深圳市特力（集团）股份有限公司

SHENZHEN TELLUS HOLDING CO., LTD

ANNUAL REPORT 2006

March 30, 2007

Important Notes: Board of Directors, Supervisory Committee, all directors, supervisors and senior executives of ShenZhen Tellus Holding Co., Ltd. (hereinafter referred to as the Company) hereby confirm that there are no any fictitious statements, misleading statements, or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents. This report has been prepared in Chinese version and English version respectively. In the event of difference in interpretation between the two versions, the Chinese report shall prevail.

Chairman of the Board of the Company, General Manager, Chief Financial Officer and Manager of Financial Department hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

Section I. Company Profile

1. Legal Name of the Company in Chinese: 深圳市特力（集团）股份有限公司
Legal Name of the Company in English: ShenZhen Tellus Holding Co., Ltd.

2. Legal Representative: Zhang Ruili

3. Secretary of the Board of Directors: Ren Yongjian
Contact Tel: (86) 755-83989338
Fax: (86) 755-83989399
E-mail: ryj@tellus.cn
Securities Affairs Representative: Yang Jianhui
Contact Tel: (86)755-83989363
Fax: (86)755-83989399
E-mail: yjh@tellus.cn

4. Registered Address: the 3/F, Tellus Building, Shui Bei Er Road, Luohu District, Shenzhen
Office Address: the 15/F, Zhonghe Building, Shennan Middle Road, Futian District, Shenzhen
Post Code: 518031
Web site of the Company: www.tellus.cn
E-mail: sztljtgf@public.szptt.net.cn

5. Newspapers Chosen by the Company for Disclosing the Information: Securities Times (Shenzhen) and Hong Kong Wen Wei Po
Internet Website for Publishing the Annual Report: http://www.cninfo.com.cn
The Place Where the Annual Report is Prepared and Placed: Secretariat of the Board of Directors of ShenZhen Tellus Holding Co., Ltd.

6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock and Stock Code: Tellus-A (000025) Tellus-B (200025)

7. Other related information:
(1) Initial registration date: Nov. 10, 1986
Initial Registration Place: No. 104, Shui Bei Er Road, Luohu District, Shenzhen
Registration number of enterprise legal person’s business license: 19219221-0

(2) Registered number of taxation: SDS Zi 440303192192210
GS Zi 440301192192210

(3) Certified Public Accountants engaged by the Company:
Domestic: Shenzhen Nanfang Minhe Certified Public Accountants
Address: the 8/F, Electronics Building, No. 2072 Shennan Middle Road, Shenzhen
International: Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants
Address: the 8/F, Electronics Building, No. 2072 Shennan Middle Road, Shenzhen

Section II. Summary of Financial Highlight and Business Highlight

(I) Accounting data and financial indexes as of the year 2006

Unit: RMB

Total profit	-87,222,546.28
Net profit	-92,148,791.60
Net profit after deducting non-recurring gains and losses	-7,861,349.37
Profit from main operations	93,135,661.10
Other operating profit	3,213,453.96
Operating profit	-16,751,953.94
Investment income	14,934,820.23
Subsidy income	
Net non-operating income/expenses	-85,405,412.57
Net cash flow arising from operating activities	5,551,011.33
Net increase in cash and cash equivalents	-30,380,559.81
Note: Items of non-recurring gains and losses and the relevant amount	
1. Income from disposal of long-term investment	1,671,820.87
2. Funds occupied capital received from non-finance enterprises reckoned into this period	25,200.00
3. Non-operating income	12,570,418.57
4. Non-operating expenses after deducting reserve for impairment losses	-97,975,831.14
5. Previous reserve for impairment losses switched back	
6. Impact on income tax	-579,050.53
7. Subtotal amounts involved of the above items	-84,287,442.23

Note: As audited by domestic certified public accountants, the Company's net profit as of the year 2006 was RMB -92,149,000, while as audited by international certified public accountants, the net profit was RMB -88,604,000, which has increased by RMB 3,545,000 than the domestic result. The reasons are as follows:

The evaluation and amortization of long-term investment has increased by RMB 483,000, valuation with object investment has decreased by RMB 269,000, excess deficit of subsidiaries has decreased by RMB 399,000, occupied capital received from the related transaction has increased by RMB 51,000, income from debts reorganization has increased by RMB 1,484,000 and fair value of investment property has increased by RMB 2,195,000.

