SHENZHEN LIONDA HOLDING CO., LTD.

(Incorporated in the People' s Republic of China with Limited Liability)

1999 ANNUAL REPORT

Board of Directors

Shenzhen Lionda Holding Co., Ltd.

April 24, 2000

Important Notice

The Board of Directors of the Company individually and collectively accepts responsibility for the correctness, accuracy and completeness of the contents of this report and confirms that there are no material omissions nor errors which would render any statement misleading. K. C. Oh & CompanyCertified Public Accountants issued an auditor's report with explanatory notes, the Board of Directors and the Board of Supervisors of the Company have made specific explanations and investors are reminded to pay attention on this issue.

I. COMPANY INFORMATION

1.	Company Name (Chinese):	**深圳市莱英达集团股份有限公司**
2.	Company Name (English):	SHENZHEN Lionda Holding Co., Ltd. (English Abbreviation): LIONDA
3.	Legal Person Representative:	Mr. Li Chengyou
4.	Secretary of the Board:	Mr. Wei Dan
	Telephone Number:	(0755) 3361666-209
	Fax Number:	(0755) 3361777
	Postal Code:	518031
	E-mail Address:	szlionda@public.szptt.net.cn
5.	Registration Address of the Company:	
		North Huaqiang Road, Shenzhen City, Guangdong Province, China
	Office Address of the Company:	Jiahua Building, Huaqiang Road. North, Shenzhen
	Postal Code:	518031
	E-mail Address of the Company:	szlionda@public.szptt.net.cn

6. Newspapers Selected for Information Disclosure:
Securities Times and Hong Kong Commercial Daily

Web address designated by China Securities Supervision Commission for publishing the Annual Report of the Company: http://www.cninfo.com.cn

Place for keeping the Annual Report: Property Rights and Development Dept. on the third floor of the Company

7. Stock Exchange on which the Company's shares are listed:
Shenzhen Stock Exchange
ST Yingda A (0030)
ST Yingda B (2030)

II. ACCOUNTS AND FINANCIAL HIGHLIGHTS

Shenzhen Lionda Holdings Company Limited

Consolidated profit and loss account for the year ended December 31, 1999

	Notes	1999	1998
		RMB' 000	RMB' 000
Turnover	3	1,011,802	936,433
Cost of sales		(855,110)	(799,186)
Gross profit		156,692	137,247

Other incomes less expenses		(122,431)	(11,564)
Operating profit before abnormal item	5	34,261	125,683
Abnormal item - provision for bad debts		(6,799)	(96,915)
Profit after abnormal item		27,462	28,768
Profit/(loss) from associates		62,683	(153,588)
Profit/(loss) before taxation		90,145	(124,820)
Taxation	6	(10,921)	(3,573)
Profit/(loss) after taxation		79,224	(128,393)
Minority interests		(29,775)	(17,394)
Net profit/(loss) for the year		49,449	(145,787)
Earnings/(loss) per share	8	RMB0.171	RMB(0.505)

Shenzhen Lionda Holdings Company Limited

Consolidated balance sheet as at December 31, 1999

	Notes	**1999**	**1998**
		RMB' 000	**RMB' 000**
Non-current assets			

Property, plant and equipment	9	83,086	80,823
Properties under/held for development	10	6,029	35,592
Intangible assets		-	358
Interests in subsidiaries	11	(350)	300
Interests in associates	12	199,419	261,494
Long-term investments	13	63,975	61,814
Deferred assets		34,415	1,627
		386,574	442,008
Current assets			
Inventories	14	378,850	396,784
Accounts receivable and prepayments		694,089	568,212
Short-term investments, at cost		115	117
Cash and bank balances		167,012	128,674
		1,240,066	1,093,787
Total assets		1,626,640	1,535,795
Capital and reserves			
Share capital	15	288,420	288,420
Reserves	16	(235,809)	(191,684)
		52,611	96,736
Minority interests		45,288	42,275
Current liabilities			
Accounts payable and accrued charges		535,964	420,750
Bank and other loans	20	981,094	972,888
Taxation payable and provision for deferred tax		11,683	3,146

	1,528,741	1,396,784
Total equity and liabilities	1,626,640	1,535,795

The financial statements on pages 3 to 26
were approved by the board of directors
on and
are signed on its behalf by :

Director	**Director**

Shenzhen Lionda Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 1999

	Notes	1999 RMB' 000	1998 RMB' 000
Cash inflow/(outflow) from operating activities	(a)	(12,397)	19,377
Investing activities			
Interest received		34,811	23,655
Interest paid		(73,752)	(104,199)
Purchase of property, plant and equipment		(14,010)	(6,987)
Proceeds from disposal of property, plant and equipment		8,336	43,311
(Increase)/decrease in properties under/held for development		29,563	(30,744)
(Increase)/decrease in intangible assets		358	(277)
Decrease in interests in subsidiaries		650	-
(Increase)/decrease in interests in associates		124,758	(53,983)
(Increase)/decrease in long-term investments		(2,911)	15,902
(Increase)/decrease in deferred assets		(38,514)	6,213
Net cash inflow/(outflow) from investing activities		69,289	(107,109)
Financing	(b)		
Net cash inflow from bank and other loans		8,206	76,837
Net cash outflow from minority interests		(26,762)	(14,340)
Net cash inflow/(outflow) from financing		(18,556)	62,497
Increase/(decrease) in cash and cash equivalents		38,336	(25,235)

Cash and cash equivalents as at beginning of the year	128,791	154,026
Cash and cash equivalents as at end of the year	167,127	128,791
Cash and cash equivalents as at end of the year are represented by :		
Cash and bank balances	167,012	128,674
Short-term investments	115	117
	167,127	128,791

(to be cont' d)

Shenzhen Lionda Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 1999

(cont' d)

(a) Reconciliation of profit/(loss) before taxation to net cash inflow/(outflow) from operating activities

	1999	1998
	RMB' 000	RMB' 000
Profit/(loss) before taxation	90,145	(124,820)
Adjustments for :		
Interest income	(34,811)	(23,655)
Interest paid	73,752	104,199

Depreciation	6,728	9,283
Profit on disposal of property, plant and equipment	(3,317)	(97)
Amortisation of intangible assets	-	13
Provision for permanent diminution in value		
of subsidiaries	-	10,501
(Profit)/loss from associates	(62,683)	153,588
Provision for permanent diminution in value		
of long-term investments	750	5,587
Loss on disposal of long-term investments	-	4,718
Amortisation of deferred assets	5,726	1,827
Provision for diminution in value of		
obsolete inventories	2,476	-
Provision for bad debts	6,799	96,915
(Increase)/decrease in inventories	15,458	(67,678)
Increase in accounts receivable and prepayments	(132,676)	(139,964)
Increase/(decrease) in accounts payable and accrued charges	115,214	(14,886)
Income tax and other taxes paid	(2,384)	(3,062)
Transfer (from)/to reserves	(68)	6,908
Retrospective effect on provision for diminution in		
value of obsolete inventory and bad debts (note 16)	(93,506)	-
Net cash inflow/(outflow) from operating activities	(12,397)	19,377

(b)Cash flows from financing

	Bank and other loans RMB' 000	Minority interests RMB' 000
Balance as at beginning of the year	972,888	42,275
Cash inflow/(outflow) from financing	8,206	(26,762)

Minority interests' share of results	-	29,775
Balance as at end of the year	981,094	45,288

