidated

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

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

ii) Subsidiaries not consolidated (cont'd)

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

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

(b) Associates

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

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

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

3. Basis of consolidation (cont'd)

(b) Associates (cont'd)

Company name	Place of establishment/ operation	Effective equity held by the Group	Principal activities
Jian Xu Huai Yin Huayu Bicycle Parts Co., Ltd.	PRC	25%	Manufacture of bicycle spare parts
Shenzhen Tange Bicycle Parts Co., Ltd.	PRC	20%	Manufacture of bicycle spare parts

4. Summary of significant accounting policies

(a) Turnover

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

(b) Revenue recognition

(i) Sales of goods are recognised when the goods are delivered and the title has passed.

(ii) Rental income under operating leases is accounted for on a straight-line basis over the terms of the respective leases.

(iii) Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(iv) Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

(c) Property, plant, equipment and depreciation

Such assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are charged to consolidated income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditures are capitalised as an additional cost of the assets.

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

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

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

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

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

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

(d) Construction in progress

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

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

(e) Investments

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

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

(f) Inventories and work in progress

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

(g) Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised.

(h) Operating leases

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

(i) Foreign currency transactions

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

(j) Related companies

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

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

(k) Cash equivalents

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

(l) Impairment loss

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

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

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

(m) Provisions

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

(n) Taxation

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

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

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

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

(n) Taxation (cont'd)

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

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

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

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

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

5. Segment analysis of turnover and results

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

	2004 **RMB'000**	**2003** **RMB'000**
Turnover		
Sales of goods	133,902	95,380
Property management	4,290	3,062
Others	-	573
	138,192	99,015
Gross profit		
Sales of goods	10,640	7,083
Property management	436	835
Others	-	134
	11,076	8,052

6. Operating loss before exceptional items

	2004 RMB'000	**2003 RMB'000**
The Group's operating loss before exceptional items is arrived at after crediting		
Interest income	79	38
Profit on disposal of property, plant and equipment	63	10,773
License fee income from trademark	1,085	706
Rental income	10,524	7,374
Reversal of provision for impairment loss	1,118	-
Exchange gain	175	-
And after charging		
Depreciation	16,036	16,102
Interest expense	3,539	3,906
Staff costs	15,543	17,661
Provision for loss from guarantees	519	-
Loss on disposal of other investments	944	-

7. Exceptional items

	2004 RMB'000	**2003 RMB'000**
Exceptional items comprise		
Debt restructuring income	-	374,993
Waiver of liabilities	691	-
Surcharge imposed by the Customs	-	(6,300)
Provision for impairment loss of construction in progress reversed	-	2,320
Provision for impairment loss of other investments	-	(1,700)
Provision for impairment loss of other assets	-	(13,427)
Provision for loss on minority interests	(16)	(55)
	675	355,831

8. Taxation

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

	2004 RMB'000	**2003 RMB'000**
Income tax		
Company and subsidiaries	2	2
Associates	-	-
	2	2
Deferred tax	-	-
	2	2

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

	2004 RMB'000	**2003 RMB'000 restated**
Profit/(loss) before taxation	(16,416)	340,579
Tax at the income tax rate of 15% (2003 - 15%)	(2,462)	51,087
Tax effect :		
- disallowable expenses	17	1,155
- non-taxable revenue	(130)	(56,249)
- tax losses unrecognised	3,049	4,050
- tax losses utilised	(472)	(41)
Actual tax expense	2	2

9. Earnings/loss per share

The calculation of the basic earnings/loss per share is based on the current year's loss of RMB16,402,000 (2003 - profit of RMB340,632,000) attributable to the shareholders and on the existing number of 479,433,003 shares that are in issue.

10. Fixed assets

	Land and buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Transport equipment RMB'000	Others RMB'000	Total RMB'000
Cost						
Balance as at January 1, 2004	435,395	255,384	19,758	8,146	17,788	736,471
Prior period adjustments (note 24)	(2,792)	-	-	-	-	(2,792)
Restated balance	432,603	255,384	19,758	8,146	17,788	733,679
Additions	95	-	247	109	718	1,169
Disposals	-	-	(170)	-	-	(170)
Balance as at December 31, 2004	432,698	255,384	19,835	8,255	18,506	734,678
Accumulated depreciation/provision for impairment loss						
Balance as at January 1, 2004	(196,669)	(238,502)	(17,105)	(6,707)	(15,380)	(474,363)
Prior period adjustments (note 24)	(1,662)	-	-	-	-	(1,662)
Restated balance	(198,331)	(238,502)	(17,105)	(6,707)	(15,380)	(476,025)
Charged for the year	(15,356)	(20)	(265)	(179)	(216)	(16,036)
Written back on disposals	-	-	170	-	-	170
Balance as at December 31, 2004	(213,687)	(238,522)	(17,200)	(6,886)	(15,596)	(491,891)
Net book value						
Balance as at December 31, 2004	219,011	16,862	2,635	1,369	2,910	242,787
Balance as at December 31, 2003	234,272	16,882	2,653	1,439	2,408	257,654