(II) Major accounting data and financial indexes over the past three years (Unit: RMB)

Items	2006	2005	2004
Income from main operations	1,133,692,161.07	1,043,810,667.42	1,124,745,615.76
Net profit	-92,148,791.60	5,676,304.77	4,319,754.28
Total assets	830,866,309.81	859,358,659.13	1,063,458,822.65
Shareholders' equity	134,859,194.63	225,872,478.83	216,276,817.86
Fully diluted earnings per share	-0.4183	0.0258	0.02
Weighted average earnings per share	-0.4183	0.0258	0.02

Fully diluted earnings per share after deducting non-recurring gains and losses	-0.0357	0.0171	-0.0093
Weighted average earnings per share after deducting non-recurring gains and losses	-0.0357	0.0171	-0.0093
Net assets per share	0.612	1.025	0.98
Net assets per share after adjustment	0.47	0.89	0.14
Net cash flow per share arising from operating activities	0.025	0.16	-0.36
Fully diluted return on equity (%)	-68.33	2.51	2.00
Weighted average return on equity (%)	-51.25	2.59	2.02
Fully diluted return on equity after deducting non-recurring gains and losses (%)	-5.83	1.66	-0.95
Weighted average return on equity after deducting non-recurring gains and losses (%)	-4.37	1.72	-0.96

(III) Supplemental statement of profit as of year 2006

Return on equity and earnings per share are calculated according to Preparing Regulations on the Information Disclosure of Companies Publicly Issuing Securities (No. 9) released by China Securities Regulatory Commission

Items	**2006**			
	Return on equity（%）		**Earnings per share （RMB/share）**	
	Fully diluted	**Weighted average**	**Fully diluted**	**Weighted average**
Profit from main operations	69.06	51.80	0.4228	0.4228
Operating profit	-12.42	-9.32	-0.0760	-0.0760
Net profit	-68.33	-51.25	-0.4183	-0.4183
Net profit after deducting non-recurring gains and losses	-5.83	-4.37	-0.0357	-0.0357

(IV) Changes in shareholders' equity (Unit: RMB)

Items	Share capital	Capital reserve	Surplus reserve	Statutory welfare fund	Retained profit	Unconfirmed investment losses	Total shareholders' equity
Amount at the period-begin	220,281,600	5,780,685.92	3,218,372.66	3,218,372.66	-2,950,213.13	-457,966.62	225,872,478.83
Increase in the report period	--	1,535,040.46	--	--	-92,148,791.60	-399,533.06	-91,013,284.20
Decrease in the report period	--	--	3,218,372.66	--	--	--	--
Amount at the period-end	220,281,600	7,315,726.38	0	3,218,372.66	-95,099,004.73	-857,499.68	134,859,194.63

Explanation on reason for change:

Decrease of shareholders' equity was mainly because that the deficit in this year resulted from the confirmed guarantee loss amounting to RMB 87,570,000 involved in the lawsuits of guarantee on Shenzhen Petrochemical Industry (Group) Co., Ltd.by the Company.

(1) Other capital reserve as of the report period has increased by RMB 1,484,198.82 due to the debts reduction of RMB 1,484,198.82, from which the Company came to an agreement of debts exemption with the debtee in the year 2006.

(2) Difference price due to related transaction as of the report period has increased by RMB 50,841.64, which was mainly because the Company received the occupied capital exceeding interest rate of fixed deposit for one year from the related parties.

2. Unconfirmed investment losses have decreased by RMB 399,533.06, which was mainly because the increased investment of the subsidiaries with the negative in owners' equity in this report period exceeded the investment loss.

Section III. Changes in Share Capital and Particulars about Shareholders

I. Changes in share capital

(I) The Share Merger Reform Plan of the Company was officially implemented on Jan.4, 2006. After implementation, the shares of the Company changed over the same period of 2005; ended as Dec.31, 2006, the stock structure of the Company was as follows:

