SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
2004 ANNUAL REPORT

Content

SECTION I. IMPORTANT NOTICES:

Board of Directors of the Shenzhen China Bicycle Company (Holdings) Limited (hereinafter referred to as the Company) and its members individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

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

Due to business, Director Mr. Shi Zhanxiong was absent from the Board meeting, and entrusted Mr. Li Hai to exert on his behalf.

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

Mr. Zhang Xiaofeng, Chairman of the Board, Mr. Ye Qing, General Manager and Mr. Li Shiyong, Chief Accountant hereby confirm that the Financial Report of the Annual Report is true and complete.

SECTION II. COMPANY PROFILE

1. Legal Name of the Company

   In Chinese: 深圳中华自行车（集团）股份有限公司

   In English: SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

   Short form of English Name: CBC

2. Legal Representative: Mr. Zhang Xiaofeng

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

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

   Tel: (86) 755 – 25516998

   Fax: (86) 755 – 25516620

   E-mail: dmc@szcbc.com

4. Registered Address and Office Address:

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

   Post Code: 518019

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

   E-mail: cbc@szcbc.com

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

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

   Place Where the Annual Report is Prepared and Placed:

   Secretariat of the Board of Directors, No. 3008 Buxin Road, Shenzhen

6. Stock Exchange Listed with, Short Form of the Stock and Stock Code:

   Stock Exchange Listed with: Shenzhen Stock Exchange

   Short Form of the Stock: ST ZHONGHUA – A, ST ZHONGHUA – B

   Stock Code: 000017, 200017

7. Other Information about the Company

   (1) Initial registered date: Aug. 24, 1984

   (2) Initial registered place: Buxin Road, Shenzhen

   (3) Registration number for business license of legal person of corporation: PGYSZZi No.101165

   (4) Registration number of tax:

   State Revenue SHEN ZI No. 440301618830452,

   Land Tax SHEN ZI No. 440303618830452

   (5) Name of the Certified Public Accountants engaged by the Company:

   Domestic: Shenzhen Dahua Tiancheng Certified Public Accountants

   Address: Room 1102-1103, on 11th Floor, Tower B, United Plaza, No. 5022, Binhai Av., Futian District, Shenzhen

   International: K.C.OH & Company Certified Public Accountants

   Address: 8/F., New Henry House, No. 10 Ice House Street, Central, Hong Kong

SECTION III. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

1. Major profit indexes as of the year 2004 Unit: RMB'000

Total Profit	-16,416
Net Profit	-16,402
Profit from main operations	11,076
Operating profit	-12,130
Investment income	
Net non-operating income/expenses	675
Net cash flow arising from operating activities	6,781
Net increase in cash and cash equivalents	1,196

Note: Explanations on difference of auditing results: net profit as audited by domestic certified public accountants and overseas certified public accountants was RMB –17,230,298.62 and RMB –16,401,172.09 respectively, a difference of RMB 829,126.53 existing. There existed a bigger difference between the auditing result of domestic certified public accountant and the auditing result of overseas certified public accountant, resulted from the different accounting methods of IAS and CAS on accounting of no amount need to pay in debts reorganization. IAS accounted that part as income, while CAS as capital reserve.

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

Item	Amount
Estimated guarantee losses	
Withdrew reserve for impairment of fixed assets	
Withdrew reserve for impairment of construction-in-progress	
Gains and losses on disposal of fixed assets	
Other	675.00
Total	675.00

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

Unit: RMB'000

Item	2004	2003		2002	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Income from main operations	138,192	99,015	99，015	71,590	71,590
Net profit	-16,402	340,632	340,820	6,780	8,191
Total assets	414,463	427,287	431,741	484,429	499,868
Shareholder's equity (excluding minority interests)	-1,705,678	-1,689,276	-1,687,614	-2,028,434	-1,985,702
Earnings per share (Fully diluted) (RMB)	-0.0342	0.710	0.711	0.014	0.017
Earnings per share (Weighted average) (RMB)	0.0342	0.710	0.711	0.014	0.017
Net assets per share (RMB)	-3.55	-3.52	-3.52	-4.23	-4.14

Net cash flow per share arising from operating activities (RMB)	-0.014	0.0025	-0.0025	0.0081	0.0081

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

Profit as of the year 2004	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations			0.023	0.023
ting profit			-0.0253	-0.00253
Net profit			0.034	0.034

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

Items	Share capital	Reserve
Amount at the year-begin	479,433	-2,168,709
Increase in the report period	0	0
Decrease in the report period	0	16,402
Amount at the year-end	479,433	-2,185,111

SECTION IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

(I) Particulars about change in share capital

1. Change in shares

Unit: share

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

2. Issuance and listing of the share:

(1) The Company has not issued new shares over the recent three years.