III. CHANGE OF SHARE CAPITAL AND DESCRIPTION OF SHAREHOLDERS

1. Change of Share Capital

Unit: '0000 Shares

		Amount, beginning of 1998	Rights placed	Bonus shares	Shares transferred from public reserve funds	Others	Amount, end of year
(1)	Unlisted Shares						
a)	Promoters' shares:	19,140.00					19,140.00
	State-owned shares	19,140.00					19,140.00
	Domestic entities shares						
	Foreign entities shares						
	Others						
b)	Designated legal person shares	1,716.00					1,716.00
c)	Staff shares						
d)	Preference shares and others						
	Total unlisted shares	20,856.00					20,856.00
(2)	Listed Shares						
a)	A shares	4,026.00					4,026.00
b)	B shares	3,960.00		3,960.00			3,960.00

c)	Foreign entities listed overseas						
d)	Others						
	Total listed shares	7,986.00					7,986.00
(3)	Total Shares	28,842.00					28,842.00

2. Brief Introduction of Top Ten Shareholders of the Company

Unit: ‘0000 Shares

No.	Name of Shareholders	No. of Shares Held	% of Shareholding
1	Shenzhen Municipal Investment Management Co.	19,140.00	66.36
2	Shenzhen Nonferrous Metal Financial Co., Ltd.	708.45	2.46
3	China Ever-bright Holding Co., Ltd.	589.50	2.04
4	Shenzhen International Trust & Investment Co.	528.00	1.83
5	Shenzhen Southern Security Industrial Co., Ltd.	396.00	1.37
6	Shenzhen Guoyin Investment Development Co., Ltd.	264.00	0.90
7	Union Bank of Switzerland	255.00	0.88
8	New Sulzer Diesei Hong Kong Ltd.	113.20	0.4
9	Shenzhen Pingan Insurance Co. (Hong Kong)	96.456	0.33
10	Shum Yip Nonfemet Hong Kong Ltd.	62.39	0.22

3. Shenzhen Municipal Investment Management Company holds the shares on behalf of the State. The company was founded in July 1987, which is the first state-owned assets operating company in China, executing the investor's rights on behalf of the state, responsible for the operation of investment and property rights of the state-owned assets. The legal representative of the company is Mr. Li Heihu.

4. There was no change in the holding shareholder during the reporting period.

5. There were no associated relationships between the above top ten shareholders.

IV. BRIEF INTRODUCTION OF ANNUAL SHAREHOLDERS' MEETING

1. On March 2, 1999 the Board of Directors published an announcement on *Securities Times* of convening the first 1999 Preliminary Shareholders' Meeting (via communication). On April 2, 1999 the meeting convened timely. There were 5 votes in total received (all of them were effective), representing 209,175,000 shares of the Company and 72.52% of the total shareholdings. The meeting reviewed and passed the following resolutions:

1) Proposal for change of directors

(1) Electing, in addition, Mr. Xie Ruxian as the director of the Company.
(2) Accepting the relinquishment of Mr. Lou Xiaoquan from the position of the director of the Company.
(3) Accepting the relinquishment of Mr. Liu Taiping from the position of the director of the Company.

The above resolutions were published on the *Securities Times* on April 3, 1999.

2) Proposal for engagement of Shenzhen Dahua Certified Public Accountants as the auditor to audit the financial settlement of the Company for the year of 1998.

2. The Board of Directors published an announcement on *Securities Times* of convening the Seventh Shareholders' Meeting, on April 20, 1999. The meeting convened timely on June 6, 1999, with a total number of 78 shareholders (including representatives of the shareholders) present at the meeting, holding 204,446,960 shares of the Company and representing 70.89% of the total shareholdings. The meeting reviewed and passed the following resolutions:

(1) Working Report of the Board of Directors, Working Report of the Board of Supervisors

and Financial Working Report;

(2) Proposal for change of directors: due to work transfer, Messrs Hu Yuheng and Chen Pingan relinquished from the positions of the directors;

(3) Proposal on change of supervisors: due to work transfer, Mr. Wang Jizhong and Mrs Ji Tielan resigned from the positions of supervisors. Messrs Hu Yuheng, Wang Hanjun and Liu Chuan took the positions of supervisors;

(4) Proposal on delegation of authorities to the Board of Directors in making final decision on preliminary important issue.

(5) Proposal on engagement of Shenzhen Dahua Certified Public Accountants as the financial consultant of the Company for the year 1999;

(6) Proposal on engagement of Shenzhen Xinda Law Office as the legal consultant of the Company for the year 1999.

The above resolutions were published on *Securities Times* on June 7, 1999.

V. REPORT OF BOARD OF DIRECTORS

1. Operating Business of the Company

1) The Company's Profession and Its Position in this Industry

The Company mainly engages in light industry, other business includes real estate, import & export trades on self-operation & commission basis, bonded trading, restaurant service, storage and leasing etc. The Company also engages in development and production of bicycles of high & middle levels, beers, complex pipes of large bores, tins of two-pieces, vacuum glass, chemical products, plastics, cases and boxes, foods and drinks, clocks & watches of quartz, electrical components, ceramics and medicines. In which “Angle” drinking machine was honoured with the title of *The Most Influential Product Brand for Improving the People’s Life for 20 Years after Adopting the Reforming and Open Door Policy* by the State Statistics Bureau. The output value and profit of ShenRi Printing

Ink Company was increased to a great extent. The compound pipes of large bores produced by Shenzhen Taiyang PCCP Co., Ltd. took the lead in the occupation of domestic market share.

2) Business Recall during the Reporting Period

In 1999, eight out of twenty-eight subsidiaries under the Company had made up the deficits and achieved surpluses by exploring the internal potentialities, the loss ratio had dropped greatly from 51% to 14%. One of the subsidiaries ---- Shenzhen New Era Drinking Science & Technology Co., Ltd. realised a sales income of RMB 940 million with a profit of RMB 75 million, a rising of 95.26% from last year. One of the affiliated enterprises --- Shenzhen China Bicycles Company (Holdings) Ltd. made a breakthrough in its regrouping of its overseas liabilities and a good profit was made. Shenzhen Lionda Development Co., Ltd. realised a profit of RMB 5 million in the first time by standardised management, strict internal control, activating the inventory and reducing production cost. Other enterprises, such as, Meite Co., and Taiyang Piping Co., also made a good profit first time since establishment by strengthening enterprise management and exploring actively the market. Jianda Co., and Oil Co., realized a better operating results as well.

3) Problems and difficulties occurred in the operations and relevant solutions

The major problems and difficulties of the Company in 1999 lies that the liabilities of the Company were still heavy, some of subsidiaries, in particular, the traditional light industry enterprises were still hard in operation with heavy historical burden. For reaching the annual operating target, the following counter-measurements were adopted during the reporting period.

(1) Further strengthen the financial management. In 1999, the Company worked out a strict financial budgetary system, the financial and management cost were decreased to a large extent. A good result was made in regrouping of liabilities, which reduced the financial burden meanwhile, the Company was active in cooperating with the holding enterprise in

the work of “transfer of liabilities to stock capital”. At present, the holding enterprise of the Company has been included in the list of “transfer of liabilities to stock capital” by Shenzhen government, which will be submitted to the State Economic & Trade Commission for approval.

(2) Strengthening the support to the level-two enterprises (with good prospect) in structure adjustment and technical renovation.

(3) Continuously in straightening out some level-two enterprises with poor management.

2. Description on Auditor’s Report by the Board of Directors of the Company.

The reservations in the Auditor's Report issued by K. C. Oh & Company Certified Public Accountants

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited. We were unable to ascertain whether the associates were properly accounted for under equity method because, we, being also auditors of Shenzhen China Bicycle Company (Holdings) Limited [a principal associate], had qualified our report on this associate’s financial statements for the year ended December 31, 1999. The qualification was regarding the effect on this associate’s financial position as a result of the uncertainty on the full recovery of the amounts receivable totalling RMB602,867,000 and the Group had 23.28% share of interest in this associate. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

The Board of Directors hereby make explanations as follows: SZH has declared to the Hong Kong Court for financial claim on Hong Kong (NINK) Bicycles Limited and we will watch closely the progress of liquidation and the disposal of claims by SZH and will report to each member of directors. For the time being, SZH has achieved a great result in regrouping of liabilities with great efforts by all staff and after adjustment of operating team at the beginning of the year. The operation of SHZ is improving gradually and we'll pay close attention to the impact of SZH on the Company.

