**AUDITORS' REPORT TO THE SHAREHOLDERS OF
SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA
WITH LIMITED LIABILITY)**

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.

AUDITORS' REPORT TO THE SHAREHOLDERS OF SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED (INCORPORATION IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

(Continued)

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

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

	Note	2005 RMB'000	2004 RMB'000 (Restated)
TURNOVER	5	164,222	138,192
COST OF SALES		(152,662)	(128,599)
GROSS PROFIT		11,560	9,593
OTHER REVENUE		66,145	12,027
		77,705	21,620
OTHER EXPENSES			
Distribution costs		(9,649)	(10,706)
Administrative expenses		(33,411)	(98,114)
Other operating expenses		(42)	(618)
		(43,102)	(109,438)
LOSS FROM OPERATIONS		34,603	(87,818)
FINANCE COSTS		(21,874)	(3,436)
OPERATING PROFIT/(LOSS)		12,729	(91,254)
SHARE OF LOSS OF ASSOCIATES		(364)	(1,525)
PROFIT/(LOSS) BEFORE INCOME TAX	7	12,365	(92,779)
INCOME TAX	8	(4)	(2)
PROFIT/(LOSS) FOR THE YEAR		12,361	(92,781)
MINORITY INTERESTS		-	-
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		12,361	(92,781)
DIVIDENDS		-	-
Earnings/(loss) per share attributable to the equity holders of the company during the year (expressed in RMB per share)			
- Basis	9	0.0257	(0.1936)
- Diluted		N/A	N/A

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
CONSOLIDATED BALANCE SHEET
31 DECEMBER 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	10	174,120	198,719
Interest in associates	11	17,534	17,534
Financial assets available for sale	12	2,800	2,800
		194,454	219,053
Current assets			
Inventories	13	49,597	50,995
Accounts receivable	14	8,855	16,026
Others receivable and prepayments	15	30,049	26,152
Amounts due from related companies	16	-	-
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	17	937,283	954,450
Long-term borrowings	18	548,127	556,208
Provision for loss on guarantees	19	166,790	166,790
		1,652,200	1,677,448
NET LIABILITIES		(1,812,901)	(1,825,262)

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
CONSOLIDATED BALANCE SHEET
31 DECEMBER 2005

(Continued)

	Note	2005 RMB'000	2004 RMB'000 (Restated)
CAPITAL AND RESERVES			
Issued capital	20	479,433	479,433
Reserves		(2,292,334)	(2,304,695)
		(1,812,901)	(1,825,262)
MINORITY INTERESTS	21	-	-
		(1,812,901)	(1,825,262)

Approved and authorised for issue by the board of directors on

Director

Director

The notes on pages [10] to [28] form an integral part of these financial statements.

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
31 DECEMBER 2005

	Share capital RMB'000	Statutory public welfare fund RMB'000	Accumulated loss RMB'000	Attributable to equity holders of the company RMB'000	Minority interest RMB'000	Total RMB'000
Balance at 1 January 2004	479,433	32,673	(2,201,382)	(1,689,276)	-	(1,689,276)
As previously reported						
Prior year adjustment (note 23)	-	-	(43,205)	(43,205)	-	(43,205)
As restated	479,433	32,673	(2,244,587)	(1,732,481)	-	(1,732,481)
Loss for the year of 2004						
As previously reported	-	-	(16,402)	(16,402)	-	(16,402)
Prior year adjustment (note 23)	-	-	(76,379)	(76,379)	-	(76,379)
As restated	-	-	(92,781)	(92,781)	-	(92,781)
Balance at 31 December 2004	479,433	32,673	(2,337,368)	(1,825,262)	-	(1,825,262)
Balance at 1 January 2005						
As previously reported	479,433	32,673	(2,217,784)	(1,705,678)	-	(1,705,678)
Prior year adjustments (note 23)	-	-	(119,584)	(119,584)	-	(119,584)
As restated	479,433	32,673	(2,337,368)	(1,825,262)	-	(1,825,262)
Profit for the year of 2005	-	-	12,361	12,361	-	12,361
Balance at 31 December 2005	479,433	32,673	(2,325,007)	(1,812,901)	-	(1,812,901)

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

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

i) may be used to make up loss; and

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

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

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

The notes on pages [10] to [28] form an integral part of these financial statements.