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

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

(II) About shareholders at the report period

1. Ended Dec. 31, 2004, the Company had 45,041 shareholders in total.

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

No.	Shareholders	Increase / decrease	Shares held at the year-end	Proportion in total shares	Types	Pledged or Frozen

1	China Huarong Assets Management Company	0	65,098,412	13.58%	State-owned shareholder	0
2	Hong Kong Zhuorun Technology Co., Ltd.	0	62,003,890	12.93%	Foreign shareholder	57,899,644
3	Hong Kong (Link) Bicycles Limited	0	26,000,000	5.42%	Foreign shareholder	26,000,000
4	Guangdong Sunrise Group Co., Ltd.	-7,000,000	11,968,590	3.96%	State-owned shareholder	11,968,590
5	Shanghai Xinliyi Investment Management Co., Ltd.	0	11,200,000	2.34%	State-owned shareholder	0
6	Airline Trust and Investment Co., Ltd.	0	10,340,000	2.16%	State-owned shareholder	0
7	Stephen & Partners Limited	-4,101,242	7,176,630	1.50	Foreign shareholder	0
8	Shenzhen International Trust & Investment Co., Ltd.	0	6,000,000	1.25%	State-owned shareholder	0
9	Jingchao Investment Co., Ltd.	0	5,001,944	1.04%	Foreign shareholder	0
10	Huabao Trust and Investment Co., Ltd.	+3,500,000	3,500,000	0.73%	Foreign shareholder	0

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

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

4. Introduction of the controlling shareholder or actual controller of the Company

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

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

Hong Kong Zhuorun Technology Co., Ltd.

Legal representative: Zhang Hanke

Date of foundation: In Sep. 2000

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

6. The top ten circulating shareholders of the Company:

Name of shareholders	Circulating shareholders held in the year-end (share)	Types of circulating shares (A-share, B-share, H-share or others)
STEPHEN & PARTNERS LIMITED	7,176,630	B-share
LAN WEN RONG	1,755,784	B-share
XAMMAX INTERNATIONL LIMIT	1,645,563	B-share
HUANG CAI XIANG	1,354,494	B-share
CHEN XIONG	1,074,868	B-share
JIANG LAN	1,060,900	B-share
WANG LI SI	869,650	B-share
LIAO XIAO YAN	786,228	B-share
NGAI KWOK PAN	747,600	B-share
ZHANG HUI LING	727,048	B-share

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

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

(I) Directors, supervisors and senior executives

1. Basis information:

On June 30, 2004, the Company held the 13th Shareholders' General Meeting of 2003 and carried out the election at experiment of office term, and elected chairman of the Board and vice chairman of the Board at the same day; the Company engaged new members of leader group in the 3rd meeting of the 6th Board of Directors of the Company held on September 3, 2004.

Name	**Title**	**Gender**	**Age**	**Office term**	**Holding shares at the year-begin**	**Holding shares at the year-end**
Zhang Xiaofeng	Chairman of the Board	Male	34	Jun. 2004 – Jun. 2007	0	0
Pan Shiming	Vice chairman of the Board	Male	34	Jun. 2004 – Jun. 2007	0	0
Liu Linfeng	Director, General Manager	Male	48	Jun. 2004 – Jun. 2007	0	0

Ye Qing	Director, Standing Deputy General Manager	Male	43	Jun. 2004 – Jun. 2007	0	0
Shi Zhanxiong	Director	Male	61	Jun. 2004 – Jun. 2007	75,000	75,000
Yi Xiaoming	Director	Male	44	Jun. 2004 – Jun. 2007	0	0
Wan Nianqing	Director	Male	31	Jun. 2004 – Jun. 2007	0	0
Yang Lixun	Independent Director	Male	42	Jun. 2004 – Jun. 2007	0	0
Wang Fuqing	Independent Director	Male	38	Jun. 2004 – Jun. 2007	0	0
Ma Hong	Independent Director	Male	38	Jun. 2004 – Jun. 2007	0	0
Zhuang Yuemin	Independent director	Male	34	Jun. 2004 - Jun. 2007	0	0
Li Hai	Secretary of the Board and deputy General Manager	Male	36	Jun. 2004 – Jun. 2007	0	0
He Xiongsen	Convener of the Supervisory Committee	Male	45	Jun. 2002 – Jun. 2005	0	0
Lan Qihua	Supervisor	Male	54	Jun. 2002 – Jun. 2005	0	0
Peng Tiesheng	Supervisor	Male	55	Jun. 2002 – Jun. 2005	0	0
Hu Eryi	Deputy General Manager	Female	40	Sep. 2004 – Sep. 2007	0	0
Li Shiyong	Chief accountant	Male	34	Sep. 2004 – Sep. 2007	0	0

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

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

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

3. Main work experiences of directors, supervisors and senior executives

Mr. Zhang Xiaofeng, China economist with master degree of economic, took the post at ICBC Shenzhen branch from 1994; from March 2000 he entered to work at China Huarong Assets Management Company, Shenzhen Office and now is in charge of senior manager of investment department of China Huarong Assets Management Company, Shenzhen Office.