3. Investment of the Company

1) Use of funds raised during the reporting period

There was no proceeds raised during the reporting period, neither was there any use of proceeds raised from the previous year.

2) Important Projects invested by funds not raised during the reporting period.

Investment of RMB 10.40 million on technical renovation of Metei Drawing machines.

4. Impact on the Company's operation by China's entry into WTO

There will be both favors and harms after China's entry into WTO. Generally speaking, since the Company mainly engages in light industry with certain advantages in international competition, the favors will be larger than the possible harms.

1) Once China enters into WTO, the competition on domestic market will be even sever and it would inevitably impact on the enterprises engaging in producing small domestic electrical appliances under the Company, while the impact will be relatively limited.

2) Once China enters into WTO, the relative holding enterprise ----- Shenzhen China Bicycle (Holding) Ltd. will face great opportunities and it is expected to enlarge its export gradually and re-enter into the international market.

3) Once China enters into WTO, it will be easier for the Company to introduce the latest high technology quickly and expedite the technical renovation on the Company's traditional

industry.

5. 2000 Business Development Plan

In 2000, the Company will try to make a breakthrough in regrouping of liability and assets, deepen the reformation of mechanism and expedite the speed of transformation of the Company as a scientific and technical enterprise. The other measurements include persisting in the famous brand strategy, supporting the profit-making subsidiaries, perfecting the management mode, increasing the core competitiveness and economic profit of the Company.

1) Setting the overall strategic planning and objectives and strengthening renovation & creation.

Building up the new concept of strategic management, intensifying the strategic study, planning and scientific decision, and enhancing the core competitiveness of the Company. Matching closely the hi-tech with traditional dominant industrial products and bringing up famous brand products by means of capital operation. Trying to build the Company as a new-type enterprise group suitable to the market economic system with hi-tech contents and competitiveness by taking Shenzhen as a foothold and facing towards the whole country.

2) Strengthening the work of regrouping of assets and liability, trying to solve the root-cause problems of the Company

On the basis of regrouping of liabilities work last year, the Company will on one hand, co-operate with the creditor bank in doing well "transfer of liability to stock capital" together with the mother company, trying to make a good headway in the year of 2000. On the other hand, the Company will do its best in supporting the holding subsidiary ----- Shenzhen China Bicycle Company (Holdings) Ltd. in further regrouping of its overseas and domestic liabilities. It is aimed to change and optimise the structure of assets liabilities of Shenzhen China Bicycle Company (Holdings) Ltd. and create a good condition for regrouping of assets liabilities of the Company in the future.

With respect to the regrouping of assets, the Company will try to change the problem of ambiguity of ordinary business and optimise the structure of principal industry by means of assets permutation in light of the overall strategic industrial plan. It is aimed to transform the Company into one engaging in the industry with both hi-tech contents and traditional advantages as well as in the public infrastructure industry.

With respect to capital operation, the Company will make great effort in adjusting and optimising the structure of the assets inventory of the Company by means of merger. It is aimed to increase the earning ratio of assets and realise a good circulation that the Company operates in scale with dominant ordinary business, trying to resume the fund-raising function of the Company as soon as possible.

3) Strengthening the adjustment of industry structure and technical renovation, seeking for new profit-making sources from the hi-tech industry as well as renovated traditional industry.

(1) Carrying out decisive measurements, such as, "closedown and transformation" for part of level-two and level-three enterprises with poor competitiveness or engaging in the industry nothing to do with the ordinary business. It is aimed to reconstruct the structure of these enterprises towards the industry with high additional value and good profit by means of regrouping of assets.

(2) Increasing the investment on technical renovation and creation, trying to attract the scientific and technical talents, speeding up the construction of "Lionda Scientific & Technical Development Center" and strengthening the independent R & D ability. Introducing hi-tech projects and seeking for new profit-making sources and laying a solid foundation for further development and upgrading of industrial structure.

6. Description on Daily Work of the Board of Directors

1) Description of Board of Directors' meetings and resolutions made during the reporting period

(1) The first Board of Directors' meeting was held on February 24, 1999, the following resolutions were reviewed and passed:

a) Proposal for change of directors of the Company
b) Proposal for engaging Shenzhen Dahua Certified Public Accountants to audit the financial settlement of the Company for the year 1998.
c) Proposal for convening the Preliminary Shareholders' Meeting on April 2, 1999 (by way of communication).

The above resolutions were published on *Securities Times* and *Hong Kong Wen Hui Po* respectively on March 2, 1999.

(2) The second Board of Directors' meeting was held on April 26, 1999, the following resolutions were reviewed and passed at the meeting:

1998 Work Report of the Company and the Board of Directors decided not to carry out profit distribution nor to transfer of reserves to share capitals.

Proposal for convening the Preliminary Shareholders' Meeting on June 6, 1999

The above resolutions were published on *Securities Times* and *Hong Kong Wen Hui Po* respectively on April 30, 1999.

(3) The third Board of Directors' meeting was held on June 7, 1999, the following resolution was reviewed and passed during the meeting:

Accepting Mr. Hu Yuheng’ s resignation from the position of General Manger because of work transfer and Mr. Xie Ruxian, Deputy General Manager, was delegated with the authority to be in charge of the routine matters of the Company.

The above resolution was published on *Securities Times* and *Hong Kong Wen Hui Po* respectively on June 7, 1999.

(4) The fourth Board of Directors' meeting was held on June 29, 1999, the following resolution was reviewed and passed at the meeting:

For the need of work, Mr. Wei Dan was engaged as the Secretary to the Board of Directors and Li Jiaoyu, was resigned from the position of Secretary to the Board of Directors.

The above resolution was published on *Securities Times* and *Hong Kong Wen Hui Po* respectively on July 16, 1999.

(5) The fifth Board of Directors' meeting was held on August 23, 1999, the following resolutions were reviewed and passed at the meeting:

1999 Interim Work Report.

The meeting decided not to carry out profit distribution nor to transfer of reserves to share capitals.

The above resolutions were published on *Securities Times* and *Hong Kong Wen Hui Po* respectively on August 26, 1999.

2) Implementation of various resolutions of the Annual Shareholders' Meeting by the Board of Directors of the Company

The Board of Directors of the Company has implemented various resolutions made by the Annual Shareholders' Meeting.

7. Description of Management Personnel and the Staff of the Company

1) Directors, Supervisors and Senior Management Personnel:

Unit: Share

No.	Name	Position	Shares, beginning of 1999	Shares, end of 1999
1	Li Chenyou	Chairman of the Board of Directors	0	0
2	Xie Ruxian	Director, Deputy Executive General Manager	0	0
3	Li Qinwen	Director, Deputy General Manager	0	0
4	Tao Xiaochun	Director, Deputy General Manager	0	0
5	Su Zhiming	Director, Chief Financial Supervisor	0	0
6	Lin Lebo	Director	0	0
7	Li Nanfeng	Director	0	0
8	Ke Yixiang	Supervisor	0	0
9	Liu Chuan	Supervisor	0	0
11	Zhu Yongshen	Supervisor	0	0
12	Wang Hangjun	Supervisor	0	0
13	Hu Yuheng	Chairman of Board of Supervisors	16500	0

Li Chenyou, male, aged 52, became the Director and Chairman of the Board of Directors of the Company in 1998 with annual remuneration of about RMB 140,300.

