SHENZHEN TELLUS HOLDING CO., LTD.
THE THIRD QUARTERLY REPORT FOR 2006

§1. Important notice

1.1 The Board of Directors, the Supervisory Committee as well as the directors, supervisors and senior management of Shenzhen Tellus Holding Co., Ltd. (hereinafter referred to as the Company) hereby assure that there are not any false records, misleading statements or significant omissions in the materials of this Report, and that they would shoulder any individual and joint responsibility for the authenticity, accuracy and completeness of its contents.

1.2 No director has declared that he/she could not guarantee the authenticity, accuracy and completeness of the contents in this Quarterly Report or that he/she has any objections.

1.3 All directors have attended the Board meeting.

1.4 The Financial Report of this report period has not been audited.

1.5 Mr. Zhang Ruili, Chairman of the Board of the Company, Mr. Fu Bin, CFO of the Company, and Mr. Yang Jianhui, Manager of Planning Financial Dept., hereby declare that the Financial Report in this Quarterly Report is true and complete.

§2. Company profile

2.1 Basic information

Short form of the stock	Tellus A, Tellus B	Short form before change (if have)	G Tellus A, Tellus B
Stock code	000025, 200025		
	Secretary of the Board	Securities Affairs Representative	
Name	Ren Yongjian	Yang Jianhui	
Contact address	15/F, Zhonghe Building, Shennan Middle Road, Futian District, Shenzhen	15/F, Zhonghe Building, Shennan Middle Road, Futian District, Shenzhen	
Telephone	0755-83989338	0755-83989363	
Fax	0755-83989399	0755-83989399	
E-mail	szryj@tom.com	ndbridge@163.net	

2.2 Financial information

2.2.1 Major accounting data and financial indexes

Unit: RMB

	At the end of the report period	At the end of the previous year	Increase/decrease at the end of the report period compared with that at the end of the last year (%)
Total assets	865,123,293.01	859,358,659.13	0.67%
Shareholders' equity (excluding minority interests)	231,378,778.68	225,872,478.83	2.44%
Net assets per share	1.050	1.025	2.44%
Net assets per share after adjustment	0.91	0.89	2.25%
	The report period	From the beginning of the year to the end of the report period	Year-on-year Increase/decrease during the report period (%)
Net cash flow arising from operating activities	-41,224,016.98	-61,976,661.09	-455.88%
Earnings per share	0.011	0.016	145.45%
Earnings per share (note)	0.011	-	-
Return on equity	1.08%	1.54%	0.44%
Return on equity after deducting non-recurring gains	-0.11%	-2.17%	-3.85%

and losses			

Items of non-recurring gains and losses	Amount
Non-operating income	12,216,632.19
Non-operating expense	3,615,700.83
Total	8,600,931.36

2.2.2 Financial statement

2.2.2.1 Balance sheet

Prepared by: Shenzhen Tellus Holding Co., Ltd. Sep. 30, 2006 Unit: RMB

Items	Amount at the end of the period		Amount at the end of the last year	
	Consolidation	Parent company	Consolidation	Parent company
Current assets:				
Monetary funds	97,288,395.72	1,769,123.92	105,804,080.45	833,381.63
Short-term investment				
Notes receivable				
Dividends receivable				
Interests receivable				
Accounts receivable	19,562,849.06	242,401.54	23,910,250.18	242,401.54
Other receivable	80,700,019.67	31,987,450.72	52,311,978.58	28,888,125.17
Accounts in advance	33,205,132.07		21,153,640.77	
Subsidy receivable	602,284.46		602,284.46	
Inventories	96,936,977.18		101,769,734.83	0.00
Prepaid expense	2,921,348.31	0.00	402,116.70	168,330.00
Long-term debt investment due within 1 year				
Other current assets				
Total current assets	331,217,006.47	33,998,976.18	305,954,085.97	30,132,238.34
Long-term investment:				
Long-term equity investment	149,522,934.00	379,577,618.45	138,197,572.90	384,839,745.16
Long-term debt investment	121,300.00		121,300.00	
Total long-term investment	149,644,234.00	379,577,618.45	138,318,872.90	384,839,745.16
Consolidation difference				
Fixed assets				
Fixed assets-at cost	548,740,211.84	162,999,347.37	571,365,232.98	170,748,363.03
Less: Accumulated depreciation	183,340,815.35	50,153,052.31	175,531,932.02	50,258,055.77
Fixed assets-net book value	365,399,396.49	112,846,295.06	395,833,300.96	120,490,307.26
Less: impairment loss	4,231,301.32	3,555,385.70	4,231,301.32	3,555,385.70
Fixed assets-net book amount	361,168,095.17	109,290,909.36	391,601,999.64	116,934,921.56
Construction materials				
Construction in project	138,491.80		0.00	
Disposal of fixed assets			0.00	
Total fixed assets	361,306,586.97	109,290,909.36	391,601,999.64	116,934,921.56
Intangible and other assets:				