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

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

11. Interests in associates

	2004 RMB'000	2003 RMB'000
Capital contributions, at cost	64,704	64,704
Share of post-acquisition loss	(16,122)	(14,597)
Share of net assets of associates	48,582	50,107
Provision for impairment loss	(17,939)	(17,939)
	30,643	32,168
Amounts due to associates	(13,109)	(13,109)
	17,534	19,059

12. Other investments

	2004 RMB'000	2003 RMB'000
Subsidiaries not consolidated, at cost	14,026	18,743
Unlisted equity investments, at cost	9,264	9,264
	23,290	28,007
Provision for impairment loss	(20,490)	(21,104)
	2,800	6,903

13. Inventories

	2004 RMB'000	2003 RMB'000
Raw materials	254,219	254,580
Work in progress	6,998	3,615
Finished goods	71,615	76,762
Consumable stores	1,997	2,185
	334,829	337,142
Provision for diminution in value of obsolete inventories	(262,831)	(268,260)
	71,998	68,882

14. Accounts receivable

	2004 RMB'000	2003 RMB'000
Amounts receivable	645,269	638,118
Provision for doubtful debts	(629,243)	(629,231)
	16,026	8,887

15. Others receivable and pre payments

	2004 RMB'000	2003 RMB'000
Others receivable	416,049	414,432
Advance payments	1,942	2,588
Prepayments	339	630
	418,330	417,650
Provision for doubtful debts	(362,985)	(357,608)
	55,345	60,042

16. Amounts due from related companies

	2004 RMB'000	2003 RMB'000
Amounts due from related companies	1,107,129	1,108,207
Provision for doubtful debts	(1,107,129)	(1,108,207)
	-	-

17. Share capital

	2004 RMB'000	2003 RMB'000
Registered, issued and fully paid capital, at par value of RMB1 each		
204,747,836 (2003 - 204,747,836) domestic shares	204,748	204,748
76,617,000 (2003 - 76,617,000) "A" shares	76,617	76,617
198,068,167 (2003 - 198,068,167) "B" shares	198,068	198,068
	479,433	479,433

18. Minority interests

	2004 RMB'000	2003 RMB'000
Minority interests	(2,880)	(2,864)
Absorption of loss	2,880	2,864
	-	-

19. Long-term loans due to related companies

	2004 RMB'000	2003 RMB'000
China Huarong Asset Management Corporation	721,649	718,656
Guangdong Sunrise Holdings Company Limited *	232,801	232,407
	954,450	951,063

* Formerly known as Shenzhen Lionda Holdings Company Limited

20. Long-term borrowings

	2004 RMB'000	2003 RMB'000
Secured bank loans	78,850	78,850
Guaranteed bank loans	453,954	454,125
	532,804	532,975
The above borrowings are repayable as follows :		
Overdue but pending, and are expected for restructuring soon	532,804	532,975
More than one year	-	-
	532,804	532,975

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

21. Contingent liabilities and losses

As at December 31, 2004, the Group had contingent liabilities and losses as follows :

	2004 RMB'000	2003 RMB'000
Guarantees given to bankers, in respect of banking facilities utilised by subsidiaries, associates and related companies	192,061	191,542
Contingent loss on guarantees provided	(166,790)	(166,271)
Contingent liabilities not provided	25,271	25,271

22. Assets under security

As at December 31, 2004, the buildings and the machinery of the Group at net book value of 197,465,000 (2003 - RMB212,746,000) together with the guarantees from related companies were used to secure the borrowings of RMB534,890,000 (2003 - RMB534,890,000) made available to the Group. However, the Group's collateral with net book value of RMB38,408,000 (2003 - RMB38,408,000) was disposed of under auction sales and the transfer of ownership had not yet been completed by the end of this financial year.