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

	Note	2005 RMB'000	2004 RMB'000 (Restated)
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		12,365	(92,779)
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 property, plant and equipment		(16,895)	(63)
Property, plant and equipment written off		3,296	-
Loss on disposal of financial assets available for sale		-	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)/decrease in others receivable and prepayments		(28,519)	3,386
Decrease in amounts due from related companies		-	1,078
Increase in bills receivable		(3,929)	(917)
(Decrease)/increase in accounts payable		(9,937)	2,200
(Decrease)/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 OPERATING ACTIVITIES		19,206	(27,558)

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

(Continued)

	Note	2005 RMB'000	As restated 2004 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 financial assets available for sale		-	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

The notes on pages [10] to [28] form an integral part of these financial statements.

1. CORPORATE INFORMATION

a) GENERAL

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

b) GOING CONCERN BASIS

The financial statements are prepared under the going concern concept though as at 31 December 2005, a net liability position is shown in the balance sheet for RMB1,812,901,000. The management of the Group and major shareholder have taken the following steps to ensure the Group's continuity in business:

i) A reorganisation Scheme was submitted to the Regulatory and Administration Committee of China Banking Commission (中國銀行業監督管理委員會)(Committee) and a positive reply was received on 22 April 2005. The Scheme is in the negotiation progress with the Group's bankers. Among other terms, the Scheme proposes to the bankers under the auspices of the Committee that 97% of the unsecured loans owing by the Group are to be waived. up to the date of this report, a reply has been received from China Merchant Bank expressing its willingness to waive 97% of the unsecured loans owing by the Group while demanding the full payment of the secured loan.

ii) The major shareholder of the Group 中國華融資產管理公司 is proposing to enter into a Scheme with 深圳聚隆實業發展有限公司 to transfer certain A and B shares in the Group for debts settlement as detailed in Note 25(b).

iii) The major shareholder of the Group 中國華融資產管理公司 through its representative office in Shenzhen petitioned to wind up the Company on 1 August 2005 on the ground that the Company was unable to pay its debts. Hearing was held by the Shenzhen People's Court on 15 September 2005. The Group's intention is to ascertain its debts through the debts proving processes.

2. IMPACT OF RECENTLY ISSUED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following revised, amended and new standards which are generally effective for accounting periods beginning on or after 1 January 2006 may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented:

- IAS 1 Presentation of Financial Statements (revised 2005);
- IAS 39 Financial instruments: Recognition and measurement (revised 2005)

The Group has not early adopted these revised, amended and new standards for the year ended 31 December 2005. The Group has commenced its assessment of the impact of these standards but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

Adoptions of IFRSs

In 2005, the Group adopted the new/revised IFRSs below, which are relevant to its operations.

In 2004, comparative figures have been restated as required in accordance with the relevant requirements.

- IAS 1 Presentation of Financial Statements (revised 2003);
- IAS 2 Inventories (revised 2003);
- IAS 8 Accounting policies, changes in accounting estimates and errors (revised 2003);
- IAS 10 Events after the balance sheet date (revised 2003);
- IAS 16 Property, plant and equipment (revised 2003);
- IAS 17 Leases (revised 2003);
- IAS 21 The effects of changes in foreign exchange rates (revised 2003);
- IAS 24 Related party disclosures (revised 2003);
- IAS 27 Consolidated and separated financial statements (revised 2003);
- IAS 28 Investments in associates (revised 2003);
- IAS 32 Financial instruments: Disclosure and presentation (revised 2003);
- IAS 33 Earnings per share (revised 2003);
- IAS 36 Impairment of assets (revised 2004);
- IAS 38 Intangible assets (revised 2004);
- IAS 39 Financial instruments: Recognition and measurement (revised 2004);
- IAS 40 Investment property (revised 2003);
- IFRS 2 Share-based payment; and
- IFRS 3 Business combination

The adoption of the above list of IFRSs did not result in substantial changes to the Group's business.