Mr. Pan Shiming, China economist with master degree of economic, on-study post doctorate on management science and engineering major, from Aug. 1992 to Sep. 1994 took the post of associate engineer of Nanjing Chenguang Machine Factory of National Aeronautics and Space Administration; studied at Nanjing University from

Sep. 1994 to Jul. 1997; worked in charge of credit management at Shenzhen Development Bank from Aug. 1997 to Jul. 2000; held the position of deputy minister of finance department, minister of property and development department and secretary of the Board of Directors at Shenzhen Lionda Group from Jul. 2000 to May 2002; from May 2002 he worked at Guangdong Sunrise Group Co., Ltd. till now and took the post of director, standing deputy general manager and concurrently secretary of the Board and general manager.

Mr. Liu Linfeng, MBA, senior engineer, took the turns of vice plant manager of Hunan Forklift Central Plant, general manager of Hunan Desta Co. and general manager of Shenyang Lion Valves Co., Ltd., ever took the post of director, general manager and standing deputy general manager of Shenzhen China Bicycle Company (Holdings) Limited.

Mr. Ye Qing, China economist with bachelor degree, ever took the post of Southern Jiaotong University and China Ever bright Trust Investment Co., from Apr. 2000 he entered to work at China Huarong Assets Management Company, and took the post of senior deputy general manager of China Huarong Assets Management Company from Apr. 2001 till now. From March 2002 held the position of director and standing general manager of the Company and now is in charge of director and general manager of the Company.

Mr. Yi Xiaoming, China economist with bachelor degree, ever worked at Bank for a long time, from March 2000 he took the post of charger of 1st group of China Huarong Assets Management Company, Shenzhen branch, from Sep. 2000 held the position of senior manager of operation department of China Huarong Assets Management Company, Shenzhen branch till now.

Mr. Yang Lixun obtained the law master degree of Nankai University in 1988. Member of Committee of CPPCC, consular of consultant committee of preventing office crime of Shenzhen Procurator ate, now he is in charge of researcher of Shenzhen Academy of Social Science.

Mr. Wang Fuqing graduated from agro-economic department of Fujian Parent Directory with master degree. From 1996 he was engage in investment bank business, ever took the post of manager associate of investment bank department of Merchants Securities Company, deputy general manager of investment department of Hengtai Securities Co., Ltd., now is in charge of Shenzhen Mindray Co., Ltd..

Mr. Ma Hong graduated from three-year college of Shenzhen University in major of MBA, China CPA, was engaged in auditing at Shenzhen Jinpeng CPAs in 1989, copartner of Shenzhen Huangjia CPAs from 1993 and copartner of Shenzhen Licheng CPAs from 1999 till now.

Mr. Zhuang Yuemin, middle rank economist with master degree of economic, took the post of business charger of Huaxia Securities Shenzhen branch, general manager of operation department of Weishen Stock Co., Ltd. and brokerage management headquarter of Nanfang Stock Co., Ltd. from 1993; from 2003 held the position of general manager of south China business headquarter of Xiangcai Stock Co., Ltd. till now.

Ms. Hu Er'yi, senior accountant with economic master degree, took the turns of bookkeeper of finance office of Hunan Hydraulic Power Project Co., teacher of accounting department of Hunan College of Finance & Economics, lecturer of finance and economic department of Changsha University of Hydraulic & Electrical Engineering and deputy minister of finance department and deputy chief accountant of Shenzhen Lionda Group, and now is in charge of director, vice president and chief accountant of the Company.

Mr. Li Hai graduated from Economic department of Shenzhen University in major of accounting, on-study DBA, he took the turns of deputy manager of finance department, chief supervisor associate of finance department and secretary of the Board, etc. of the Company, and now is in charge of deputy general manager of the Company.

Mr. Li Shiyong, CPA, middle grade accountant with master degree of accounting, took the turns of bookkeeper of Taiyuan Mine Machine Factory and project charger of Shenzhen Tongren CPAs; from 2001 he entered into the Company and took the turns of manager of finance department and vice chief accountant of the Company, and now is in charge of chief accountant of the Company.

4. Particulars about the annual salary of directors, supervisors and senior executives

Referring to the standard of the same industry and local salary situation, the Company decided the annual salary of the above personnel integrated the operating achievements of the Company.

(1) The total annual salary of directors, supervisors and senior executives received from the Company was RMB 748,600, the total annual payment of the top two directors drawing the highest payment was RMB 345,100, the total annual payment of the top two senior executives drawing the highest payment was RMB191, 800.

(2) The Company paid the allowance of independent director of RMB 20,000 respectively. The Company reimbursed the expenses for business trips according to the actual situation, which independent directors attended the Board meeting and shareholders' general meeting.

(3) Of them, two enjoyed the annual salary over RMB 150,000; 1 enjoyed the annual salary between RMB 100,000 and RMB 150,000 respectively, 3 enjoyed below RMB 100,000.