Intangible assets	1,307,224.95	1,307,224.95	1,283,424.95	1,283,424.95
Long-term prepaid expenses	10,863,802.33	969,594.24	11,127,551.45	1,432,721.54
Other long-term assets	10,784,438.29		11,072,724.22	
Total intangible and other assets	22,955,465.57	2,276,819.19	23,483,700.62	2,716,146.49
Deferred tax:				
Deferred tax assets				
Total assets	865,123,293.01	525,144,323.18	859,358,659.13	534,623,051.55
Current liabilities:				
Short-term loans	256,941,801.66	137,605,016.01	223,491,173.85	144,613,190.01
Notes payable	95,000,000.00		86,498,377.80	
Accounts payable	38,297,422.80	1,554.00	40,805,353.93	1,554.00
Advance from customers	16,955,525.12		37,095,598.94	
Salary payable	5,445,410.52		6,871,896.79	
Welfare payable	3,687,322.00	25,394.91	4,761,668.91	469,973.22
Dividends payable	1,674,491.98		1,674,491.98	
Taxes payable	2,665,140.36	719,281.89	6,557,071.92	4,294,079.65
Other payments	6,673,213.96	15,575.76	6,631,159.35	2,379.10
Other payables	142,461,146.13	154,113,711.85	124,154,084.91	132,660,988.96
Accrued expenses	4,103,285.05	1,598,341.16	9,105,677.14	1,798,341.16
Foreseeable liabilities			24,452,100.00	24,452,100.00
Long-term liabilities due within 1 year				
Other current liabilities				
Total current liabilities	573,904,759.58	294,078,875.58	572,098,655.52	308,292,606.10
Long-term liabilities:				
Long-term loans				
Bonds payable				
Long-term payable	5,178,640.11		5,548,531.66	
Special payable				
Other long-term liabilities				
Total long-term liabilities	5,178,640.11	0.00	5,548,531.66	0.00
Deferred tax:				
Deferred tax liabilities	3,366,577.43		4,494,155.45	
Total liabilities	582,449,977.12	294,078,875.58	582,141,342.63	308,292,606.10
Minority interests	51,294,537.21		51,344,837.67	
Owner’s equity (Shareholders’ equity):				
Paid-up capital (or share capital)	220,281,600.00	220,281,600.00	220,281,600.00	220,281,600.00
Less: investment returned				
Net paid-up capital (or share capital)	220,281,600.00	220,281,600.00	220,281,600.00	220,281,600.00
Capital reserve	7,264,884.74	7,264,884.74	5,780,685.92	5,780,685.92
Surplus public reserve	3,218,372.66	3,218,372.66	3,218,372.66	3,218,372.66

Including: Statutory public welfare funds				
Retained profit	1,071,887.90	300,590.20	-2,950,213.13	-2,950,213.13
Including: cash dividends				
Unconfirmed investment losses			-457,966.62	
Cumulative translation adjustments	-457,966.62			
Total owner's equity (or shareholders' equity)	231,378,778.68	231,065,447.60	225,872,478.83	226,330,445.45
Total liabilities and owner's equity (shareholder's equity)	865,123,293.01	525,144,323.18	859,358,659.13	534,623,051.55