Xie Ruxian, male, aged 37, became the Director in 1999 with annual remuneration of about RMB 104,800.

Li Qinwen, male, aged 52, became the Director of the Company in 1994 with annual remuneration of about RMB 96,900.

Tao Xiaochun, male, aged 55, became the Director of the Company in 1994 with annual remuneration of about RMB 107,300.

Su Zhiming, male, aged 52, became the Director and Chief Financial Supervisor of the Company in 1997 with no annual remuneration.

Lin Lebo, male, aged 39, became the Director of the Company in 1996 with no annual remuneration.

Li Nanfeng, male, aged 47, became the Director of the Company in 1995 with no annual remuneration.

Ke Yixiang, male, aged 58, became the Supervisor of the Company in 1995 with annual remuneration of about RMB 78,800.

Liu Chuan, male, aged 37, became the Supervisor of the Company in 1999 with annual remuneration of about RMB 68,300.

Zhu Yongshen, male, aged 56, became the Supervisor of the Company in 1996 with annual remuneration of about RMB 75,200.

Wang Hangjun, male, aged 34, became the Supervisor of the Company in 1999 with no annual remuneration.

Hu Yuheng, male, aged 57, became the Chairman of the Board of Supervisors of the Company in 1999 with annual remuneration of about RMB 139,500.

2. Change of the General Manager, Directors, Supervisors and Secretary of the Board during the Reporting Period

(1) Mr. Xie Ruxian was elected as the Director and Deputy General Manager of the Company.

(1) Messrs. Lou Xiaoquan and Liu Taiping relinquished from the positions of Directors because of work transfer.

(2) Mr. Hu Yuheng relinquished from the position of the Director and General Manager of the Company due to work transfer. Mr. Xie Ruxian, the Deputy General Manager, was delegated with the authority to be in charge of routine works of the Company.

(3) Mr. Chen Pingan resigned from the position of Director due to work transfer.

(4) Mr. Wang Jizhong and Mrs Ji Tielan resigned from the positions of Supervisors due to work transfer.

(5) Messrs Hu Yuheng, Wang Hangjun and Liu Chuan were elected as the Supervisors of the Company and Mr. Hu Yuheng was elected as the Chairman of the Board of Supervisor.

(6) Mr. Li Jiaoyu resigned from the position of Secretary of the Board due to work transfer. Mr.Wei Dan was engaged as the Secretary of the Board.

8. Preliminary Profit Distribution Plan and Transfer of Reserves to Share Capitals Plan

According to the calculation made by Shenzhen Dahua Certified Public Accountants, the net profit of the Company in 1999 stood at RMB 50.22 million. For the long-term interests of the shareholders, the 1999 profit would be used for making up deficits in the previous years and the Board of Directors of the Company recommended not to make profit distribution nor transfer of reserves to share capitals.

The above proposal will be submitted to Annual Shareholders' Meeting for approval.

9. Other Events

The newspapers selected for the purpose of communicating announcements and events of the Company during the reporting period were *Securities Times* (domestic) and *Hong Kong Wen Wei Po* (overseas).

VI. REPORT OF BOARD OF SUPERVISORS

1. Description of the Board of Supervisors

There were in total four Board of Supervisors' Meetings held in 1999, all members of supervisors attended the meeting.

1) The first meeting was held on March 24, 1999, the meeting discussed the working plan of the Board of Supervisors.

2) The second meeting was held on June 2, 1999, the meeting reviewed and passed the proposal for change of supervisors and elected Messrs. Hu Yuheng, Wang Hangjun and Liu Chuan as the supervisors. The meeting also reviewed and passed the 1998 Work Report of the Board of Supervisors and listened to the operation status report by the operating management.

3) The third meeting was held on June 6, 1999, the meeting elected unanimously Mr. Hu Yuheng as the Chairman of the Board of Supervisors.

4) The fourth meeting was held on December 24, 1999, the meeting discussed the 1999 working summary and 2000 working plan and listened to the operation status report by the

operating management as well.

5) In 1999, the member of Board of Supervisors attended all meetings held by the Board of Directors of the Company.

2. Legal operation of the Company in accordance with the law

The Board of Supervisors executed seriously the functions of the Board of Supervisors and performed strict supervision on various operations of the Company. The Board of Supervisors considered that the Company operated strictly in accordance with the *Laws of the Company* and improved continuously. There was no offence against laws, regulations and the *Articles of Association of the Company* nor action detrimental to the interests of the Company observed when the directors and managers performed their duties.

3. Examination on the Financial Position of the Company

The Board of Supervisors examined the financial position of the Company. With respect to the reservations in the Auditor's Report issued by Shenzhen Dahua Certified Public Accountants, the Board of Supervisors considered that the Financial Report of the Company reflected the true financial position and the operating results. The Board of Supervisors agreed with the explanations on reservations in the Auditor's Report by the Board of Directors of the Company.

4. During the reporting period, the affiliated transactions were fair and reasonable and there were no actions detrimental to the rights and interests of the Company.

VII IMPORTANT EVENTS

1. Litigation and Arbitration of Material Importance

1) At present, part of litigation cases disclosed in the 1998 Annual Report and 1999 Interim Report remain outstanding. The Company has been active in coordinating and negotiating with relevant departments since then, trying to solve the outstanding cases. Some progress were made as follows:

(1) As for the case that Shanghai Lionda Real-estate Co., a subsidiary of the Company sued by China Chemical Engineering No. 6 Construction Company for payment overdue, both parties were negotiating a proposal for amicable settlement at the end of 1999.

(2) In the second half of 1999, Shenzhen Light Industry Import & Export Co., Ltd., a subsidiary of the Company won the lawsuit in the first instance, which was sued by Mr. Yu Binwen for the amount overdue. Mr. Yu Bingwen has appealed to the court again and the second instance is now under way.

(3) At the end of 1999, the Company won the lawsuit against Huiyang Jinhui Enterprise Development for amount overdue. The verdict is now under execution.

2) Litigation occurred during the reporting period

In the second half of 1999, the Company provided a guarantee of USD 2,620,890 for Shenzhen China Bicycle (Holdings) Co., Ltd. and the Company was sued by Society Generale, Shenzhen Branch for payment overdue. At the end of 1999, Shenzhen China Bicycle (Holdings) Co., Ltd. succeeded in regrouping of its overseas liabilities, the case was settled amicably. The Company agrees to provide continuously conditional guarantees for Shenzhen China Bicycle (Holdings) Co., Ltd. but they should provide counter guarantee for the Company.

2. Change of Directors , Supervisors and General Manager

1) Messrs Hu Yuheng and Chen Pingan resigned from the position of directors due to work

transfer and Mr. Xie Ruxian was elected as the director of the Company.

2) Mr. Wang Jizhong and Mrs. Ji Tielan resigned from the position of supervisors due to work transfer and Messrs Hu Yuheng, Wang Hangjun and Liu chuan were elected as supervisors and Hu Yuheng as the Chairman of Supervisor.

3) Mr. Hu Yuheng resigned from the position of General Manager due to work transfer and Mr. Xie Ruxian, the deputy general Manager was in charge of routine work.

4) Mr. Li Jiaoyu resigned from the position of Secretary to the Board of Directors and Mr. Wei Dan was engaged as the Secretary to the Board of Directors.

3. Important Affiliated Transactions

1) Shenzhen New Era Drinking Science & Technology Co., Ltd. a level-two subsidiary of the Company sold water purifiers to its associated company ---- Shenzhen Angel Electrical Co., Ltd., with total amount of RMB 813,256,377.72.