(4) There were 17 directors, supervisors and senior executives, of which 11 persons

didn't draw salary from the Company; Director Zhang Xiaofeng, Director Pan Shiming, Director Yi Xiaoming, Director Wan Nianqing and Convener of the Supervisory Committee Mr. He Xiongsen drew salary from the controlling shareholder's company.

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

(1) In the report period, the directors of the 5th Board of Directors has expired in May 2004, according to the 13th Shareholders' General Meeting, elected and produced members of the 6th Board of Directors (for details, please refers to the public notice published on Securities Times and Hong Kong Ta Kung Pao dated Jul. 1, 2004).

(2) According to the resolution of the 3rd meeting of the 6th Board of Directors, engaged Mr. Liu Linfeng as general manager of the Company, Mr. Ye Qing as standing deputy General Manager of the Company, Ms. Hu Er'yi as deputy general manager of the Company, Mr. Li Hai as deputy general manager of the Company and Mr. Li Shiyong as chief accountant of the Company.

(II) About staff

1. The Company has totally 462 employees at present, including:

(1) Classified according to professional/occupational composition: 339 production personnel; 22 salespersons; 17 technicians; 16 financial personnel and 68 administrative personnel.

(2) Classified according to the educational background: master degree or above (including the professionals who have once had advanced study abroad): 7 persons, bachelor degree: 37 persons; junior college graduates: 62 persons. Proportion of the personnel with education background of junior college or above in the whole staff: 22.94%.

2. The Company needs to bear the cost of 1 retiree.

SECTION VI. ADMINISTRATIVE STRUCTURE

(I) Administration of the Company

Pursuant to the guiding spirit of normative documents issued by CSRC including Administrative Rules for Listed Companies, Guide Lines of Articles of Association for Listed Companies, Normative Opinions of the Shareholders' General Meeting of Listed Companies etc. and in comparison with the Company's actual conditions, the Company believed that there existed no significant difference between the actual administration status and the requirements of above documents. In 2004, the work of Shareholders' General Meeting, the Board, Supervisory Committee and the management of the company operated normatively according to the above documents and the requirements of the rules and systems. This year, the Board of the Company supplemented the independent director and strengthened management of the investors' relationship and consummated the administrative structure in further step.

1. Shareholders and the Shareholders' General Meeting:

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

2. Relationship Between the Controlling Shareholder and the Company:

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

3. Directors and the Board of Directors:

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

4. Supervisors and the Supervisory Committee:

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

5. Information Disclosures and Transparency:

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

(II) Performance of Obligations by Independent Directors

On Jun. 30, 2004, the Company held the 13^{th} Shareholders' General Meeting, elected Mr. Yang Lixun, Mr. Ma Hong, Mr. Wang Fuqing and Mr. Zhuang Yuemin as independent director of the 6^{th} Board of Directors. The Company possessed independent director amounting to 4 persons, taking up one third of members of directors of the Company, which in accordance with requirement regulated by notification of Guidance Opinion on Establishment Independent Director System of Listed Company.

Particulars about independent director attending to the Board of Directors:

Name	**This year should attend (times)**	**Presence in person (times)**	**Entrusted presence (times)**	**Absence (times)**	**Note**
Yang Lixun	9	8	1		
Ma Hong	9	9	0		
Wang Fuqing	9	8	1		
Zhuang Yuemin	5	4	1		

In the report period, the Company was able to regard protecting the largest interests of shareholders and the Company as behavior criterion, strictly in accordance with relevant rules of Articles of Association, Rules of Procedure of Board of Directors and Independent Director System and related laws and regulations, faithfully implemented their own duties and attended the Board Meeting and Shareholders' General Meeting actively, seriously examined various proposals and expressed independent opinions regarding the significant events. 4 independent directors of the Company had no different opinions on various proposals approved by the Board of Directors of the Company in 2004 and other significant events.

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

1. In respect of business: The Company is absolutely separated from the controlling shareholder in business and has independent and integrated business system and

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

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

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

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

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

(IV) Establishment and Implementation of Performance Evaluation and Encouragement Mechanism and Relevant Rewarding System for Senior Executives

The Company originally has established open and transparent performance evaluation criteria and encouragement and binding mechanism for directors, supervisors and managers. Engagement of managers is open and transparent, which is in accordance with law.

In the report period, whereas the operation group of the Company realized the overall objective compiled by the Board of Directors by way of unrelenting efforts in 2003, and made decision of 2003 Remuneration for the Operation Group of the Company, which amounting to RMB 150,000: president awarded amounting to RMB 60,000, standing vice president awarded amounting to RMB 50,000 and vice president awarded amounting to RMB 40,000, which proposal has been examined and approved by the 13th Shareholders' General Meeting (2003) of the Company.

