SHENZHEN CHINA BICYCLE COMPANY （HOLDINGS） LIMITED

SUMMARY OF ANNUAL REPORT 2005

§1. Important Notice

1.1 The Board of Directors, Supervisory Committee of the Shenzhen China Bicycle Company (Holdings) Limited (hereinafter referred to as the Company) and its directors, supervisors and senior executives hereby confirm that there are no any important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents. The summary of 2005 annual report is abstracted from the full text of annual report; the investors are suggested to read the full text of annual report to understand more details.
1.2 No director stated that they couldn't ensure the correctness, accuracy and completeness of the contents of 2005 Annual Report or have objection for this report.
1.3 Director Mr. Pan Shiming, Director Mr. Shi Zhanxiong, Director Mr. Wan Nianqing and Independent Director Mr. Wang Fuqing were absent from the Board meeting due to work, and respectively entrusted and Mr. Liu Linfeng and Mr. Li Hai to exert voting rights on their behalves. .
1.4 Hong Kong Charles Chan Ip & Fung Certified Public Accountants issued disclaimer of opinion report, 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.
1.5 Mr. Zhang Xiaofeng, Chairman of the Board, Mr. Ye Qing, General Manager and Ms. He Yili, Chief Accountant hereby confirm that the Financial Report of 2005 Annual Report is true and complete.

§2. Company Profile

2.1 Basic information

Short form of the stock	*ST ZHONGHUA – A, *ST ZHONGHUA – B
Stock code	000017, 200017
Listed stock exchange	Shenzhen Stock Exchange
Registered address and Office address	Registered address: No. 3008, Buxin Road, Shenzhen Office address: Shenzhen China Bicycle Company (Holdings) Limited, No. 3008, Buxin Road, Shenzhen
Post code	Post code of registered address: 518019 Post code of office address: 518019
Internet web site of the Company	www.cbc.com
E-mail of the Company	dmc@szcbc.com

2.2 Contact person and method

	Secretary of the Board of Directors
Name	Li Hai
Contact address	Shenzhen China Bicycle Company (Holdings) Limited, No. 3008, Buxin Road, Shenzhen
Telephone	(86)755-25516998, 28181666
Fax	(86)755-25516620, 28181009
E-mail	lih@szcbc.com

§3. Summary of Accounting Data and Financial Indexes

3.1 Major accounting data

Unit: RMB

	2005	**2004**	**Increase/decrease over last year（%）**	**2003**
Income from main operations	164,222,481.91	138,192,485.82	18.84%	99,014,966.38
Total profit	3,326,148.84	-93,643,461.46	-103.55%	-34,183,864.62
Net profit	12,362,630.58	-92,781,000.00	-113.33%	340,820,000.00
Net profit after deducting non-recurring gains and losses				
Net cash flow arising from operating activities	22,377,763.45	-5,815,452.03	-484.80%	-14,022,030.58
	At the end of 2005	**At the end of 2004**	**Increase/decrease from the end of previous year（%）**	**At the end of 2003**
Total assets	328,877,255.91	340,498,157.92	-3.41%	440,395,233.24
Shareholder’s equity (excluding minority interests)	-1,816,023,549.37	-1,822,380,350.14	0.00%	-1,686,237,300.27

3.2 Major financial indexes

Unit: RMB

	2005	**2004**	**Increase/decrease over last year（%）**	**2003**
Earnings per share	0.0257	-0.1936	113.27%	-0.06915
Earnings per share (note)	0.0257	-	-	-
Return on equity	-0.68%	5.08%	113.39%	0.00%
Return on equity as calculated based on net profit after deducting non-recurring gains and losses	-0.02%	0.01%	-0.03%	0.00%
Net cash flow per share arising from operating activities	0.05	-0.0121		-0.0292
	At the end of 2005	**At the end of 2004**	**Increase or decrease from the end of previous year（%）**	**At the end of 2003**

Net assets per share	-3.7879	-3.8011	--	-3.5171
Net assets per share after adjustment	-4.0240	-3.9543	--	-3.9167

Note: Earnings per share were calculated based on new share capital if share capital was changed from the end of the report period to disclosure date of the report.