3. PRINCIPAL ACCOUNTING POLICIES

a) BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IFRS, adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the operating results for the year then ended and on the net asset value at 31 December 2005 are included in notes 26 to 27 to the financial statements respectively. In additions, the financial statements have been prepared under the historical cost convention.

b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the audited financial statements of the Company and its subsidiaries made up to 31 December 2005 and include the Group's attributable share of post-acquisition results of its associates. Results of subsidiaries and associates acquired or disposed of during the year are consolidated/equity accounted for from or to their effective dates of acquisition or disposal, respectively. Except for those subsidiaries not consolidated for the reason stated below, all significant inter-company transactions and balances within the Group have been eliminated on consolidation.

SUBSIDIARIES

A subsidiary is an enterprise in which the Company holds, directly or indirectly holds, more than half 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

b) BASIS OF CONSOLIDATION (Continued)

SUBSIDIARIES (Continued)

i) Subsidiaries consolidated

Company	Place of establishment/ operation	Effective equity held by the Group 2005	2004	Principal activities
China Bicycles (Hong Kong) Co., Limited	Hong Kong	100%	100%	Bicycle and spare part distribution
Shenzhen Augule Property Management Co., Ltd.	PRC	100%	100%	Property management
Shenzhen China Bicycle (Gansu) Distribution Co., Ltd.	PRC	80%	80%	Bicycle and spare part distribution
Shenzhen China Bicycle (Shanxi) Distribution Co., Ltd.	PRC	70%	70%	Bicycle and spare part distribution
Shenzhen China Bicycle (Harbin) Distribution Co., Ltd.	PRC	60%	60%	Bicycle and spare part distribution
深圳市阿米尼實業有限公司	PRC	70%	-	Bicycle and spare part distribution

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

b) BASIS OF CONSOLIDATION (Continued)

SUBSIDIARIES (Continued)

ii) Subsidiaries not consolidated

Company	Place of establishment/ operation	Effective equity held by the Group 2005	2004	Principal activities
Jiu Jiang Hua Tian Property Co., Ltd.	PRC	100%	100%	Property development
Shenzhen China Bicycle (Guangzhou) Distribution	PRC	100%	100%	Bicycle and spare part distribution
Zoria Pte. Ltd.	Singapore	100%	100%	Bicycle and spare distribution
Well Gain Enterprise (Shenzhen) Co., Ltd.	PRC	98%	98%	Material supplies
Shenzhen China Bicycle (Hainan) Distribution Distribution Co., Ltd.	PRC	70%	70%	Bicycle and spare part distribution
Shenzhen China Bicycle (Jiangxi) Distribution Co., Ltd.	PRC	55%	55%	Bicycle and spare part distribution
Huangzhou Chung Jiang Industrial Co., Ltd.	PRC	51%	51%	Property development

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

b) BASIS OF CONSOLIDATION (Continued)

ASSOCIATES

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

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

Company	Place of establishment/ operation	Effective equity held by the Group 2005	2004	Principal activities
Jiang Xi Li Hua Enterprise Ltd.	PRC	39.83	39.83%	Commercial service
Shenzhen Jinhuan Print Plate Co., Ltd.	PRC	38%	38%	Manufacture of bicycle and motorcycle spare parts
Shan Tou Special Economic Zone Da Peng Industrial	PRC	30%	30%	Manufacture of bicycle aluminum spare parts
Shenzhen Canghai Enterprise Co., Ltd.	PRC	30%	30%	Manufacture of machinery
Yang Zhou Xing Hua Bicycle Parts Co., Ltd.	PRC	30%	30%	Manufacture of bicycle spare parts and motors, etc.
Jian Xu Huai Yin Huayu Bicycle Parts Co., Ltd.	PRC	25%	25%	Manufacture of bicycle spare parts
Shenzhen Tange Bicycle Parts Co., Ltd.	PRC	20%	20%	Manufacture of bicycle spare parts

4. PRINCIPAL ACCOUNTING POLICIES

a) TURNOVER

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

b) REVENUE RECOGNITION

i) Revenue from the sales of goods are recognised when the goods are delivered and the title has passed.