SECTION VII. INTRODUCTION TO SHAREHOLDERS' GENERAL MEETING

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

I. The 13th Annual Shareholders' General Meeting of 2003

According to the decision of the 22rd Meeting of the 5th Board of Directors of the Company, the Company published notice on holding Annual Shareholders' General Meeting 2003 on Securities Times and Ta Kung Pao dated May 29, 2004. Annual Shareholders' General Meeting 2003 was held in Conference Room, 3/F, headquarter of the Company as scheduled at 9:30 A.M. on June 30, 2004. 2 shareholders and authorized representatives attended the Meeting, representing 151,072,836 shares, taking 31.51% in total share capital of the Company, including: 84,067,002 shares held by shareholders of A shares, taking 17.53% in total share capital of the Company and 67,005,834 shares held by shareholders of B shares, taking 13.98% in total share capital of the Company. Shenzhen Dadi Law Firm has issued Legal Opinion on this Shareholders' General Meeting. The following proposals have been considered and passed by means of signed voting at the Meeting:

1. Work Report of the Board of Directors 2003;
2. Work Report of the Supervisory Committee 2003;
3. Work Report of General Manager 2003;
4. Financial Settlement Report 2003;
5. Profit Distribution Preplan 2004;
6. Tentative Method on Management of Specific Funds of the Board of Directors;
7. Proposal on Withdraw Proportion of Specific Funds of the Board of Directors;
8. Proposal on 2003 Remuneration of Operation Group of the Company;
9. Proposal on Election of Director Members of the 6th Board of Directors.

Proposal on Amending the Articles of Association of the Company

The said resolutions were published on Securities Times and Ta Kung Pao dated Jul. 1, 2004.

II. The Provisional Shareholders' General Meeting 2004

According to the decision of the 5th Meeting of the 6th Board of Directors of the Company, the Company published notice on holding the Provisional Shareholders' General Meeting 2004 on Securities Times and Ta Kung Pao dated Nov.23, 2004. The Provisional Shareholders' General Meeting 2004 was held in Conference Room, 3/F, headquarter of the Company as scheduled at 9:30 a.m. on Dec.24, 2004. 2

shareholders and authorized representatives attended the Meeting, representing 144,072,836 shares, taking 30.05% in total share capital of the Company, which all belonged to non-circulating shares, including: 77,067,002 shares held by shareholders of A shares, taking 16.07% in total share capital of the Company and 67,005,834 shares held by shareholders of B shares, taking 13.98% in total share capital of the Company. There was no circulating shareholder attended the Provisional Shareholder’s General Meeting. Lawyer Kong Yuquan of Guangdong Junyan Law Firm testified this Meeting and issued Legal Opinion on this Shareholders’ General Meeting. Proposal on Engaging 2004 Domestic and Overseas CPAs of the Company has been considered and passed at the Meeting by means of signed voting item by item:

The said resolutions were published on Securities Times and Ta Kung Pao dated Dec. 25, 2004.

SECTION VIII. REPORT OF THE BOARD OF DIRECTORS

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

1. Scope of main operations and management:

The Company was mainly engaged in the production and sales of production and sales of bicycles, electrical bicycles and accessories and fittings.

In 2004, the core business of the Company adhered to the operating guideline of "Brand leading and Electrical bicycles oriented", firmly followed the steps of the market, and sped up R&D of products and exploitation of the market, which realized big development of core business. In the whole year, the Company realized sales income amounting to RMB 138,192,000, with an increase of 39.57% over the previous tear. However, because the debt reorganization of the Company didn't accomplish at last, relative debt burden and serious shortage of capital still restricted development of the core business of the Company. Therefore, the operation of the Company still suffered losses amounting to RMB 16,402,000, with a decrease of 95.19% over last year.

(1) Statement of main operations classified according to products

Unit: RMB'0000

Products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease of income from main operations compared with the last year (%)	Increase/decrease of cost of main operations compared with the last year (%)	Increase/decrease of gross profit ratio compared with the last year (%)
Bicycles	4,211.71	4,012.36	4.73	-0.47	3.83	2.34
Electric bicycles	9,055.14	7,848.01	13.33	72.81	71.73	4.26
Including: related transaction	Naught	Naught	Naught	Naught	Naught	Naught
Principle of pricing of related transaction	Naught					
Explanation of necessity and durative of related transaction	Naught					

(2) Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease of income from main operations compared with the last year (%)
Shangdong	3,322.72	51.89
Jiangsu	2,510.37	88.14

2. Major suppliers and customers

Statement of major sales customers in 2004 (the top five)

Order	Name of customers	Sales amount (RMB'0000)	Total (RMB'0000)	Proportion in the total sales amount
1	Shangdong Qufu Great Nature Trade Firm	525.86	1590.95	11.51%
2	Jiangsu Gold Electric Bicycles Co., Ltd.	338.58		
3	Shangdong Zoucheng Emmelle	322.02		
4	Jiansu Jiaxin Economic & Trade Company	207.61		
5	Nantong Department Stores Building Co., Ltd.	196.88		

Statement of major suppliers in 2004 (the top five)