Items of non-recurring gains and losses

√Applicable ☐Inapplicable

Unit: RMB

Items of non-recurring gains and losses	Amount
Gains and losses on exchange	29,843,339.20
Non-operating income	16,971,920.51
Non-operating expense	3,712,953.10
Minority shareholders' losses and gains	-858,842.29
Total	43,961,148.90

3.2 Difference of net profit as audited by Chinese Accounting Standard (CAS) and International Accounting Standard (IAS)

√Applicable ☐Inapplicable

Unit: RMB

	CAS	IAS
Net profit	3,738,730.58	12,361,630.58
Explanation on the difference	The differences of net profit as audited by domestic certified public accountants and overseas certified public accountants were RMB8, 622,900.00. Because of 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.	

§4. Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in shares

Unit: share

	Before the change		Increase/decrease of this time (+, -)		After the change	
	Amount	Proportion (%)	Others	Subtotal	Amount	Proportion (%)
I. Unlisted Shares	204,747,836	42.71%	-17,899,644	-17,899,644	186,848,192	38.97%
1. Sponsors' shares	204,612,836	42.68%	-17,899,644	-17,899,644	186,713,192	38.94%
Including: State-owned share	0	0.00%	0	0	0	0.00%
Domestic legal person's shares	111,607,002	23.28%	0	0	111,607,002	23.28%
Foreign legal person's shares	93,005,834	19.40%	-17,899,644	-17,899,644	75,106,190	15.67%
Others	0	0.00%	0	0	0	0.00%
2. Raised legal person's shares	0	0.00%	0	0	0	0.00%
3. Inner employees' shares	135,000	0.03%	0	0	135,000	0.03%
4. Preference shares or others	0	0.00%	0	0	0	0.00%
II. Listed Shares	274,685,167	57.29%	17,899,644	17,899,644	292,584,811	61.03%
1. RMB ordinary shares	76,617,000	15.98%	0	0	76,617,000	15.98%

2. Domestically listed foreign shares	198,068,167	41.31%	17,899,644	17,899,644	215,967,811	45.05%
3. Overseas listed foreign shares	0	0.00%	0	0	0	0.00%
4. Others	0	0.00%	0	0	0	0.00%
III. Total shares	479,433,003	100.00%	0	0	479,433,003	100.00%

4.2 Statement of shares held by the top ten shareholders and the top ten shareholders of circulation share

Unit: Share

Total shareholders	39,459				
Particulars about the top ten shareholders holding shares					
Full name of shareholders	Nature of shareholder	Proportion	Total amount of shares held	Number of non-circulating shares held	Number of share pledged or frozen
China Huarong Assets Management Company	State-owned shareholder	13.58%	65,098,412	65,098,412	0
Hong Kong Zhuorun Technology Co., Ltd.	Foreign shareholder	9.20%	44,104,246	44,104,246	44,104,246
Hong Kong (Link) Bicycles Limited	Foreign shareholder	5.24%	26,000,000	26,000,000	26,000,000
Chenhong(Hong Kong) Investment Co., Ltd.	Foreign shareholder	4.32%	20,686,984	0	0
Guangdong Sunrise Group Co., Ltd.	State-owned shareholder	2.50%	11,968,590	11,968,590	11,968,590
Xinliyi Investment Group Co., Ltd.	State-owned shareholder	2.34%	11,200,000	11,200,000	0
Airline Trust and Investment Co., Ltd.	State-owned shareholder	2.16%	10,340,000	10,340,000	10,340,000
Shenzhen International Trust & Investment Co., Ltd.	State-owned shareholder	1.25%	6,000,000	6,000,000	0
STEPHEN&PARTNERS LIMITED	Foreign shareholder	1.19%	5,680,930	0	0
Jingchao Investment Co., Ltd.	Foreign shareholder	1.04%	5,001,911	5,001,944	0