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

iii) Interest income is recognised on a time basis taking into account, the principal amounts outstanding and at the interest rate applicable.

iv) Dividend income is recognised when the shareholders' right to receive payment is established.

c) PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are charged to consolidated income statement in the year in which it is 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 its cost and accumulated depreciation are eliminated from financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset is included in consolidated income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives on a straight-line basis. Estimated useful lives are summarised as follows:

Interest on land and buildings	20 years
Plant and machinery	10 years
Office equipment	5 years
Transport equipment	5 years
Others	5 years

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

d) FINANCIAL ASSETS

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reproting date.

The Group only has financial assets classified as "loans and receivables" and "available-for-sale financial assets" in the respective periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "accounts and other receivables" in the balance sheet.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value and loans and receivables are carried at amortised cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the investees.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

d) FINANCIAL ASSETS (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not revered through the income statement.

e) INVENTORIES

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

f) BORROWING COSTS

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

All other borrowing costs are recognised in net profit or loss in the period in which they are incurred.

g) OPERATING LEASES

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

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

h) TRANSACTIONS OF FOREIGN CURRENCY

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

i) RELATED COMPANIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

j) CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried in the balance sheet at cash. For the purposed of the cash flow statement, cash and cash equivalents comprise cash on hand, bank balance and time deposit within three months of maturity when acquired.

k) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

k) CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

l) IMPAIRMENT LOSS

As at each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Estimated recoverable amount of an asset is the greater of the estimates value from its future use and ultimate disposal, and its net selling price.

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

Where an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that in the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised the assets in prior years. A reversal of an impairment loss it recognised as income immediately.

m) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation subsequent as a result of past events and it is probable that outflow of economic benefits which can be reasonably estimated will be required to settle such obligation.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

n) INCOME TAX

i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Generally all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utlilised, are recognised.

5. SEGMENT ANALYSIS OF TURNOVER AND RESULTS

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

	2005 RMB'000	2004 RMB'000
Turnover		
Sale of goods	160,292	133,902
Property management	3,930	4,290
	164,222	138,192
Gross profit		
Sale of goods	11,062	9,157
Property management	498	436
	11,560	9,593

6. PROFIT/(LOSS) BEFORE TAXATION

	2005 RMB'000	2004 RMB'000
The Group's operating loss before exceptional items is arrived at after crediting		
Interest income	144	79
Profit on disposal of property, plant and equipment	16,895	63
License fee income from trademark	2,370	1,085
Rental income	6,730	10,524
Reversal of provision for impairment loss	-	1,118
Exchange gain	29,843	175
Others	1,122	-
And after charging		
Depreciation	20,062	16,899
Interest expense	21,771	3,539
Staff costs	17,586	15,543
Provision for loss from guarantees	-	519
Loss on disposal of other investments	-	944

7. INCOME TAX

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

	2005 RMB'000	2004 RMB'000
Income tax		
Company and subsidiaries	4	2
Associates	-	-
	4	2
Deferred tax	-	-
	4	2

7. INCOME TAX (Continued)

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

	2005 RMB'000	2004 RMB'000
Profit/(loss) before taxation	12,365	(92,779)
Tax at the income tax rate of 15% (2004: 15%)	1,855	(13,916)
Tax effect:		
- disallowable expenses	-	17
- non-taxable revenue	-	(130)
- tax losses unrecognised	-	3,049
- tax losses utilised	(1,851)	10,982
Actual tax expense	4	2

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the current year's profit of RMB12,361,000 (2004 (restated): loss of RMB92,781,000) attributable to the shareholders and on the existing number of 479,433,003 shares (2004: 479,433,003 shares) that are in issue.