2) The Company received guarantee fees and interests of RMB 7,379,640 from Shenzhen Bicycle Company (Holdings) Ltd. an associated enterprise of the Company.

4. Engagement, Change or Dismissal of the Certified Public Accountants

The Company re-engaged Shenzhen Dahua Certified Public Accountants as the auditor to audit the financial reports of the Company during the reporting period.

5. Description on separation of personnel, assets and finance between the Company and the holding shareholder:

(1) The Company was separated clearly from the holding shareholder in the management of personnel, assets and finance and had an independent system of personnel and finance with

complete assets. With respect to the relationship between the Company and the associated companies: at the beginning of 1999, the Company carried out rectification in scale for the key associated company ---- Shenzhen China Bicycles (Holdings) Ltd. (hereafter "SZH"). For executing effectively the rights and obligations of a large shareholder, the Company assigned chief financial supervisor to SZH to carry out reformation and rectification and straight out the relationship between the Company and SZH at the same time. The Company is planned to deal with properly the positions of financial personnel per the principle of "Separation of Personnel, Assets and Finance" after normal operation and management of SZH.

(2) The Company had complete assets and had established an independent system of "production, supply and sales". The holding shareholder was not engaged in production of same products as the Company and there was not competition between the two.

(3) The Company had an independent financial department and had established an independent accounting system with standard and independent financial system as well as financial management system for the branch companies and subsidiaries. The Company had an independent account number in the bank and didn't share it with the holding shareholders. Each month, the Company paid the tax independently per the law.

6. Important contracts (guarantees) and its implementation: As for details, please refer to notes No. 9 "Contingent Events" to the financial statements.

7. Impact on Company financial status by the change of account policy and accounting estimation:

According to the new accounting standards and the stipulations laid down in the document Cai Kuai No. 35 (1999) by the Ministry of Finance, some impacts were made on the financial positions of the Company as follows:

1) Retroactive adjustment of a total amount of RMB 93.51 million made to the figures at the

beginning of the period, a big impact was made on the net assets before and after adjustment since the associated company, Shenzhen China Bicycle (Holdings) Ltd. has implemented retroactive adjustment.

2) The Company had allocated a total of RMB 8.03 million to provision for special bad debts in light of the actual situation, therefore, certain impact was made on the financial status of the Company for the reporting period.

3) An amortization of RMB 4.17 million was made to the balance of stock rights investment to be amortized, which exerted some impact on the financial status of the Company as well.

8. During the report period, the directors and the senior management personnel were not engaged in any deeds, which were punished by supervisory department.

9. Description on change of the Company name or shares name in abbreviation during the reporting period:

   There was no change of the company name nor the shares name in abbreviation during the reporting period.

10. For important affiliated transactions, please refer to the notes to financial statements.

VIII. FINANCIAL REPORT

Report of the auditors to the members of

Shenzhen Lionda Holdings Company Limited

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

We have audited the financial statements on pages 3 to 26 which have been prepared in accordance with International Accounting Standards.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited. We were unable to ascertain whether the associates were properly accounted for under equity method because, we, being also auditors of Shenzhen China Bicycle Company (Holdings) Limited [a principal associate], had qualified our report on this associate's financial statements for the year ended December 31, 1999. The qualification was regarding the effect on this associate's financial position as a result of the uncertainty on the full recovery of the amounts receivable totalling RMB602,867,000 and the Group had 23.28% share of interest in this associate. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

(to be cont'd)

Qualified opinion

Except for the equity method of accounting as mentioned above, in our opinion, the financial statements give a true and fair view of the state of the Group's affairs as at December 31, 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with International Accounting Standards.

K. C. Oh & Company
Certified Public Accountants

Hong Kong :

Shenzhen Lionda Holdings Company Limited

Consolidated profit and loss account for the year ended December 31, 1999

	Notes	1999 RMB' 000	1998 RMB' 000
Turnover	3	1,011,802	936,433
Cost of sales		(855,110)	(799,186)
Gross profit		156,692	137,247
Other incomes less expenses		(122,431)	(11,564)
Operating profit before abnormal item	5	34,261	125,683
Abnormal item - provision for bad debts		(6,799)	(96,915)
Profit after abnormal item		27,462	28,768
Profit/(loss) from associates		62,683	(153,588)
Profit/(loss) before taxation		90,145	(124,820)
Taxation	6	(10,921)	(3,573)
Profit/(loss) after taxation		79,224	(128,393)
Minority interests		(29,775)	(17,394)
Net profit/(loss) for the year		49,449	(145,787)
Earnings/(loss) per share	8	RMB0.171	RMB(0.505)

Shenzhen Lionda Holdings Company Limited

Consolidated balance sheet as at December 31, 1999

	Notes	1999	1998
		RMB' 000	RMB' 000
Non-current assets			
Property, plant and equipment	9	83,086	80,823
Properties under/held for development	10	6,029	35,592
Intangible assets		-	358
Interests in subsidiaries	11	(350)	300
Interests in associates	12	199,419	261,494
Long-term investments	13	63,975	61,814
Deferred assets		34,415	1,627
		386,574	442,008
Current assets			
Inventories	14	378,850	396,784
Accounts receivable and prepayments		694,089	568,212
Short-term investments, at cost		115	117
Cash and bank balances		167,012	128,674
		1,240,066	1,093,787
Total assets		1,626,640	1,535,795
Capital and reserves			
Share capital	15	288,420	288,420
Reserves	16	(235,809)	(191,684)
		52,611	96,736
Minority interests		45,288	42,275
Current liabilities			
Accounts payable and accrued charges		535,964	420,750
Bank and other loans	20	981,094	972,888

Taxation payable and provision for deferred tax	11,683	3,146
	1,528,741	1,396,784
Total equity and liabilities	1,626,640	1,535,795

The financial statements on pages 3 to 26
were approved by the board of directors
on and
are signed on its behalf by :

Director **Director**

Shenzhen Lionda Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 1999

	Notes	1999 RMB'000	1998 RMB'000
Cash inflow/(outflow) from operating activities	(a)	(12,397)	19,377
Investing activities			
Interest received		34,811	23,655
Interest paid		(73,752)	(104,199)
Purchase of property, plant and equipment		(14,010)	(6,987)
Proceeds from disposal of property, plant and equipment		8,336	43,311
(Increase)/decrease in properties under/held for development		29,563	(30,744)
(Increase)/decrease in intangible assets		358	(277)
Decrease in interests in subsidiaries		650	-
(Increase)/decrease in interests in associates		124,758	(53,983)
(Increase)/decrease in long-term investments		(2,911)	15,902
(Increase)/decrease in deferred assets		(38,514)	6,213
Net cash inflow/(outflow) from investing activities		69,289	(107,109)
Financing	(b)		

Net cash inflow from bank and other loans	8,206	76,837
Net cash outflow from minority interests	(26,762)	(14,340)
Net cash inflow/(outflow) from financing	(18,556)	62,497
Increase/(decrease) in cash and cash equivalents	38,336	(25,235)
Cash and cash equivalents as at beginning of the year	128,791	154,026
Cash and cash equivalents as at end of the year	167,127	128,791
Cash and cash equivalents as at end of the year are represented by :		
Cash and bank balances	167,012	128,674
Short-term investments	115	117
	167,127	128,791

(to be cont' d)

Shenzhen Lionda Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 1999

(cont' d)

(b) Reconciliation of profit/(loss) before taxation to net cash inflow/(outflow) from operating activities