Particulars about the shares held by the top ten shareholders of circulating share:		
Name of shareholders	Amount of Circulating shares held shareholders (share)	Types
Chenhong(Hongkong) Investment Co., Ltd.	20,686,984	Domestically listed foreign shares
STEPHEN&PARTNERS LIMITED	5,680,930	Domestically listed foreign shares
Li Dongxuan	3,174,572	Domestically listed foreign shares
CUOTAI JUNAN SECURIES H.K LIMITED	2,794,765	Domestically listed foreign shares
Cai Wantong	2,034,217	Domestically listed foreign shares
TANG JING YUAN	1,924,500	Domestically listed foreign shares
Huang Junxiong	1,758,600	Domestically listed foreign shares
Zhang Huiling	1,565,400	Domestically listed foreign shares
Zhuang Weixiong	1,268,700	Domestically listed foreign shares
Jiang Lan	1,213,000	Domestically listed foreign shares

Explanation on associated relationship among the top ten shareholders or consistent action	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.

4.3 Particulars about the controlling shareholders and actual controller of the Company

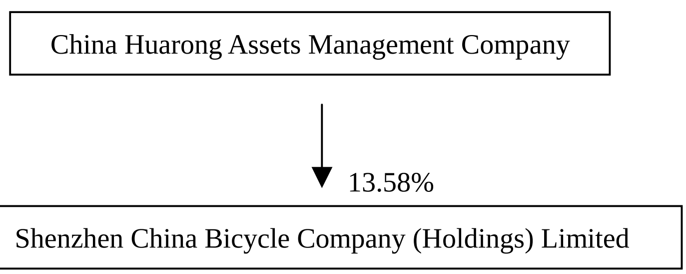
4.3.1 Particulars about change in the controlling shareholders and actual controller of the Company

□Applicable √Inapplicable

4.3.2 Introduction of especial situation for controlling shareholder and other actual controller

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, securitizations 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.

4.3.3 Property right and controlling relationship between the actual controller of the Company and the Company is as follows:



§5. Particulars about Directors, Supervisors and Senior Executives

5.1 Particulars about changes in shares held by directors, supervisors and senior executives

Name	**Title**	**Sex**	**Age**	**Term office**	**Shares held at the**	**Share held at the**	**Reason of change**	**Total payment drew from the**	**Draw payment**

					year-begin	year-end		Company in the report period (RMB'0000)	from other shareholder units or associates or not
Zhang Xiaofeng	Chairman of the Board	Male	35	June, 2004- June, 2007	0	0	Naught	0.00	Yes
Pan Shiming	Director	Male	35	June, 2004- June, 2007	0	0	Naught	0.00	Yes
Ye Qing	General Manager	Male	44	June, 2004- June, 2007	0	0	Naught	17.57	No
Shi Zhanxiong	Director	Male	62	June, 2004- June, 2007	75,000	75,000	Naught	0.00	Yes
Liu Linfeng	Director	Male	49	June, 2004- June, 2007	0	0	Naught	0.00	Yes
Yi Xiaoming	Director	Male	45	June, 2004- June, 2007	0	0	Naught	0.00	Yes
Wan Nianqing	Director	Male	32	June, 2004- June, 2007	0	0	Naught	0.00	Yes
Yang Lixun	Independent Director	Male	43	June, 2004- June, 2007	0	0	Naught	0.00	Yes
Wang Fuqing	Independent Director	Male	39	June, 2004- June, 2007	0	0	Naught	0.00	Yes
Ma Hong	Independent Director	Male	39	June, 2004- June, 2007	0	0	Naught	0.00	Yes
Zhuang Yuemin	Independent director	Male	35	June, 2004- June, 2007	0	0	Naught	0.00	Yes
He Xiongsen	Supervisor	Male	47	June, 2005- June, 2008	0	0	Naught	0.00	Yes
Lan Qihua	Supervisor	Male	56	June, 2005- June, 2008	0	0	Naught	12.34	No
Peng Tiesheng	Supervisor	Male	57	June, 2005- June, 2008	0	0	Naught	11.21	No
Li hai	Deputy General Manager, Secretary of the Board	Male	37	Sep., 2004- Sep., 2007	0	0	Naught	12.34	No
He Yili	Chief Accountant	Female	34	Apr., 2005- Apr., 2008	0	0	Naught	8.73	No
Hu Er'yi	Deputy General Manager	Female	42	Sep., 2004- Sep., 2007	0	0	Naught	12.34	No
Total					75,000	75,000		74.53	