	Before the Changes		Increase/Decrease in the Change (+, -)					After the Change	
	Amount	**Proportion (%)**	**Issuance of new shares**	**Bonus shares**	**Capitalization of public reserve**	**Other**	**Subtotal**	**Amount**	**Proportion (%)**
I.Restricted shares	159558800	72.45	0	13717440(-)	0	0	13717440(-)	145870560	66.22
1. State-owned shares	0	0	0	0	0	0	0	0	0
2.State-owned legal person's shares	159588000	72.45	0	13717440(-)	0	0	13717440(-)	145870560	66.22
3.Otherdomestic shares	0	0	0	0	0	0	0	0	0
Including:	0	0	0	0	0	0	0	0	0
Domestic legal person's shares	0	0	0	0	0	0	0	0	0
Domestic natural person's shares	0	0	0	0	0	0	0	0	0
4.Foreign shares	0	0	0	0	0	0	0	0	0
Including: Foreign legal person's shares	0	0	0	0	0	0	0	0	0
Foreign natural person's shares	0	0	0	0	0	0		0	0
II. Unrestricted shares	60693600	27.55	0	13717440(+)	0	0	13717440(+)	74411040	33.78
1.RMBOrdinary shares	34293600	15.57	0	13717440(+)	0	0	13717440(+)	48011040	21.80
2.Domestically listed foreign shares	26400000	11.98	0	0	0	0	0	26400000	11.98
3.Overseaslisted foreign shares	0	0	0	0	0	0	0	0	0
4. Others	0	0	0	0	0	0	0	0	0
Ⅲ.Unlisted foreign-funded shares	220281600	100	0	0	0	0	0	220281600	100

The date for the restricted shares to be listed

Unit: Share

Date	The amount of additional listed shares expired the restricted period	Balance of the amount of restricted shares	Balance of the amount of unrestricted shares	Explanations
Jan.4, 2009	145,870,560	0	193,881,600	Excluding the shares used in Equity Encouragement Mechanism

Note: The shares in the sheet did not include B-share.

Shares held by the top ten restricted shareholders and restricted conditions

Unit: Share

No.	Name of the restricted shareholders	Amount of the restricted shares held	Date to be listed	Amount of the additional listed shares	Restricted condition
1	Shenzhen SDG Co., Ltd.	145,870,560	Jan. 4, 2009	145,870,560	Within 36 months since the date that the Company implement the equity division reform plan (Jan. 4, 2006), SDG would not list with Shenzhen Stock Exchange and sell the ST Tellus it held (except for the shares used in Equity Encouragement Mechanism to promote the administration level of ST Tellus). To effectively boost the core management level and business backbones for long, SDG would take out its shares, not exceeding 10% in total number after the share-trading reform, and apply them to the boost of the administration level. The shares would be sold to the Company's administrative level over 3 years.

(II) Share issuance and listing

1. Particulars about issuance of share and its derivative securities in the recent three years: the Company had issued neither additional shares nor derivative securities in recent three years.

2. In the report period, the stock structure of the Company changed due to the implementation of Share Merger Reform. After implementing the plan, the Company's

total share capital remained unchanged.; the Company had never been involved in any events which may cause change of the total shares and the equity structure such as bonus shares, share capital converted, rationed share, additional issuance, absorption and combination, transferring convertible company bonds into shares, reduction of capital, listing of inner employees' shares or company's employees' shares, etc..

3. The company had no present inner employees' share.

(III) Particulars about the main shareholders

1. Ended Dec. 31, 2006, the Company had totally 16,628 shareholders, including 12,672 shareholders of A-share and 3,956 shareholders of B-share.

2. Ended Dec. 31, 2006, particulars about shares held by the top ten shareholders

Number of Shareholders and Particulars about Shares Held

Unit: share

Total number of shareholders		**16,628 shareholders (including 12,672 shareholders of A-share and 3,956 shareholders of B-share)**			
Particulars about shares held by the top ten shareholders					
Full name of Shareholder	**Type of shareholders**	**Proportion (%)**	**Total number of shares held**	**Number of non-circulation shares held**	**Share pledged or frozen**
SHENZHEN SDG CO., LTD.	State-owned shareholder	66.22	145,870,560	145,870,560	0
HE XING	Other	0.15	327,016	0	Unknown
HU GUANG HUA	Foreign-funded shareholder	0.13	290,386	0	Unknown
MEI ZHENG SHUI	Other	0.13	281,400	0	Unknown
CHEN SAI YING	Other	0.13	280,476	0	Unknown
LIU JING YING	Other	0.13	280,000	0	Unknown
SUN XIAO WEI	Other	0.12	254,000	0	Unknown
XIAO SHAO LONG	Other	0.11	239,300	0	Unknown
WU QI GUO	Other	0.11	232,000	0	Unknown
ZHANG QING	Other	0.10	227,200	0	Unknown