Legal representative: Zhang Ruili CFO: Fu Bin Principal of accounting organ: Yang Jianhui

2.2.2.2 Statement of Profit and Profit Distribution as of this report period

Prepared by: Shenzhen Tellus Holding Co., Ltd. Jun.-Sep.2006 Unit: RMB

Items	In this report period		The same period of last year	
	Consolidation	Parent company	Consolidation	Parent company
I. Income from main operations	253,929,027.54	3,692,707.43	247,829,869.29	4,206,660.38
Less: Cost of main operations	233,839,318.48	1,030,363.42	222,111,263.02	2,017,554.50
Taxes and extras of main operations	1,035,646.76	192,020.78	1,301,748.38	218,746.34
II. Profit from main operations (losses listed with "-")	19,054,062.30	2,470,323.23	24,416,857.89	1,970,359.54
Add: Profit from other operations (losses listed with "-")	732,849.07		744,012.86	
Less: Operating expense	7,674,124.56		9,831,707.53	
Administrative expense	10,872,257.72	2,705,884.60	10,225,451.32	1,442,025.88
Financial expense	2,393,219.31	1,939,165.86	3,414,595.22	1,780,704.96
III. Operating profit (losses listed with "-")	-1,152,690.22	-2,174,727.23	1,689,116.68	-1,252,371.30
Add: Investment income (losses listed with "-")	992,666.60	382,688.00	1,034,513.19	-2,481.81
Subsidy income				
Non-operating income	3,832,201.20	3,810,383.08	165,907.05	0.00
Less: Non-operating expenses	1,089,026.15	66,130.17	34,989.47	143,825.25
IV. Total profit (losses listed with "-")	2,583,151.43	1,952,213.68	2,854,547.45	-1,398,678.36
Less: Income taxes	246,651.60		247,234.52	
Minority interests	-153,838.70		571,231.19	
Add: Unconfirmed investment losses of the report period				
V. Net profit (losses listed with "-")	2,490,338.53	1,952,213.68	2,036,081.74	-1,398,678.36
Add: Retained earnings at the year-begin	-1,418,450.63	-1,651,623.48	-231,175,505.65	-231,954,364.95
Other transfer-ins			-215,216.71	
VI. Profit available for distribution	1,071,887.90	300,590.20	-229,354,640.62	-233,353,043.31
Less: appropriating statutory surplus reserve				
Appropriating statutory public welfare reserve				
Appropriating employees' bonus and welfare funds				
Appropriating reserve funds				

Appropriating enterprise's development funds				
Investment returned from profit				
VII. Profit available for distribution to investors	1,071,887.90	300,590.20	-229,354,640.62	-233,353,043.31
Less: Dividend for preferred shares payable				
Appropriating discretionary reserve				
Dividend for ordinary shares payable				
Dividend for ordinary shares converted to capital (share capital)				
VIII. Retained earnings	1,071,887.90	300,590.20	-229,354,640.62	-233,353,043.31
Profit statement (Supplemental information)				
1. Profit from selling or disposing branch or investee				
2. Losses from natural disaster				
3. Increase (or decrease) in total profit due to the changes of accounting policies				
4. Increase (or decrease) in total profit due to the changes of accounting estimation				
5. Loss on debts restructure				
6. Others				

Legal representative: Zhang Ruili CFO: Fu Bin Principal of accounting organ: Yang Jianhui