§ 6. Report of the Board of Directors

6.1 Discussion and analysis to the whole operation in the report period

In 2005, the Company fulfilled the operation target of wholly turning losses into gains, tried to hold the sales in midseason, faced the market, basically conducted in

accordance with the pattern of sales supplied by production of " Fixed production with sales, Fixed supply with production and Provide goods in cash", strived for developing the electronic bicycle and the main operation kept the sustainable increasing trend; under the circumstance of gliding down in the industry of bicycle sales, the sales amount still increased a bit and accomplished the whole profit-gaining goal.
The income from main operation during Jan. to Dec. of the Company realized amounted to RMB 164,222,500 with an increasing of 18. 84%, and profit amounted to RMB 12,361,630.

6.2 Statement of main operations classified according to industries or products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Manufacture of bicycles	16,029.29	14,473.01	9.71%	20.07%	17.06%	31.57%
Management of real-estate	392.95	442.77	-12.68%	-8.41%	14.90%	-224.68%
Equipment repairing on traffic transportation	0.00	0.00	0.00%	-100.00%	-100.00%	-100.00%
Main operations classified according to products						
Bicycles	16,029.29	14,473.01	9.71%	20.07%	17.06%	31.57%
Income from property management	392.95	442.77	-12.68%	-8.41%	14.90%	-224.68%
Outside process	0.00	0.00	0.00%	-100.00%	-100.00%	-100.00%

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease in income from main operations over the last year (%)
Shandong	4,573.95	37.66%
Henan	3,178.24	26.60%

6.4 Application of the raised proceeds

□ Applicable √Inapplicable

Particulars about the changed projects

□ Applicable √Inapplicable

6.5 Application of the proceeds not raised through shares offering

☐ Applicable √Inapplicable

6.6 Explanation of the Board of Directors on the "Qualified Opinion" made by the CPAs

√Applicable ☐Inapplicable

Explanations on disclaimer of opinion report for the Company issued by Hong Kong Charles Chan Ip & Fung Certified Public Accountants from Board of Directors of the Company: The Board of Directors of the Company agreed the auditing report on B share issued by Hong Kong Charles Chan Ip & Fung Certified Public Accountants. Hong Kong Charles Chan Ip & Fung Certified Public Accountants regarded that the work on debt restructuring of the Company has not been accomplished in 2005, the debts risk of large amount still remained, so Hong Kong Charles Chan Ip & Fung Certified Public Accountants regarded that the debts of the Company in auditing report still remained uncertainty and issued the disclaimer of opinion report. The explanations from Board of Directors are as follows: Since March, 2002, the largest creditor of the Company China Huarong Assets Management Company entered into Zhonghua, the work on debts reorganization achieved breakthrough development. The Plan on Debts Restructuring of Shenzhen China has obtained approval from CBRC, and now it is in the period of gradual implementation. At present, debts relief by the creditor of financial organization of the Company had no policy obstacles; the creditor of financial organization has exempted and stopped calculating all the interest ended as Dec. 30, 2004 and part of interest in this year owed by the Company. China Huarong Assets Management Company had applied bankruptcy to Shenzhen Intermediate People's Court on August 1, 2005, the purpose of which was to get to debts restructuring by bankruptcy and reconciliation, and finally solve the debts of the Company. With the progress of debts restructuring, the main operation of the Company increases with a large margin and the main operation unceasingly gained profits. Thus, the Board of Directors of the Company thought: the short-term payment pressure of the Company reduced a lot, the sustainable operation capability improved, and the operation environment and operation status of the Company further improved with the sustainable development of debts and asset restructurings and continuous increasing on the achievements of the Company.