	1999	**1998**
	RMB' 000	**RMB' 000**
Profit/(loss) before taxation	90,145	(124,820)
Adjustments for :		
Interest income	(34,811)	(23,655)
Interest paid	73,752	104,199
Depreciation	6,728	9,283
Profit on disposal of property, plant and equipment	(3,317)	(97)
Amortisation of intangible assets	-	13
Provision for permanent diminution in value		

of subsidiaries	-	10,501
(Profit)/loss from associates	(62,683)	153,588
Provision for permanent diminution in value of long-term investments	750	5,587
Loss on disposal of long-term investments	-	4,718
Amortisation of deferred assets	5,726	1,827
Provision for diminution in value of obsolete inventories	2,476	-
Provision for bad debts	6,799	96,915
(Increase)/decrease in inventories	15,458	(67,678)
Increase in accounts receivable and prepayments	(132,676)	(139,964)
Increase/(decrease) in accounts payable and accrued charges	115,214	(14,886)
Income tax and other taxes paid	(2,384)	(3,062)
Transfer (from)/to reserves	(68)	6,908
Retrospective effect on provision for diminution in value of obsolete inventory and bad debts (note 16)	(93,506)	-
Net cash inflow/(outflow) from operating activities	(12,397)	19,377

(b)Cash flows from financing

	Bank and other loans RMB' 000	Minority interests RMB' 000
Balance as at beginning of the year	972,888	42,275
Cash inflow/(outflow) from financing	8,206	(26,762)
Minority interests' share of results	-	29,775
Balance as at end of the year	981,094	45,288

1. Corporate information

Shenzhen Lionda Holdings Company Limited (the "Company") is established in the People's Republic of China (the "PRC") as a joint stock limited company. The principal activity of the Company is investment holding and the principal activities of the subsidiaries and associates (which together with the Company comprise the "Group") are set out in note 19.

2. Principal accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") as if those standards had been applied consistently throughout the year. This basis of accounting differs from the statutory accounts of the Group which are in accordance with the accounting principles and the relevant financial regulations applicable to enterprises in the PRC.

(b) Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and its subsidiaries made up to December 31, 1999 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 accounted for from or to their effective dates of acquisition or disposal respectively. All significant intra-group transactions and balances are eliminated on consolidation.

(c) Subsidiaries

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.

(d) Associates

An associate is a company, not being a subsidiary, in which the Company holds, directly or indirectly, not less than 20% or 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.

2. Principal accounting policies (cont' d)

(e) 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.

(f) 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 the consolidated profit and loss account 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.

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

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 :

Leasehold land under	
- Long-term lease	Nil
- Medium or short-term lease	Over the remaining lease term
Buildings	20 to 35 years
Plant and machinery	5 to 10 years
Office equipment	5 years
Motor vehicles	5 years

(g) 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/deferred assets, and depreciation/amortisation commences when the assets are ready for their intended use.

2. Principal accounting policies (cont' d)

(h) Properties under/held for development

Properties under/held for development are stated at cost less foreseeable losses. Costs comprise land cost, construction cost, direct attributable overheads and interest cost capitalised during the period of development.

(i) Patents and trademarks

The initial cost of acquiring patents and trademarks is capitalised and amortised over a period of not less than ten years in equal annual instalments. The cost of renewing patents and trademarks is charged to the consolidated profit and loss account.

(j) Investments

Investments, whether they are held on a long-term or a short-term basis, are stated at cost less provision for any permanent diminution in value considered necessary by the directors.

Income from investments is accounted for to the extent of dividend and/or interest income received or receivable.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated on weighted average basis. Net realisable value represents the estimated selling price less all estimated cost to completion and cost to be incurred in marketing, selling and distribution.

(l) Properties held for sale

Properties held for sale are treated as current assets and are stated at the lower of cost and net realisable value. Cost comprises land cost, construction cost, direct attributable overheads and interest cost capitalised during the period of development. Net realisable value represents the estimated selling price less related expenses.

2. Principal accounting policies (cont' d)

(m) Pre-operating expenses

Pre-operating expenses represent those expenses incurred prior to the commencement of full operations of a new business operation which have been necessarily incurred in placing the business in a suitable condition to receive and process orders on a commercial basis. As such, these expenses have been capitalised and are being written off, using the straight line method, over a period of five years from the date of commencement of full operations.

(n) Revenue recognition

Revenue is recognised when it is probable that the benefits will flow to the Group and when the revenue can be measured reliably.

Sales of goods

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

Sales of properties under development are recognised when the properties developed for sale are sold in advance of completion and the outcome of projects can be ascertained with reasonable certainty by reference to the construction progress. Profit is recognised over the course of the development after taking into account of allowance for contingencies.

Sales of properties are recognised when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer.

Interest income from bank deposit is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment is established.

(o) Capitalisation of borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are 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 those assets. Borrowing costs not eligible for capitalisation are recognised as an expense in the period in which they are incurred. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

2. Principal accounting policies (cont'd)

(p) Operating leases

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

(q) 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 at 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 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.

(r) Cash equivalents

Cash equivalents represent short-term highly liquid investments that have insignificant risk of changes in value.

3. Turnover and revenue

Turnover represents net invoiced value of goods sold and services supplied, net of trade discount, returns and other allowances to third parties. Turnover is stated net of value added tax and business tax.

An analysis of the Group's turnover and revenue is as follows :

	1999	**1998**
	RMB'000	**RMB'000**
Turnover - net invoiced value	1,011,802	936,433
Interest income	34,811	23,655
Total income	1,046,613	960,088

4. Segment analysis

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

	1999	**1998**
	RMB'000	**RMB'000**
Turnover		

Sale of goods	934,656	911,334
Sale of properties	77,146	25,099
	1,011,802	936,433
Profit/(loss) before taxation		
Sale of goods less direct cost	140,527	138,236
Sale of properties less direct cost	21,022	7,422
	161,549	145,658
Financial and operating expenses	(134,087)	(294,133)
Investment and other incomes	62,683	23,655
	90,145	(124,820)
Net assets		
Sale of goods and properties	52,611	96,736

All of the Group's turnover and operating results are derived in the PRC where all of its operating assets are located.

5. Operating profit before abnormal item

	1999 RMB'000	1998 RMB'000
The group's operating profit before taxation is arrived at after crediting :		
Interest income	34,811	23,655
Profit on disposal of property, plant and equipment	3,317	97
Rental income	620	630

And after charging :

Amortisation of deferred assets	5,726	1,827
Amortisation of intangible assets	-	13
Depreciation	6,728	9,283
Exchange loss	794	32
Interest expenses	73,752	104,199
Loss on disposal of long-term investments	-	4,718
Provision for diminution in value of obsolete inventories	2,476	-
Provision for permanent diminution in value of long-term investments	750	5,587
Provision for permanent diminution in value of subsidiaries	-	10,501
Rental expenses	1,501	360

6. Taxation

	1999 RMB' 000	1998 RMB' 000
Income tax		
- Company and subsidiaries	10,921	3,573
- Associates	-	-
	10,921	3,573

The amount of taxation in the consolidated balance sheet represents PRC income tax provision less tax paid during the year.

7. Appropriations

	1999 RMB' 000	1998 RMB' 000
Transfer to reserves		
- Statutory surplus reserve	-	4,598

- Statutory public welfare fund	4,268	1,440
- Discretionary surplus reserve	3,049	817
	7,317	6,855

Pursuant to the relevant laws and regulations of the PRC, a joint stock limited company is required to make certain appropriations to reserves from its net profit after taxation determined in accordance with the PRC accounting standards.

The directors of the Company propose to make transfers from the profit after taxation, ascertained in accordance with the PRC accounting standards at the following percentages :

	1999	**1998**
Statutory surplus reserve	10%	10%
Statutory public welfare fund	5%	5%

The profit distributable to shareholders is calculated based on the lower of the aggregate of the current year's net profit after taxation (after transfers to statutory surplus reserve and statutory public welfare fund) and the retained profit brought forward, prepared under the PRC accounting standards or International Accounting Standards.