9. FIXED ASSETS

	Land and buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Transport equipment RMB'000	Others RMB'000	Total RMB'000
Cost						
At 1 January 2004	432,603	255,384	19,758	8,146	17,788	736,471
Prior year adjustments	(32,419	-	-	-	-	(2,792)
Restated balance	400,184	255,384	19,758	8,146	17,788	736,471
Additions	95	-	247	109	718	1,169
Disposals	-	-	(170)	-	-	(170)
At 31 December 2004	400,279	255,384	19,835	8,255	18,506	734,678
Accumulated depreciation/ provision for impairment loss						
At 1 January 2004	198,331	238,502	17,105	6,707	15,380	474,363
Prior year adjustments	10,786	-	-	-	-	10,786
Restated balance	209,117	238,502	17,105	6,707	15,380	486,811
Charged for the year	15,356	20	265	179	216	16,036
Prior year adjsutments	863	-	-	-	-	863
	16,219	20	265	179	216	16,899
Written back on disposals	-	-	(170)	-	-	(170)
At 31 December 2004	225,336	238,522	17,200	6,886	15,596	503,546
Net book value						
At 31 December 2004	174,943	16,862	2,635	1,369	2,910	198,719
At 31 December 2003	190,204	16,882	2,653	1,439	2,408	213,586

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

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

9. FIXED ASSETS (Continued)

	Land and buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Transport equipment RMB'000	Others RMB'000	Total RMB'000
Cost						
At 1 January 2005	432,698	255,384	19,835	8,255	18,506	734,678
Prior year adjustments	(32,419)	-	-	-	-	(32,419)
Restated balance	400,279	255,384	19,835	8,255	18,506	702,259
Additions	-	-	594	723	44	1,361
Disposals	(17,205)	-	-	(1,250)	-	(18,455)
At 31 December 2005	383,074	255,384	20,429	7,728	18,550	685,165
Accumulated depreciation/ provision for impairment loss						
At 1 January 2005	213,687	238,522	17,200	6,886	15,596	491,891
Prior year adjustments	116,649	-	-	-	-	11,649
Restated balance	225,336	238,522	17,200	6,886	15,596	503,540
Charged for the year	18,622	818	5	482	135	20,062
Written back on disposals	(12,388)	-	(169)	-	-	(12,557)
At 31 December 2005	231,570	239,340	17,036	7,368	15,731	511,045
Net book value						
At 31 December 2005	151,504	16,044	3,393	360	2,819	174,120
At 31 December 2004	174,943	16,862	2,635	1,369	2,910	198,719

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

10. INTERESTS IN ASSOCIATES

	2005 RMB'000	2004 RMB'000
Capital contributions, at cost	64,704	64,704
Share of post-acquisition loss	(16,122)	(16,122)
Share of net assets of associates	48,582	48,582
Provision for impairment loss	(17,939)	(17,939)
	30,643	30,643
Amounts due to associates	(13,109)	(13,109)
	17,534	17,534

11. FINANCIAL ASSETS AVAILABLE FOR SALE

	2005 RMB'000	2004 RMB'000
Subsidiaries not consolidated, at cost	14,026	14,026
Unlisted equity investments, at cost	9,264	9,264
	23,290	23,290
Provision for impairment loss	(20,490)	(20,490)
	2,800	2,800

12. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	250,724	254,219
Work in progress	5,339	5,515
Finished goods	38,192	52,095
Consumable stores	2,129	1,997
	296,384	313,826
Provision for diminution in value of obsolete inventories	(246,787)	(262,831)
	49,597	50,995

13. ACCOUNTS RECEIVABLE

	2005 RMB'000	2004 RMB'000
Amounts receivable	637,226	645,269
Provision for doubtful debts	(628,371)	(629,243)
	8,855	16,026