6.7 The preplan of profit distribution and capitalization of capital public reserve of the Board of Directors

☐ Applicable √Inapplicable

The preplan on the profit that has not been appropriated for cash profit distribution

√Applicable ☐Inapplicable

Reason for the preplan on the profit that has not been appropriated for cash profit distribution	Purpose and using plan of the undistributed profit of the Company
Used for offsetting the losses in previous years	Used for offsetting the losses in previous years

§7 Significant Events

7.1 Purchase of assets

□ Applicable √Inapplicable

7.2 Sales of assets

□ Applicable √Inapplicable

7.3 Significant guarantees

√ Applicable □Inapplicable

Unit: RMB'0000

Particulars about the external guarantee of the Company (Barring the guarantee for the controlling subsidiaries)						
Name of the Company guaranteed	Date of happening (date of signing agreement)	Amount of guarantee	Guarantee type	Guarantee term	Complete Implementation or not	Guarantee for related party (yes or not)
Guangdong Sunrise Group Co., Ltd.	June 20, 1996	614.20	Joint responsibility	6 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	July 26, 2006	2,800.00	Joint responsibility	4 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	Sep. 30, 1999	830.00	Joint responsibility	12 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	Apr. 30, 1998	260.00	Joint responsibility	11 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	July 30, 1997	250.00	Joint responsibility	7 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	June 4, 1997	300.00	Joint responsibility	8 months	No	Yes
Gintian Industry (Group) Co., Ltd.	Oct. 30, 1998	5,000.00	Joint responsibility	6 months	No	No
Shenzhen Tianma Cosmetics Co., Ltd.	Sep. 30, 1994	800.00	Joint responsibility	12 months	No	No
ZORIA PTE LTD	March 25, 1996	8,300.00	Joint responsibility	12 months	No	Yes
Total amount of guarantee in the report period						0.00
Total balance of guarantee at the end of the report period						19,154.20
Guarantee of the Company for the controlling subsidiaries						
Total amount of guarantee for controlling subsidiaries in the report period						0.00
Total balance of guarantee for controlling subsidiaries at the end of the report period						51.89
Particulars about the external guarantee of the Company (Including the guarantee for the controlling subsidiaries)						
Total amount of guarantee						19,206.09
The proportion of the total amount of guarantee in the net assets of the Company						-10.58%
Including						
Amount of guarantee for shareholders, actual controller and its related parties						5,054.20
The debts guarantee amount provided for the guarantee of which the assets-liability ratio exceeded 70% directly or indirectly						0.00
Proportion of total amount of guarantee in net assets of the Company exceeded 50%						0.00
Total amount of the aforesaid three guarantees						5,054.20