Order	Name of suppliers	Name of supply commodities	Amount (RMB'0000)	Total (RMB'0000)	Proportion in the total purchase amount
1	Zhejiang Changxing Natural Engergy Electric Co., Ltd.	Batteries and chargers	1559.92	3765.15	52.88
2	Shanghai Weixing Electric Engine Factory	Electric engine	1265.06		
3	Zhejiang Hangzhou Yongci(Group) Co., Ltd.	Electric engine	438.95		
4	Shenzhen Chennuo Eletric Technology Company	Controller	259.43		
5	Guangzhou Guangwei Zhaoye Trade Co., Ltd.	Vehicle materials	242.25		

3. Problems and difficulties from the operation and their solutions

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

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

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

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

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

II. Investment of the Company

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

III. Financial position and operating results of the Company

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

	In 2004	In 2003		Increase/decrease amount	Increase/decrease rate (%)
		Before adjustment	After adjustment		
Total assets	414,463	427,287	431,741	-12,824	-3.00
Long-term liabilities	1,654,044	1,650,309	1,650,309	3,735	0.2263
Shareholders' equity	-1,705,678	-1,689,276	-1,687,614	-16,402	0.98
Profit from main operations	11,076	8,052	8,052	3,024	37.56
Net profit	-16,402	340,820	340,820	324,418	-95.19
Cash	6,781	5,585	5,585	1,196	21.42
Net increase in cash equivalents	1,196	-1,215	-1,215	2,411	198.36

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

The Board of the Company agreed the auditors' report presented by K.C.Oh & Company Certified Public Accountants. Since the Company's liabilities reorganization was still not accomplished finally in 2004 and liabilities risks with great amount still existed, the Certified Public Accountants expressed doubt to the Company's sustainable operating capability in the auditors' report and expressed reserved opinion. Thus, the Board of the Company made explanation as follows:

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

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

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

1. Quicken the general reorganization progress including liabilities reorganization in order to improve the wicked internal and external operating environment of the Company in the several years, and realize success of debt reorganization in the year.

2. Further enlarge the present scale of production and sale of main business and make efforts to realize the increase with high speed of main business.
3. Continue to quicken liquidizing the present remnant assets to supple current capital for the production and operation and further relax the intense situation of current capital.
4. Further perfect legal person administration structure and establish high-efficiency encouragement and binding mechanism.

VI. Routine work of the Board of Directors

In the report period, the Board of Directors totally held 9 meetings.

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

1. The 19th meeting of the 5th Board of Directors was held on Feb. 6, 2004 and the meeting examined and approved the following proposals: Proposal on Resolving Problems about Owing Salaries and Insurance, Proposal on Entrusting PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. to Conducting Fulfillment Investigation and Refunding Ability Accounting and Proposal on Engaging Financial Consultant of Reorganization.

2. The 20th meeting of the 5th Board of Directors was held on Apr. 19, 2004 and the meeting examined and approved Annual Report 2003, Work Report of General Manager, Financial Settling Report 2003, Profit Distribution Plan 2003, Trial Measures on Management of Special Fund of the Board and Proposal on 2003 Conducting Encouragement on Operating Team of the Board.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Apr. 20, 2004.

3. The 21st meeting of the 5th Board of Directors was held on Apr. 26, 2004 and the meeting examined and approved 2004 1st Quarterly Report.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Apr. 27, 2004.

4. The 22nd meeting of the 5th Board of Directors was held on May 28, 2004 and examined and approved Proposal on electing Directors of the 6th Board, Proposal on Wihtdrawing Proportion of Special Fund of the Board, and determined the holding time of 13th (2003 Annual) Shareholders' General Meeting.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated May 29, 2004.

5. The 1st meeting of the 6th Board of Directors was held on Jun. 30, 2004, examined and approved Proposal on Electing Chairman and Vice Chairman of the 6th Board.
The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Jul. 1, 2004.

6. The 2nd meeting of the 6th Board of Directors was held on Aug. 19, 2004, which examined and approved 2004 Semi-annual Report.

7. The 3rd meeting of the 6th Board of Directors was held on Sep. 3, 2004, which examined and approved Proposal on Engaging General Manger of the Company.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Sep. 4, 2004.

8. The 4th meeting of the 6th Board of Directors was held on Oct. 22, 2004, which examined and approved 2004 3rd Quarterly Report of the Company.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Sep. 4, 2004.

9. The 5th meeting of the 6th Board of Directors was held on Nov. 22, 2004, examined and approved Proposal on Engaging Domestic and Overseas Certified Public Accountants Co., Ltd. of the Company in 2004.

The public notice of relevant resolutions was published on Securities Times and Ta Kung Pao dated Nov. 23, 2004.

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

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

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

VII. Profit appropriation plan or preplan of capitalization

As audited by Hong Kong K.C. Oh & Certified Public Accountants Company, the Company suffered lossses amounting to RMB 16,402,000 in 2004 and has neither distribution nor transfer from capital public reserve into share capital. The proposal should be approved by the Shareholders' General Meeting.