14. OTHERS RECEIVABLE AND PREPAYMENTS

	2005 RMB'000	2004 RMB'000
Others receivable	436,650	411,983
Advance payments	5,778	1,942
Prepayments	355	339
	442,783	414,264
Provision for doubtful debts	(412,734)	(388,112)
	30,049	26,152

15. AMOUNTS DUE FROM RELATED COMPANIES

	2005 RMB'000	2004 RMB'000
Amounts due from related companies	1,107,129	1,107,129
Provision for doubtful debts	(1,107,129)	(1,107,129)
	-	-

16. LONG-TERM LOANS DUE TO RELATED COMPANIES

	2005 RMB'000	2004 RMB'000
China Huarong Asset Management Corporation	704,482	721,649
Guangdong Sunrise Holdings Company Limited	232,801	232,801
	937,283	954,450

17. LONG-TERM BORROWINGS

	2005 RMB'000	2004 RMB'000
Secured bank loans	77,731	78,850
Guaranteed bank loans	470,396	477,358
	548,127	556,208
The above borrowings are repayable as follows: overdue but pending, and are expected for restructuring soon	548,127	556,208
More than one year	-	-
	548,127	556,208

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

18. CONTINGENT LIABILITIES AND LOSSES

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

	2005 RMB'000	2004 RMB'000
Guarantees given to bankers, in respect of banking facilities utilised by subsidiaries, associates and related companies	192,061	192,061
Contingent loss on guarantees provided	(166,790)	(166,790)
Contingent liabilities not provided	25,271	25,271

19. SHARE CAPITAL

	2005 RMB'000	2004 RMB'000
Registered, issued and fully paid capital at par value of RMB1 each		
204,747,836 (2004: 204,747,836) domestic shares	204,748	204,748
76,617,000 (2004: 76,617,000) "A" shares	76,617	76,617
198,068,167 (2004: 198,068,167) "B" shares	198,068	198,068
	479,433	479,433

20. MINORITY INTERESTS

	2005 RMB'000	2004 RMB'000
Minority interests	-	-
Absorption of (profit)/loss	-	-
	-	-

21. ASSETS UNDER SECURITY

At 31 December 2005, the buildings and the machinery of the Group at net book value of RMB197,465,000 (2004: RMB197,465,000) together with the guarantees from related companies were used to secure the borrowings of RMB534,890,000 (2004: RMB534,890,000) made available to the Group. However, the Group's collateral with net book value of RMB38,408,000 (2004: RMB38,408,000) was disposed of under auction sales and the transfer of ownership had not yet been completed by the end of this financial year.

22. RELATED PARTY TRANSACTIONS

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

Related parties	Transactions	2005 RMB'000	2004 RMB'000
Guangdong Sunrise Holdings Company Limited (Formerly known as Shenzhen Lionda Holdings Company Limited)	Loan advanced to the Group	-	394
China Huarong Asset Management Corporation	Loan advanced to the Group	-	2,993
	Rental expenses of plant and machinery	210	-
	Plant and machinery management fee paid	110	-

In the opinion of the Company's directors, the abovementioned related party transactions were carried out in the usual course of business of the Group and on normal commercial terms.

23. PRIOR YEAR ADJUSTMENTS

		Accumulated loss at 2005 RMB'000	Loss the year of 2004 RMB'000	Accumulated loss at 1/1/2004 RMB'000
Depreciation for land and buildings under-provided	(a)	11,649	863	10,786
Manufacturing cost for inventories overstated	(b)	1,483	1,483	-
Land buildings overstated	(c)	32,419	-	32,419
Borrowing understated	(d)	23,404	23,404	-
Other receivable understated	(e)	4,066	4,066	-
Provision for claim understated	(f)	1,916	1,916	-
Provision for doubtful debts understated	(g)	25,127	25,127	-
Inventories overstated	(h)	19,520	19,520	-
		119,584	76,379	43,205