The directors do not propose the payment of dividend in respect of the year ended December 31, 1999.

8. Earnings/loss per share

Earnings/loss per share is calculated by dividing the profit for the year attributable to shareholders of RMB49,449,000 (1998 - loss of RMB145,787,000) by 288,420,000 shares in issue during the year.

9. Property, plant and equipment

	Land and buildings RMB' 000	Plant and machinery RMB' 000	Office equipment RMB' 000	Motor vehicles RMB' 000	Total RMB' 000
Cost					
As at January 1, 1999	130,398	31,359	8,543	20,810	191,110
Additions	13,068	494	-	448	14,010
Disposals	(3,819)	(1,093)	(913)	(1,011)	(6,836)
As at December 31, 1999	139,647	30,760	7,630	20,247	198,284
Accumulated depreciation					
As at January 1, 1999	(67,842)	(22,714)	(5,412)	(14,319)	(110,287)
Charged for the year	(3,815)	(952)	(968)	(993)	(6,728)
Eliminated on disposals	317	632	102	766	1,817
As at December 31, 1999	(71,340)	(23,034)	(6,278)	(14,546)	(115,198)
Net book value					
As at December 31, 1999	68,307	7,726	1,352	5,701	83,086
As at December 31, 1998	62,556	8,645	3,131	6,491	80,823

10. Properties under/held for development

	1999 RMB' 000	1998 RMB' 000
Cost	2,771	32,334
Interest capitalised	3,258	3,258
	6,029	35,592

11. Interests in subsidiaries

	1999 RMB' 000	1998 RMB' 000
Cost of subsidiaries not consolidated *	26,698	24,529
Amounts due to subsidiaries not consolidated *	(2,819)	-
Provision for permanent diminution in value	(24,229)	(24,229)
	(350)	300

* *The subsidiaries are not consolidated as the Group has restrictions on their control*

12. Interests in associates

	1999 RMB' 000	1998 RMB' 000
Capital contributions, at cost minus amortised goodwill	455,693	448,070
Share of post-acquisition results	(256,274)	(186,576)
Share of net assets of associates	199,419	261,494

13. Long-term investments

	1999	1998
	RMB'000	RMB'000
"A" shares of companies listed in the PRC, at cost	3,055	3,042
Other unlisted equity investments, at cost	70,203	67,305
	73,258	70,347
Provision for permanent diminution in value	(9,283)	(8,533)
	63,975	61,814

14. Inventories

	1999	1998
	RMB'000	RMB'000
Raw materials	84,511	19,568
Work in progress	265	6,434
Finishedgoods	35,559	42,100
Properties held for sale	258,515	328,682
	378,850	396,784

15. Share capital

	1999	1998
	RMB'000	RMB'000
Registered, issued and fully paid, at par value of RMB1 each		
208,560,000(1998-208,560,000)domesticshares	208,560	208,560

40,260,000(1998-40,260,000)“A”shares	40,260	40,260
39,600,000 (1998 - 39,600,000) “B” shares	39,600	39,600
	288,420	288,420

16. Reserves

	Capital reserve RMB' 000	Statutory surplus reserve RMB' 000	Statutory public welfare fund RMB' 000	Discretionary surplus reserve RMB' 000	Accumulated loss RMB' 000	Total RMB' 000
As at beginning of the year	298,217	75,332	10,012	36,183	(611,428)	(191,684)
Premium from exchange of shares held by employees	56	-	-	-	-	56
Profit for the year	-	-	-	-	49,449	49,449
Appropriation - for current year	-	-	4,268	3,049	(7,317)	-
Over-appropriation in prior years charged as expenses	-	(11)	(6)	(107)	-	(124)
Retrospective effect on provision for diminution in value of obsolete inventory and bad debts *	-	-	-	-	(93,506)	(93,506)
As at end of the year	298,273	75,321	14,274	39,125	(662,802)	(235,809)

According to the Company' s Articles of Association and the PRC' s relevant laws and policies, 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. The Company is also required to transfer 5% to 10% 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 the statutory surplus reserve may be used to make up loss; and

ii a reserve 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 new 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 may be paid.

* The Group determined to make provisions of RMB82,795,000 and RMB10,711,000 in respect of certain obsolete inventories and long outstanding balances respectively. The directors consider that such provisions should be made retrospectively when there was certainty in diminution in value of the inventories and the recovery of debts was found to be remote. The directors also consider that it is more appropriate to account for these provision losses directly in the reserve, instead of through the current year’ s operating results.

17. Related party transactions

(a) In the ordinary course of business, the amounts due from/to related companies as at the balance sheet date are disclosed as follows :

	1999 RMB' 000	1998 RMB' 000
Amounts due from		
- Holding companies	136,228	21,353
- Subsidiaries not consolidated	31,702	35,382
- Associates	127,260	111,445
- Other related companies	84,371	70,900
	379,561	239,080
Amounts due to		
- Holding companies	230,575	99,939
- Subsidiaries not consolidated	4,097	3,500
- Associates	26,690	31,356
- Other related companies	34,991	34,991
	296,353	169,786

(b) (i) Sales

During the year, the Group sold inventories of RMB813,256,000 (1998 - RMB663,449,000) to Shenzhen Angel Electric Appliance Company Limited, a director of which is also a director of the Group.

(ii) Loan guarantee service charge and interest income

During the year, the Group received service charge and interest income of RMB7,380,000 (1998 - RMB14,537,000) from its associate, Shenzhen China Bicycle Company (Holdings) Limited in relation to the loan guarantees made.

(iii) Guarantees

As at December 31, 1999, the Group had guarantees on banking facilities granted to associates amounting to RMB1,433,000,000 (1998 - RMB1,611,000,000).

18. Pledge of assets

As at December 31, 1999, the Group had pledged its building with a net book value of RMB11,755,000 and 40,308,590 "A" shares of Shenzhen China Bicycle Company (Holdings) Limited and 30,000,000 "A" shares of Shenzhen Lionda Holdings Company Limited to banks to secure general banking facilities.

19. Principal subsidiaries and associates

The details of the principal subsidiaries are as follows :

Name	Place of establishment/ operation	Attributable equity interest	Principal activity
Shenzhen Paper Making Co.	PRC	100%	Manufacturing paper productsand printingmachinery
Shenzhen Lionda Food Industrial Co.	PRC	100%	Production of fruit jelly, jelly sweets and high strength agar
Shenzhen Lionda Materials Import & Export Co.,	PRC	100%	Import and export of printing material,

Limited			machinery,chemical products, clothing, silk and shoes
Shenzhen Lionda and Development Co. Limited	PRC	100%	Property development management
Shenzhen New Era Drinking Water Science & Technology Co. Ltd.	PRC	51	Design and production of waterpurifyingdevices
Shenzhen Lucky C. & B. Industrial Co. Limited	PRC	100%	Design and production of luggage cases
Shenzhen Lionda Electrical Equipment Co. Limited	PRC	100%	Production of vacuum flasks and home electrical fans
Shenzhen Lionda Time Industrial Co. Limited	PRC	70%	Production of watches, clocks and parts
Shenzhen Dushibao Reproduction Co. Ltd.	PRC	100% *	Trading of junk
Shenzhen Lionda Light Textile Chemical Industrial Company Limited	PRC	100%	Trading, import and export

19. Principal subsidiaries and associates (cont' d)

The details of the principal subsidiaries are as follows : (cont' d)