VIII. Other issues

(I) Special explanation and independent opinion of independent directors on the Company's accumulated and current external guarantees and guarantees out of line

In compliance with the spirit in China ZJF[2003] No. 56 Document, Circular on Standardizing Listed Companies' Capital Relationships with Related Parties, External Guarantees and Other Several Problems promulgated by CSRC, we, as independent directors of the Company, has seriously inspected the Company's implementation in external guarantee and guarantee out of line and now make the following explanations on relevant problems:

In the report period, the Company did not provide guarantees or guarantees out of line for its controlling shareholder and affiliated enterprises stated in Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Several Problems released by CSRC. Ended Dec. 31, 2004, total accumulative external guarantee of the Company was amounting to RMB 94,618,924.66 and USD 11,740,000. The Company has ever provided guarantees and guarantees out of line for its controlling shareholder and affiliated enterprises. However, it belonged to the problem left in the history. Since majority of guaranteed parties was unable to refund the liabilities, the Company conducted disposal of estimated liabilities to majority of guarantees.

Independent Directors: Yang Lixun, Wang Fuqing, Ma Hong, Zhuang Yuemin

SECTION IX. REPORT OF THE SUPERVISORY COMMITTEE

In the spirit of being responsible to shareholders and strictly according to regulations in PRC Company Law and Articles of Association, the Supervisory Committee has dutifully performed its obligations endowed by relevant laws and legislations, carried out work positively and hard, and safeguarded the legal rights and interests of the Company and shareholders in 2004. It has also put forward its opinions and suggestions promptly towards significant decisions made for productions, management and investment, and supervised the behaviors of directors and senior executives in terms of implementation of their obligations.

I. Work of the Supervisory Committee in the report period

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

1. The 5th meeting of the 4th Supervisory Committee was held on Apr. 19, 2004. The meeting examined and approved Annual Report 2003, Work Report of the General Manager, Financial Final Report 2003, Profit Appropriation Plan 2003, Provisional Measures of the Special Funds Control of the Board and Proposal on Rewarding the Administrative Team of the Company of 2003.

2. The 6th meeting of the 4th Supervisory Committee was held on Sep. 3, 2004 and the meeting examined and approved the Proposal on Hiring a General Manager for the Company.

II. Opinions on relevant issues in 2004 expressed by the Supervisory Committee

1. Operation according to law:

Sticking to relevant national laws and regulations, the Supervisory Committee has carried out supervision work on the holding procedures of Shareholders' General Meetings and Board meetings, resolution, implementation of resolutions of

Shareholders' General Meetings by the Board of Directors, performance of duties of senior executives as well as the Company's administration system etc.; it believes that, in 2004, the Board of Directors strictly complied with PRC Company Law, Securities Law, Rules for Stock Listing, Articles of Association and other relevant regulations and systems, operated in a standardized manner, worked conscientiously, conducted business and made decisions in a scientific and reasonable way, and further improved internal administration and internal control system; the directors and managers haven't violated any laws, regulations, the Articles of Association or done harm to the interests of the Company and shareholders when performing duties.

2. Financial Inspection

In the report period, Hong Kong K.C. Oh & Company Certified Public Accountants issued qualified Auditors' Report for the Financial Statement 2004 of the Company. The Auditors' Report of the Company objectively and truly reflected the financial status and operation achievements of the Company this year.

3. Use of raised funds:

The Company has not raised funds in the report period.

4. Purchases and sales of assets:

In the report period, the Company has no purchases or sales of assets.

5. Opinions towards related transactions

Related transactions conducted by the Company are fair and square, and haven't done harm to the interests of the Listed Company, and there was no insider dealing.

6.Opinoin on the qualified Auditors' Report issued by Hong Kong K.C.Oh & Company Certified Public Accountants

The Supervisory Committee agrees with the explanation of the Board of Directors on the qualified Auditors' Report issued by Hong Kong K.C.Oh & Company Certified Public Accountants.

SECTION X. SIGNIFICATN EVENTS

I. Material lawsuits and arbitrations in the report period:

The Company had no new material lawsuits or arbitrations in the report year; details about the material lawsuits or arbitrations that occurred in the previous years are in the notes of the Financial Statement.

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

III. Significant related transactions in the report period

In the report period, there was no new significant related transaction; details about the significant related transactions that occurred in the previous years are in the notes of Financial Statement.