7.4 Significant related transaction

7.4.1 Related transaction connected to operations

□ Applicable √Inapplicable

7.4.2 Related credits and liabilities current

√Applicable □Inapplicable

Unit: RMB’ 0000

Related parties	Provided capital to related parties		Provided capital to listed companies by related parties	
	Occurred	Balance	Occurred	Balance
Hong Kong (Link) Bicycles Limited	0.00	62,905.44	0.00	0.00
Diamond Back (HongKong) Co., Ltd.	0.00	24,155.70	0.00	0.00
Zhigao Resource International Co., Ltd.	0.00	13,939.64	0.00	2,491.76
Hong Kong Huajiaming Industry Trade Co., Ltd.	0.00	0.00	0.00	1,075.89
Shenzhen Canghai Industrial Co., Ltd.	0.00	0.00	0.00	18.94
Shenzhen Danxia Bicycle Accessory Co., Ltd.	0.00	0.00	0.00	45.66
Jiangsu Huaiyin Huayu Bicycle Accessory Factory Co., Ltd.	0.00	0.00	0.00	496.53
Shantou Economic Special Zone Dapeng Industrial Co., Ltd.	0.00	0.00	0.00	689.74
China Complex Material Products (Shenzhen) Co., Ltd.	0.00	6,310.05	0.00	0.00
Shenzhen Huajiaming Industry Trade Development Co., Ltd.	0.00	3,402.10	0.00	0.00
China Huarong Assets Management Corporation	0.00	0.00	-206.66	71,958.25
Guangdong Sunrise Group Co., Ltd.	0.00	0.00	0.00	23,280.17
Shenzhen Jinhuan Printing Format Co., Ltd.	0.00	0.00	0.00	60.00
Daming International Co., Ltd.	0.00	0.00	0.00	1,083.44
Shenzhen Goodyear Industrial Co., Ltd.	0.00	0.00	0.00	1,289.69
Total	0.00	110,712.93	-206.66	102,490.07

Including: in the report period, the capital amount the listed company provided to controlling shareholder and its subsidiaries was RMB 0.00 and the balance was RMB 1,107,129,300.

Use of funds and plan on paying off the debt

√Applicable □Inapplicable

(1) Use of funds

Name of the party fund occupied	Occupied amount at year-begin（RMB）	Occupied amount at year-end（RMB）
Hong Kong (Link) Bicycles Limited	604,594,981.22	604,594,981.22
Diamond Back (HongKong) Co., Ltd.	240,685,831.55	240,685,831.55
Zhigao Resource International Co., Ltd.	139,396,408.85	139,396,408.85
Shenzhen Huajiaming Industry Trade Co., Ltd.	26,791,041.11	26,791,041.11

China Complex Material Products (Shenzhen) Co., Ltd.	60,541,700.96	60,541,700.96
Total	1,072,009,963.69	1,072,009,963.69

(2) Plan on paying off the debt
The plan on paying off the debt was examined and approved by the 13th meeting of the 6th Board of Directors of the Company, all the incomings and outgoings of Hong Kong (Link) Bicycles Limited were be canceled, with the amount is equivalent to RMB 604,595,000. The account receivable which needed canceling was withdrew the provision for bad debts amounting to RMB 604,595,000. And the cancel did not influence the profits of this year.

The plan could be settled down use of funds before the end of 2006 totally or not
☐Yes ☐No √Inapplicable

7.5 Entrusted assets management
☐ Applicable √Inapplicable

7.6 Implementation of commitments
7.6.1 Date on Share Merger Reform

In light of that the Company was in the stage of debts restructuring, the Company plans to make up plan on Share Merger Reform of the Company combing with the debts restructuring and asset reorganization, and tries to enter the procedure of Share Merger Reform before June 30, 2006, and submits all the materials on Share Merger Reform to Shenzhen Stock Exchange.

7.6.2 Other Commitments
☐ Applicable √Inapplicable

7.7 Significant lawsuit and arbitrations
☐ Applicable √Inapplicable

§8. Report of the Supervisory Committee

☐ Applicable √Inapplicable

§9. Financial Report

9.1 Auditor’s opinions

We have audited the accompanying consolidated balance sheet of Shenzhen China Bicycle Company (Holdings) Limited. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) as at 31 December 2005 together with the related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended. These financial statements set out on pages [ ] to [ ] are the responsibility of the Company's directors.

Except as discussed in the following paragraphs, 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 from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

LIMITATION OF SCOPE

1. Scope limitation - contingent liabilities

   As disclosed in note 18 to the financial statements, the Group has unprovided contingent liabilities for its subsidiaries, associates and related companies amounting to RMB25,271,000 as at 31 December 2005. We were not provided with sufficient audit evidence to determine the completeness on the disclosure of unprovided contingent liabilities. As a result, we were unable to determine whether all the contingent liabilities had been provided for and disclosed in the financial statements in relation to the adequacy and appropriateness of the provision in respect of contingent liabilities.