Name	Place of establishment/ operation	Attributable equity interest	Principal activity
Shanghai Lionda Industrial Co. Ltd.	PRC	100%	Trading in light industrial products
Shenzhen Paper Manufacturing & Processing Factory	PRC	100%	Paper processing
Shenzhen Lionda Electronic oven Manufacturing Factory	PRC	100%	Production of electric and metal products
Shenzhen Xin Qi Beverage Co. Ltd.	PRC	75% *	Production of fruit juice products and pudding
Shanghai Kengde Property Co. Ltd.	PRC	90%	Property development and management
shanghai Lioyin Property Development Co. Ltd.	PRC	55%	Property development and management and trading of constructionmaterials
Shanghai Qingda Property	PRC	100% *	Property development,

Co. Limited			trading and rental investment
Shenzhen Light Industrial light Import & Export Co.	PRC	100% *	Import and export of industrial products
Shenzhen Lionda Hunan trading Branch	PRC	100% *	Import and export

* *Not required to be consolidated as the company has not yet commenced the business, ceased the business or is under liquidation*

19.Principal subsidiaries and associates (cont' d)

The details of the principal associates are as follows :

Name	Place of establishment/ operation	Attributable equity interest	Principalactivity
Dongguan Shen Lian Paper Manufacturing Co. Ltd.	PRC	50%	Production and trading paper products
Shenzhen Haojun Investment Co. Ltd.	PRC	40%	Business investment
Shenzhen China Bicycle Company (Holdings) Limited	PRC	23.28%	Productionand assembly ofbicycles,and bicycle parts, accessories and fitness bicycles
Shenzhen Goodyear Enterprise Holdings Co. Ltd.	PRC	34.85%	Packaging
Shenzhen Enamelware Enterprise Co. Ltd.	PRC	20.33%	Productionofenamelware
Shenzhen Jianda Machinery Co. Ltd.	PRC	20%	Production of plastic injection machineries, etc.
Shenzhen Jialu Hotel	PRC	50%	Hotel operations
Shenzhen Lionda Bao Shui Trading Co. Ltd.	PRC	30%	Trading
Shenzhen Silverpearl Plastic Products Co. Ltd.	PRC	45%	Productionof plastic foam products, etc.
Shenzhen Golden Bell Batteries Co. Ltd.	PRC	40%	Production of dry batteries Andelectronic products

19. Principal subsidiaries and associates (cont' d)

The details of the principal associates are as follows : (cont' d)

Name	Place of establishment/ operation	Attributable equity interest	Principal activity
Shenzhen Guanghua Insulating Glass Engineering Co.	PRC	25%	Productionandinstallation of insulating glass
Shenzhen M.C. Packaging Co. Ltd.	PRC	40%	Production of packing container
Shenzhen Anmiz Watch & Clock Co. Ltd.	PRC	30%	Production of watches, clock parts, counters and meters
Shenzhen Gaokeda Electronic Co. Ltd.	PRC	30%	Production of HDSL transmission lines
Shenzhen Taiyang TCCP Co. Ltd.	PRC	34%	Production, transportation and installation of steel, concrete tube
Shenzhen Dong Xiang Electric Enterprise Co. Ltd.	PRC	25%	Trading of electronic parts
Shenzhen Lionda Industrial Trading Co. Ltd.	PRC	32%	Importand exporttrading and property management
Yueshen Light Industry Trading Co.	PRC	50%	Import and export of food and textiles
Shanghai Qingpu Yinda Property Development Company	PRC	30%	Property development
Shenzhen Yinzhizuo Club	PRC	50%	Provide law consultant service and restaurant

19. Principal subsidiaries and associates (cont' d)

The details of the principal associate are as follows : (cont' d)

Name	Place of establishment/ operation	Attributable equity interest	Principal activity
American Xinhua Foods Industrial Co. Ltd.	USA	40%	Production of fruit jelly
Hunan Shenli Special Alloy Co. Ltd.	PRC	45%	Production of hard alloy ware
Shenyang Lionda Timer Industrial Co. Ltd.	PRC	50%	Production of watch

Note : Certain company names of the subsidiaries and associates are direct translation of their Chinese registered names

20. Bank and other loans

	1999 RMB' 000	1998 RMB' 000	
Short-term loans from banks	847,031	865,946	
Others		134,063	106,942
	981,094	972,888	

All bank loans are either secured or guaranteed by the companies within the Group and/or the related companies.

Other loans are unsecured.

21. Holding company and ultimate holding company

The holding company is Shenzhen Lionda Holdings Limited Liability Company. In the opinion of the directors, the ultimate holding company of the Group is Shenzhen Investment Administrative Company, a state-owned enterprise established in the PRC.

22. Contingent liabilities

As at December 31, 1999, the Group had the following contingent liabilities :

	1999 RMB'000	1998 RMB'000
Potential liability from court action in relation to the guarantees given by the Group	644,610	591,422
Guarantees to financial institutions in respect of the Group's facilities	1,948,835	1,868,728
	2,593,445	2,460,150

23. Impact of IAS adjustments on profit/(loss) attributable to shareholders

	1999 RMB'000	1998 RMB'000
As reported by PRC Certified Public Accountants	50,222	(408,209)
Adjustments to conform to IAS :		
Write-back for doubtful debts	-	128,482
Write-back for diminution in value of obsolete inventories	-	18,673
Share of results of associates	-	28,233
Deferred assets written back	-	22,218
Deferred expenses written off	(781)	(1,692)
Contingent loss on assets written back	7	2,227
Provision for permanent diminution in value of long-term investments written back	-	3,585
Write-back for goodwill arising on consolidation	-	825
Write-back for upward valuation in associates	-	5,296
Cost of property sold	-	(10,670)
Adjustments for debtors and creditors	-	(7,914)
Capitalised interest on investments	-	73,795
Effect on minority interests	-	(1,688)
Others	1	1,052
As restated in conformity with IAS	49,449	(145,787)

24. Impact of IAS adjustments on net assets

	1999 RMB'000	1998 RMB'000
As reported by PRC Certified Public Accountants	57,686	101,038
Adjustments to conform to IAS :		
Share of results of associates	(3,153)	(3,153)
Amortisation of deferred expenses	(2,473)	(1,692)
Contingent loss on assets written off	-	(7)
Write-back for goodwill arising on consolidation	550	550
Others	1	-
As restated in conformity with IAS	52,611	96,736

25. Comparative figures

Certain comparative figures have been reclassified so as to conform to the current year's presentation.

IX OTHER RELEVANT INFORMATION

1. The Original Registration Date and Place of the Company:

Registration Date: March 3, 1994

Registration Place: North Huaqiang Road, Shenzhen City, Guangdong Province, China

2. Change of Registration of the Company

Registration Date: December 15, 1998

Registration Place: North Huaqiang Road, Shenzhen City, Guangdong Province, China

Company's Legal Person Business License Code: 4400001001658

3. Taxation Registration Code: 44030452020004

4. Registration Institution of Unlisted Shares of the Company:

Shenzhen Stock Registrar Co., Ltd.

5. Name and place of the certified public accountants engaged by the Company
Shenzhen Dahua Certified Public Accountants
Office Address: Shenfang Mansion, North Huaqiang Road, Shenzhen City

X. DOCUMENTS FOR REFERENCE

1. Financial statements signed and sealed by the legal person representative and the chief accountant and person in charge of accounting;

2. Original copy of the Auditors' Report signed and sealed by the certified public accountants and certified accountant.

3. Original copy of all the documents and announcements that were published on the newspapers designated by China Securities Supervisory Commission.

The Company will provide timely the above-mentioned documents for reference in case China Securities Supervision Commission, the Stock Exchange and the shareholders require in accordance with laws and regulations or the Article of Association of the Company.

Board of Directors
Shenzhen Lionda Holding Co., Ltd.
April 24, 2000