2.2.2.3 Statement of Profit and Profit Distribution from the beginning of the year to the end of the report period

Prepared by: Shenzhen Tellus Holding Co., Ltd. Jan.-Sep.2006 Unit: RMB

Items	In this report period		The same period of last year	
	Consolidation	Parent company	Consolidation	Parent company
I. Income from main operations	832,470,783.38	11,956,047.93	778,482,557.91	12,943,973.36
Less: Cost of main operations	763,861,257.96	3,145,959.62	697,560,589.30	3,556,295.97
Taxes and extras of main operations	3,042,700.94	621,714.48	4,312,770.89	673,086.61
II. Profit from main operations (losses listed with "-")	65,566,824.48	8,188,373.83	76,609,197.72	8,714,590.78
Add: Profit from other operations (losses listed with "-")	1,864,329.32		2,405,822.29	
Less: Operating expense	29,636,917.48		27,535,139.36	
Administrative expense	35,095,152.68	8,700,971.23	36,489,354.02	8,857,268.31
Financial expense	7,375,946.10	5,642,259.21	7,194,363.63	5,088,600.75
III. Operating profit (losses listed with "-")	-4,676,862.46	-6,154,856.61	7,796,163.00	-5,231,278.28
Add: Investment income (losses listed with "-")	2,004,830.46	300,015.92	526,396.09	3,683,001.09
Subsidy income				
Non-operating income	12,216,632.19	9,844,751.75	612,893.11	21,924.63
Less: Non-operating expenses	3,615,700.83	1,186,538.37	1,915,817.09	346,177.84
IV. Total profit (losses listed with "-")	5,928,899.36	2,803,372.69	7,019,635.11	-1,872,530.40
Less: Income taxes	868,124.38		1,179,888.36	
Minority interests	1,486,104.59		3,394,077.03	
Add: Unconfirmed investment				

losses of the report period				
V. Net profit (losses listed with "-")	3,574,670.39	2,803,372.69	2,445,669.72	-1,872,530.40
Add: Retained earnings at the year-begin	-2,950,213.13	-2,950,213.13	-231,927,943.55	-231,927,943.55
Other transfer-ins	447,430.64	447,430.64	127,633.21	447,430.64
VI. Profit available for distribution	1,071,887.90	300,590.20	-229,354,640.62	-233,353,043.31
Less: appropriating statutory surplus reserve				
Appropriating statutory public welfare reserve				
Appropriating employees' bonus and welfare funds				
Appropriating reserve funds				
Appropriating enterprise's development funds				
Investment returned from profit				
VII. Profit available for distribution to investors	1,071,887.90	300,590.20	-229,354,640.62	-233,353,043.31
Less: Dividend for preferred shares payable				
Appropriating discretionary reserve				
Dividend for ordinary shares payable				
Dividend for ordinary shares converted to capital (share capital)				
VIII. Retained earnings	1,071,887.90	300,590.20	-229,354,640.62	-233,353,043.31
Profit statement (Supplemental information)				
1. Profit from selling or disposing branch or investee				
2. Losses from natural disaster				
3. Increase (or decrease) in total profit due to the changes of accounting policies				
4. Increase (or decrease) in total profit due to the changes of accounting estimation				
5. Loss on debts restructure				
6. Others				

Legal representative: Zhang Ruili CFO: Fu Bin Principal of accounting organ: Yang Jianhui

2.2.2.4 Cash Flow Statement from the beginning of the year to the end of the report period

Prepared by: Shenzhen Tellus Holding Co., Ltd. Jan.-Sep.2006 Unit: RMB

Items	From the beginning of the year to the end of the report period	
	Consolidation	Parent Company
Ⅰ. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	932,442,611.68	1,461,903.90
Write-back of tax received	291,207.21	
Other cash received concerning operating activities	208,617,191.11	54,493,048.34
Subtotal of cash inflows:	1,141,351,010.00	55,954,952.24
Cash paid for purchasing commodities and receiving labor service	790,141,076.60	