2. Scope limitation – land and buildings

   As disclosed in note 10 to the financial statements, land and buildings were carried at cost less accumulated depreciation and impairment losses. This is not in accordance with International Accounting Standard ("IAS") 17 "Leases" in which a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at valuation/cost less accumulated depreciation. As a result, we were unable to satisfy ourselves as to whether the fixed assets as at the balance sheet date are fairly stated.

FUNDAMENTAL UNCERTAINTIES

In forming our opinion, we have considered the adequacy of the disclosure made in note 17 to the financial statements concerning the overdue bank borrowings as at 31 December 2005. The Group has outstanding borrowings of approximately RMB548,127,000 due to various banks plus accrued interest of approximately [ ] which is still under disputes. All these amounts were overdue and the Company is still in the process to re-negotiate the payment terms and dates with the lenders. The Group's adoption of going concern basis is based on the successful outcome of

the debt restructuring as well as the resulting improvement in the financial position of the Group. It is uncertain at this stage whether and how the Group can be able to repay the overdue bank borrowings and other payables.

Attention should be drawn that the Group's ability to continue as a going concern is dependent upon the attainment of profitable and positive cash flow operations, the restructuring/refinancing of its debts and the continuing financial support of its bankers. The financial statements which show net current liabilities of RMB355,155,000 and capital deficiency of RMB1,812,901,000 as at 31 December 2005 have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the debt restructuring and the continuing financial support being available. The financial statements do not include any adjustments that would result from a failure to obtain such financial support.

We consider that appropriate disclosures have been made but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so material or pervasive that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the possible effects of the limitation in evidence available to us set out in the preceding paragraphs under the leading of limitation of scope and the fundamental uncertainties relating to appropriateness of the going concern basis as set out above we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs and of the Group as at 31 December 2005 and of its loss and cash flows of the Group for the year then ended, and whether these financial statements have been properly prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standard Board.

CCIF CPA Limited
Certified Public Accountants
Hong Kong,

Fung Pui Cheung
Practising Certificate Number P00755

S1238-2005

9.2 Financial statement

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2005

	2005	As restated 2004
	RMB'000	RMB'000
TURNOVER	164,222	138,192
COST OF SALES	-152,662	-128,599
GROSS PROFIT	11,560	9,593
OTHER REVENUE	60,424	11,336
	71,984	20,929
OTHER EXPENSES		
Distribution costs	-9,649.00	-10,706.00
Administrative expenses	-33,411.00	-98,114.00
Other operating expenses	-42.00	-618.00
	-43,102.00	-109,438.00
LOSS FROM OPERATIONS	28,882	-88,509
FINANCE COSTS	-21,874	-3,436
	7,008	-91,945
WAIVER OF LIABILITIES	-	691
ABSORPTION/PROVISION FOR PROFIT/(LOSS) ON MINORITY INTEREST	6,004	-16.00
OPERATING PROFIT/(LOSS)	13,012	-91,270
SHARE OF LOSS OF ASSOCIATES	-364	-1,525
PROFIT/(LOSS) BEFORE TAXATION	12,648	-92,795
INCOME TAX	-4	-2
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER TAXATION	12,644	-92,797
MINORITY INTERESTS	-283	16
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	12,361	-92,781
DIVIDENDS	-	-
Earnings per share for profit/(loss) attributable to to the equity holders of the company during the year (expressed in RMB per share)		
- Basis	0.0257	(0.1936)
- Diluted	N/A	N/A

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
CONSOLIDATED BALANCE SHEET
31-Dec-05