23. Related party transactions

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

Related parties	Transactions	2004 RMB'000	2003 RMB'000
Guangdong Sunrise Holdings Company Limited *	Repayment of bank loan on behalf of the Group	-	19,399
	Loan advanced to the Group	394	-
China Huarong Asset Management Corporation	Loan advanced to the Group	2,993	6,000
	Debt restructuring - waiver of interest expense	-	243,346

* Formerly known as Shenzhen Lionda Holdings Company Limited

24. Prior period adjustments

	2004 RMB'000	2003 RMB'000
Depreciation for land and buildings over-provided	1,215	1,089
Depreciation for land and buildings under-provided	(2,877)	(2,563)
	(1,662)	(1,474)

(a) During the year, the Group discovered that a building with cost of RMB2,792,000 together with the related deprecation had been recorded twice during the consolidation. To remedy this error, the Group has made a retrospective adjustment when preparing the financial statements. As a result of this adjustment, the brought-forward accumulated loss for years 2003 and 2004 decreased by RMB1,089,000 and RMB1,215,000 respectively.

(b) During the year, the Group discovered that a building with useful life of 10 years had been erroneously depreciated over a period of 20 years. To remedy this error, the Group has made a retrospective adjustment when preparing the financial statements. As a result of this adjustment, the brought-forward accumulated loss for years 2003 and 2004 increased by RMB2,563,000 and RMB2,877,000 respectively.

25. Matters of significant issues

(a) According to the Announcement issued by the Office of the China Banking Regulatory Commission on January 7, 2004, 11 various banks and financial institutions were required to waive the interest expense of the Group for a period of three years commencing January 1, 2002. All interest (including penalty and compound interest) outstanding and accrued by the Group as at December 31, 2001 was also waived. The total interest (including penalty and compound interest) prior to December 31, 2001 in the total sum of RMB357,993,665 had already been dealt with in the financial statements. In addition, no interest expense was accrued for the period from January 1, 2002 to December 31, 2004. The interest exemption period had come to an end by December 31, 2004.

(b) On December 29 and December 30, 2004, the Company's major shareholder China Huarong Asset Management Corporation (hereinafter called "Huarong") signed the "Asset Transfer Agreement" and the "Supplementary Agreement" respectively with Shenzhen Julongshing Industrial Development Co., Ltd. (hereinafter called "Julongshing"). The provisions in the agreements that are relevant to the Company are as follows :

i) Huarong agreed to transfer 17,901,588 "B" shares indirectly held by it to Julongshing at a consideration of RMB15,200,000. The transfer, however, had not yet been effected.

25. Matters of significant issues (cont'd)

ii) In case before September 30, 2005, the Group has reached the "Debt Settlement Agreement" with each debtor and on the conditions that :

a. On the day of reaching the "Debt Settlement Agreement" , the total of the Group's liabilities at that date shall not exceed the amount agreed by both parties and there shall be a positive value in the Group's net assets;

b. For the period from January 1, 2005 to the day of reaching the "Debt Settlement Agreement" , the Group's total assets or properties used for the repayment of the debts shall not exceed 10% of the total asset value as shown in the Group's audited financial statements for the year 2004;

c. Upon conclusion of the "Debt Settlement Agreement" , Julongshing shall assume the debts payable to the Group's suppliers at a value not exceeding the amount agreed by both parties;

d. Upon conclusion of the "Debt Settlement Agreement" , Julongshing shall assume the debts previously settled by Huarong on behalf of the Group (excluding the preference debt payments) at a value not exceeding the amount agreed by both parties.

Huarong will transfer/assign 65,098,412 "A" shares and 5,000,000 "B" shares in the Company as well as the rights of debts due by the Group in the sum of RMB27,883,900 and US$84,797,624 to Julongshing. Julongshing will agree to take up the above-mentioned shares and rights of debts and will provide funding for the debt restructuring pursuant to the repayment schedule of the "Debt Settlement Agreement".

iii) Huarong agreed to transfer all its machinery and equipment to Julongshing at a consideration of RMB8,000,000.

26. Financial instruments

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

26. Financial instruments (cont'd)

(a) Credit risk

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

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

(b) Fair value

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

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

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

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

	2004 RMB'000	**2003 RMB'000 restated**
As reported by PRC Certified Public Accountants	(17,231)	(33,136)
Adjustments to conform to IFRS		
Debt restructuring income	-	357,994
Interest expense waived	-	16,999
Waiver of liabilities	691	-
Exchange gain	175	(175)
Absorption of operating loss in a subsidiary	(21)	(995)
Absorption of loss from minority interests	(16)	(55)
As restated in conformity with IFRS	(16,402)	340,632

28. Impact of IFRS adjustments on net assets

	2004 RMB'000	2003 RMB'000 restated
As reported by PRC Certified Public Accountants	(1,702,798)	(1,686,237)
Adjustments to conform to IFRS		
Exchange gain	-	(175)
Absorption of loss from minority interests	(2,880)	(2,864)
As restated in conformity with IFRS	(1,705,678)	(1,689,276)

29. Language

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

30. Comparative figures

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