Cash paid to/for staff and workers	42,939,105.78	3,972,042.62
Taxes paid	25,653,000.83	6,022,828.89
Other cash paid concerning operating activities	344,594,487.88	54,792,260.47
Subtotal of cash outflows:	1,203,327,671.09	64,787,131.98
Net cash flows arising from operating activities	-61,976,661.09	-8,832,179.74
II. Cash flows arising from investing activities:		
Cash received from recovering investment	3,684,465.40	141,000.00
Cash received from investment income	2,769,490.76	589,215.92
Net cash received from disposal of fixed, intangible and other long-term assets	29,854,557.00	10,390,181.00
Other cash received concerning investing activities		
Subtotal of cash inflows:	36,308,513.16	11,120,396.92
Cash paid for purchasing fixed, intangible and other long-term assets	1,361,899.00	16,500.00
Cash paid for investment	12,015,100.00	
Other cash paid concerning investing activities	10,618,080.27	
Subtotal of cash outflows:	23,995,079.27	16,500.00
Net cash flows arising from investing activities	12,313,433.89	11,103,896.92
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	106,180,286.04	37,000,000.00
Other cash received concerning financing activities	39,145,595.39	
Subtotal of cash inflows:	145,325,881.43	37,000,000.00
Cash paid for settling debts	66,460,454.35	32,482,240.00
Cash paid for dividend and profit distributing or interest paying	8,812,851.36	5,853,734.89
Other cash paid concerning financing activities	28,904,427.40	
Subtotal of cash outflows:	104,177,733.11	38,335,974.89
Net cash flows arising from financing activities	41,148,148.32	-1,335,974.89
IV. Influence on cash due to fluctuation in exchange rate	-605.85	
V. Net increase of cash and cash equivalents	-8,515,684.73	935,742.29
Supplemental information		
1. Adjusting net profit to cash flows for operating activities		
Net profit	3,574,670.39	2,803,372.69
Add: Appropriated reserve for devaluation of assets	41,883.48	
Depreciation of fixed assets	13,752,392.69	3,607,110.26
Amortization of intangible assets	200.00	200.00
Amortization of long-term prepaid expense	3,099,324.41	632,547.30
Decrease of deferred and prepaid expenses (less: increase)	-2,612,446.90	168,330.00
Increase of accrued expenses (less: decrease)	-4,689,537.91	-200,000.00
Loss on disposal of fixed, intangible and other long-term assets (Less: income)	-11,168,223.80	-9,031,605.93

Loss on rejection of fixed assets		
Financial expenses	7,403,502.09	5,642,259.21
Investment loss (Less: income)	-2,688,425.13	-300,015.92
Deferred tax liabilities (Less: assets)	1,205,351.68	
Decrease of inventories (Less: increase)	-2,368,357.41	
Decrease of receivables in operating (Less: increase)	-84,172,239.78	2,059,353.17
Increase of payables in operating (Less: decrease)	15,159,140.51	-14,213,730.52
other		
Minority interests	1,486,104.59	
Net cash flows arising from operating activities	-61,976,661.09	-8,832,179.74
2. Investment and financing activities without cash movement		
Capital converted from debts		
Convertible bonds due within one year		
Financing leased fixed assets		
3. Net increase of cash and cash equivalents:		
Balance of cash at the period-end	97,288,395.72	1,769,123.92
Less: Balance of cash at the period-begin	105,804,080.45	833,381.63
Add: Balance of cash equivalents at the period-end		
Less: Balance of cash equivalents at the period-begin		
Net increase of cash and cash equivalents	-8,515,684.73	935,742.29

Legal representative: Zhang Ruili CFO: Fu Bin Principal of accounting organ: Yang Jianhui

2.3 Total number of shareholders at the end of the report period and shares held by the top ten shareholders

Total number of shareholders at the end of report period		**16,908**
Particulars about shares held by the top ten shareholders not subject to moratorium		
Name of shareholders	**Number of holding shares not subject to moratorium**	**Type (A, B, H and other)**
Zhong Yaoxiang	400,763	A-share, B-share
He Xing	328,016	B-share
Hu Guanghua	290,386	B-share
Mei Zhengshui	281,400	A-share
Sun Xiaowei	254,000	A-share
Wu Qiguo	232,000	A-share
Ye Fei	224,800	A-share
Cai Xiaoling	213,640	A-share
Yang Wu	213,500	A-share
Hu Yongsen	213,240	A-share