	2005	As restated 2004
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Fixed assets	174,120	198,719
Interest in associates	17,534	17,534
Other investment	2,800	2,800
	194,454	219,053
Current assets		
Inventories	49,597	50,995
Accounts receivable	8,855	16,026
Others receivable and prepayments	30,049	26,152
Amounts due from related companies	-	-
Bills receivable	5,121	1,192
Cash and bank balances	27,692	6,781
	121,314	101,146
LIABILITIES		
Current liabilities		
Amounts due to related companies	59,408	59,408
Accounts payable	109,518	119,455
Bills payable	235	1,419
Others payable and receipts in advance	213,062	210,811
Accruals	60,493	43,169
Tax payable	33,753	33,751
	476,469	468,013
Net current liabilities	-355,155	-366,867
	-160,701	-147,814
Non-current liabilities		
Long-term loans due to related companies	937,283	954,450
Loan-term borrowings	548,127	556,208
Provision for loss on guarantees	166,790	166,790
	1,652,200	1,677,448
NET LIABILITIES		-1,825,262

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
CONSOLIDATED BALANCE SHEET
31-Dec-05

(Continued)

	2005	As restated 2004
	RMB'000	RMB'000
CAPITAL AND RESERVES		
Issued capital	479,433	479,433
Reserves	-2,292,334	-2,304,695
	-1,812,901	-1,825,262
MINORITY INTERESTS	-	-
	-1,812,901	-1,825,262

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2005

	2005 RMB'000	As restated 2004 RMB'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	12,648	-92,795
Adjustment for:		
Interest income	-144	-79
Interest expense	21,771	3,539
Depreciation	20,062	16,899
Waiver of liabilities	-	-691
Provision for loss from guarantees	-	519
Share of loss from associates	364	1,525
Profit on disposal of fixed assets	-16,895	-63
Fixed assets written off	3,296	-
Loss on disposal of other investments	-	944
Licence fee income	-3,318	-
Provision for impairment loss of obsolete inventories reversed	-16,044	-5,429
Provision for doubtful debts	23,750	29,438
Absorption/provision for (loss)/profit on minority interests	-6,004	16
	26,838	46,618
OPERATING PROFIT/(LOSS) BEFORE WORKING CAPITAL CHANGES	39,486	-46,177
Decrease in inventories	17,442	23,315
Decrease/(increase) in accounts receivable	8,043	-7,151
Increase in others receivable and prepayments	-28,519	3,386
Increase in amounts due from related companies	-	1,078
Increase in bills receivable	-3,929	-917
Increase in accounts payable	-9,937	2,200
Increase in bills payable	-1,184	703
Increase in others payable and receipts in advance	2,251	518
Increase/(decrease) in accruals	17,324	-4,100
	1,491	19,032
CASH GENERATED FROM OPERATIONS	40,977	-27,145
Interest paid	-21,771	-426
Income taxes	-	13
NET CASH INFLOW/(OUTFLOW) FROM OPERATION ACTIVITIES	19,206	-27,558

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2005

(Continued)

	2005	As restated 2004
	RMB'000	RMB'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS ACTIVITIES	19,206	-27,558
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	144	79
Proceeds from disposal of property, plant and equipment	28,170	63
Payment for acquisition of property, plant and equipment	-1,361	-1,169
Proceeds from disposal of other investments	-	3,159
NET CASH USED IN INVESTING ACTIVITIES	26,953	2,132
FINANCING ACTIVITIES	46,159	-25,426
(Decrease)/increase in long-term loans due to related companies	-17,167	3,387
(Decrease)/increase in long-term borrowings	-8,081	23,235
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	-25,248	26,622
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,911	1,196
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	6,781	5,585
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27,692	6,781

9.3 Explanation on changes of accounting policy, accounting estimation and settlement compared with the latest annual report

□Applicable √Inapplicable

9.4 Contents, correct amount, reason and its influence of significant accounting errors

□Applicable √Inapplicable

9.5 Explanation on change of consolidated scope compared with the latest annual report

√Applicable □Inapplicable

From July 1, 2005, Shenzhen Emmelle Industry Co., Ltd was brought into the consolidated scope.