IV. Significant Contracts and Implementation of Contracts

1. In the report period, the Company has not entrusted, contracted or leased the assets of other companies, nor vice versa.
2. In the report year, the Company had no new offering of guarantee; details about the significant guarantee events that occurred in the previous year are in the notes of financial statement.
3. In the report year, the Company hasn't entrusted any other party to manage assets.
V. Commitment of the Company and the shareholders holding more than 5% equity in the report period or lasting in the report period
The Company or the shareholders holding more than 5% equity had no commitment made in the report period or made in previous period and carried forward to the report period that likely bore significant influence on the operation achievements and financial status of the Company.
VI. Engagement and Disengagement of Certified Public Accountants of the Company
In the report period, the Company engaged Hong Kong K.C.Oh & Company Certified Public Accountants as the domestic audit organization. It has provided auditing services for the Company for 7 years and the Company paid the audit expense amounting to RMB 0.23 million to it in 2004.
VII. In the report period, the Board of Directors of the Company and the directors have not been inspected, given administrative punishment or public criticism by CSRC, or publicly condemned by Shenzhen Stock Exchange.
(VII) Other Significant Events:
In the report period, the Company published the occurred significant events on Securities Times and Ta Kung Pao dated Feb. 5, 2004, and Jan. 4, 2005, and details are as follows:
1. According to YJBT [2004] No. 6 Document issued by the General Office of China Banking Regulatory Commission on Jan. 7, 2004, 11 financial institutions, such as Bank of China, and so on, should stop calculating the interest of the Company for 3 years starting from Jan. 1, 2002, and also exempt all the payable interest (including penalty interest and compound interest) owed by the Company before the day Dec. 31, 2001. The Company has already converted all the payable interest (including penalty interest and compound interest) amounting to RMB 357,993,665.24 owed before Dec. 31, 2001 into "capital reserve". The term during which the financial institutions stopped calculating interest of the Company began on Jan. 1, 2002 and ended on Dec. 31, 2004. On Dec. 31, 2004, the exemption term expired.
2. On Dec. 29 and Dec. 30, 2004, the holding shareholder of the Company China Huarong Asset Management Corporation (hereinafter referred to as Huarong Company) signed a General Agreement of Equity Transfer and a Supplemental Agreement with Shenzhen Julongsheng Industrial Development Co., Ltd. (hereinafter

referred to as Julongsheng Company) respectively. The contents concerning the Company are as follows:

(1) Huarong Company has agreed to transfer the 17,901,588 B-share it indirectly held to Julongsheng Company at the price of RMB 15.2 million. The performance of this agreement is underway.

(2) In case the Company have reached a Liability Reconciliation Agreement with each creditor before Sep. 30, 2005, and also satisfied the following conditions:

A. On the day the Liability Reconciliation Agreement is signed, the total immediate liability of the Company does not exceed the amount agreed by both parties, and also the Company’s net assets are positive;

B. From Jan. 1, 2005 to the day the Liability Reconciliation Agreement reached, no cases of paying debts with capital or with property, which accumulatively take up over 10% of the Company’s total assets stated in the auditing statements of 2004, have ever happened;

C. After the Liability Reconciliation Agreement has been reached, the money, which will be used to solve the financial claims of the Company’s suppliers, paid by Julongsheng Company should be lower than the amount agreed by both parties;

D. After the Liability Reconciliation Agreement has been reached, the funds, which were formerly advanced by Huarong Company on behalf of the Company, excluding privileged debts, Julongsheng Company will pay should be lower than the amount agreed by both parties, and so on.

Huarong Company should transfer the 65,098,412 A-share legal person share, 5,000,000 B-share legal person share, as well as the financial claims of the Company amounting to RMB 27,883,900 and USD 84,797,624.57, to Julongsheng Company, and the price will be the actual amount of debt payment confirmed in the Liability Reconciliation Agreement. Julongsheng Company agrees to the aforesaid equity and liability assignment, and will pay or advance the funds needed in the liability restructure according to the repayment plan set in the Liability Reconciliation Agreement.

(3) Huarong Company agrees to transfer its machinery equipment to Julongsheng Company at the price of RMB 8 million.

SECTION XI. FINANCIAL REPORT

(Please refer to the appendixes)

SECTION XII. DOCUMENTS AVAILABLE FOR REFERENCE

1. Accounting statements carrying the personal signatures and seals of legal representative, person in charge of the accounting affairs and person in charge of the

accounting department.

2. Original of Auditors' Report carrying the seal of the Certified Public Accountants as well as personal signatures and seals of certified public accountants.

3. Originals of all documents and public notices disclosed publicly on the newspapers as designated by China Securities Regulatory Commission in the report period.

4. Annual Report disclosed in other securities markets.

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

Board of Directors of

Shenzhen China Bicycle Company (Holdings) Limited

Chairman of the Board: Zhang Xiaofeng

April 22, 2005

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

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

supplies	Well Gain Enterprise (Shenzhen) Co., Ltd.	PRC	98%	Material
spare part	Shenzhen China Bicycle (Hainan) Distribution Co., Ltd.	PRC	70%	Bicycle and distribution
spare part	Shenzhen China Bicycle (Jiangxi) Distribution Co., Ltd.	PRC	55%	Bicycle and 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	PRC	30%	Manufacture of

Co., Ltd.			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 prepayments

	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.