§3. Discussion and analysis of the Management

3.1 Brief analysis of total status of operating activities in the report period

In the report period, the Company’s income from main operations increased by 6.94 percent compared with the same period of the last year, which was due to increase of the sales volume of automobile. The Company’s cost of main operations has increased alongside the increase of income from main operations with up 9.5 percent over the same period of the last year, a 2.56 percent more than the income, which was due to the decrease of gross profit of automobile sale year-on-year. In the report period, period expenses was RMB 72.11 million, an increase of RMB 0.89 million year-on-year with up 1.23 percent; of which, operating expenses increased by 2.1

million (deducting RMB 6.23 million were not entirely comparable with the same period of the previous years, and actually decreased by 12.23 percent year-on-year), administrative expenses decrease by RMB 1.39 million year-on-year, and financial expenses increased by 0.18 million year-on-year. The total profit as of this report period decreased by 1.09 million compared with the same period of the last year, and accumulatively realized net profit amounting to RMB 3.575 million, an increase of 1.129 million compared with RMB 2.446 million realized in the same period of the last year.

3.1.1 Particulars about main industries or products taking over 10% of the total amount of income from main operations or profit of main operations

√Applicable ☐Inapplicable

Unit: RMB'0000

Main operations classified according to industries			
	Income from main operations	Cost of main operations	Profit ratio of main operations (%)
Other social service	5,144.04	4,040.24	20.78%
Other wholesale and retail trade	71,951.49	69,638.45	3.19%
Lease service	6,089.31	2,687.30	51.74%
Including: related transaction	0.00	0.00	0.00%
Main operations classified according to products			
Automobile inspection and maintenance	5,144.04	4,040.24	20.78%
Automobile trade	71,951.49	69,638.45	3.19%
Lease service	6,089.31	2,687.30	51.74%
Including: related transaction	0.00	0.00	0.00%

3.1.2 Seasonal or periodic characteristics of the operations of the Company

☐Applicable √Inapplicable

3.1.3 Breakdown of profit in the report period (significant changes of the proportions taken up of the total profit by the profit from main operations, profit from other operations, period expenses, investment income, subsidy income and net non-operating income and expense compared with that of the last report period, and explanation on reasons)

☐Applicable √Inapplicable

3.1.4 Explanation on material change of main operation and its structure compared with that of the previous report period and explanations on the reasons

☐Applicable √Inapplicable

3.1.5 Explanation of reason and material change of profitability capability of main operations (gross profit ratio) compared with that of the previous report period

☐Applicable √Inapplicable

3.2 Analysis and explanation of significant events and the influence and solutions

Non-operating capital occupation and clearing progress

☐Applicable √Inapplicable

3.3 Changes of the accounting policies, accounting estimation and consolidation scope as well as significant accounting errors, and explanations on the reasons

□Applicable √Inapplicable

3.4 Relevant explanations given by the Board of Directors and the Supervisory Committee under the situation of being given "qualified opinions" after auditing

□Applicable √Inapplicable

3.5 Warnings of possible loss or large-margin change of the accumulated net profit made during the period from the beginning of the year to the end of the next report period compared with the same period of the last year according to prediction, as well as explanations on the reasons

□Applicable √Inapplicable

3.6 Rolling adjustment of annual business plan or budget ever disclosed

□Applicable √Inapplicable

3.7 Special commitment made by the shareholders originally holding non-tradable shares in course of share merger reform and their implementations

√Applicable □Inapplicable

Name of shareholder	Special commitment	Commitment implementation
Shenzhen SDG Co., Ltd.	Within 36 months since the date that the Company implement the share merger reform plan, SDG would not list with Shenzhen Stock Exchange and sell Tellus it held (except for the shares used to promote the administration level of Tellus).	SDG was implementing the commitment in share merger reform plan of the Company.

3.8 Explanations by companies that have not entered into the share merger reform by the disclosure date of the 3rd quarterly report

□Applicable √Inapplicable

Shenzhen Tellus Holding Co., Ltd.
Chairman of the Board: Zhang Ruili
Oct. 24, 2006