a) Depreciation for land and buildings underprovided and adjustment made to increase the loss for the year ended 31 December 2004 by RMB863,000 and increase accumulated loss at 1 January 2004 by RMB10,786,000. Land and building at 1 January 2004 are reduced by RMB11,649,000;

b) Manufacturing cost undercharged due to incorrect apportionment and adjustment made to increase the loss for the year ended 31 December 2004 and accumulated loss at 31 December 2004 by RMB1,483,000;

c) Land and building overstated and adjustment made to increase the accumulated loss and reduce land and building at 1 January 2004 for RMB32,419,000;

d) Other receivable written off and adjustment made to increase the loss for the year ended 31 December 2004 and reduce other receivable at 31 December 2004 for RMB23,404,000;

e) Other long term loan understated and adjustment made to increase the loss for the year ended 31 December 2004 and increase long term loan at 31 December 2004 for RMB4,066,000;

f) Provision for claim understated and adjustment made to increase the loss for the year ended 31 December 2004 and increase other payable at 31 December 2004 for RMB1,916,000;

g) Provision for doubtful debts understated and adjustment made to increase the loss for the year ended 31 December 2004 and reduce other receivable at 31 December 2004 for RMB25,127,000; and

h) Inventories overstated and adjustment made to increase the loss for the year ended 31 December 2004 and reduce inventories at 31 December 2004 for RMB19,520,000.

24. MATTERS OF SIGNIFICANT ISSUES

a) According to the Announcement issued by the Office of the China Banking Regulatory Commission on 7 January 2004, 11 various banks and financial institutions were required to waive the interest expense of the Group for a period of three years commencing 1 January 2002. All interest (including penalty and compound interest) outstanding and accrued by the Group at 31 December 2001 was also waived. The total interest (including penalty and compound interest) prior to 31 December 2001 in the total sum of RMB357,993,665 had already been dealt with in the financial statements. In addition, no interest expense was accrued for the period from 1 January 2002 to 31 December 2004. The interest exemption period had come to an end by 31 December 2005. 東方資產管理公司深圳辦事處, 信達資產管理公司深圳辦事處, 長城資產管理公司深圳辦事處, 長城資產管理公司深圳辦事處 stop to charge interest expenses during the year.

b) On 29 December and 30 December 2005, the Company's major shareholder China Huarong Asset Management Corporation (hereinafter called "Huarong") signed the "Asset Transfer Agreement" and the "Supplementary Agreement" respectively with Shenzhen Julongshing Industrial Development Co., Ltd. (hereinafter called "Julongshing"). The provisions in the agreements that are relevant to the Company are as follows:

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

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

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

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

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

24. MATTERS OF SIGNIFICANT ISSUES (Continued)

b) (Continued)

ii) (Continued)

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

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

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

25. FINANCIAL INSTRUMENTS

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

a) Credit risk

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

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

25. FINANCIAL INSTRUMENTS (Continued)

b) Fair value

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

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

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

26. IMPACT OF IFRS ADJUSTMENTS ON PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

	2005 RMB'000	2004 RMB'000
As reported by PRC Certified Public Accountants	3,738	(93,610)
Adjustments to conform to IFRS		
License fee income	3,318	-
Impairment of investment in subsidiary	(699)	-
Waiver of liabilities	-	691
Exchange gain	-	175
Absorption of operating loss in a subsidiary	-	(21)
Absorption of profit/(loss) from minority interests	6,004	(16)
As restated in conformity with IFRS	12,361	(92,781)

27. IMPACT OF IFRS ADJUSTMENTS ON NET ASSETS

	2005 RMB'000	2004 RMB'000
As reported by PRC Certified Public Accountants	(1,816,023)	(1,702,798)
Adjustments to conform to IFRS		
Absorption of profit/(loss) from minority interests	3,122	(2,880)
As restated in conformity with IFRS	(1,812,901)	(1,705,678)

28. LANGUAGE

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

29. COMPARATIVE FIGURES

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

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