Particulars about shares held by the top ten shareholders of circulation share		
Name of shareholders	**Numbers of circulation share held**	**Type of share**
HE XING	327,016	Domestically listed foreign shares
HU GUANG HUA	290,386	Domestically listed foreign shares
MEI ZHENG SHUI	281,400	RMB ordinary shares
CHEN SAI YING	280,476	RMB ordinary shares
LIU JING YING	280,000	RMB ordinary shares
SUN XIAO WEI	254,000	RMB ordinary shares
XIAO SHAO LONG	239,300	RMB ordinary shares
WU QI GUO	232,000	RMB ordinary shares

ZHANG QING	227,200	Domestically listed foreign shares
LIU HUI	225,999	RMB ordinary shares
Explanation on associated relationship among the top ten shareholders or consistent action	Among the top ten shareholders, there exists no associated relationship between the state-owned legal person's shareholders Shenzhen SDG co., Ltd and other shareholders, and they do not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies. For the shareholders of circulation share, the Company is unknown whether there exists associated relationship or not.	

(III) Particulars about the controlling shareholder

1. Name of the controlling shareholder of the Company: Shenzhen SDG Co., Ltd. (state-owned shareholder)

Legal representative: Liu Aiqun

Date of establishment: In June 1982

Registered capital: RMB 1,582,820,000

Company type: Limited Company

Business scope: development and operation of real estates, domestic trading, supply and marketing of materials (excluding monopoly products), consultant of economic information (excluding limit items), operating import and export business, industry traffic and transportation, tourism, finance and trust, issuance of securities and so on.

Ended Dec. 31, 2006, the shares held by the shareholder of SDG: 43.30% equity of Shenzhen SDG Co., Ltd. was held by Shenzhen Investment Holding Co., Ltd.

2. About the controlling shareholder or actual controller the of the Company's controlling shareholder:

Name of shareholder: Shenzhen Investment Holding Co., Ltd.

Legal representative: Chen Hongbo

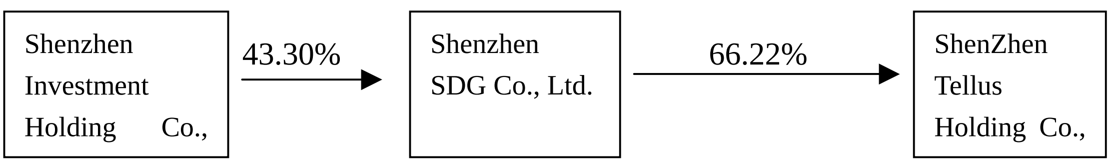
Date of foundation: Oct. 13, 2004

Registered capital: RMB 4 billion

Company type: Limited Company (State-owned Sole Corporation)

Business scope: providing guarantee for municipal state-owned enterprises; management of state-owned equity except for enterprises supervised by the State-owned Assets Supervision and Administration Commission of Shenzhen; assets reorganization, reformation and capital operation of enterprises; investment; and other operations authorized by Municipal SASAC.

The controlling relationship between the Company and the actual controller is as follows:



(IV) Ended Dec. 31, 2006, the Company exist no shareholder of legal person' share holding 10% equity (including 10%).

Section IV. Particulars about directors, supervisors, senior executives and employees

I. Basis information of directors, supervisors and senior executives

Names	Sex	Age	Titles	Office term	Amount of shares held (Share)	
					At the period-begin	At the period-end
Zhang Ruili	Male	43	Director, Chairman of the Board	June 17, 2006-June 16, 2009	0	0
Cheng Peng	Male	43	Director, General Manager	June 17, 2006-June 16, 2009	0	0
Fu Bin	Male	44	Director, CFO	June 17, 2006-June 16, 2009	0	0
Li Mingjun	Female	41	Director	June 17, 2006-June 16, 2009	0	0
Xue gang	Male	35	Director	June 17, 2006-June 16, 2009	0	0
Chen Baojie	Male	39	Director	June 17, 2006-June 16, 2009	0	0
Zhou Chengxin	Male	51	Independent Director	June 17, 2006-June 16, 2009	0	0
Shi Weihong	Female	39	Independent Director	June 17, 2006-June 16, 2009	0	0
Ji Dejun	Male	62	Independent Director	June 17, 2006-June 16, 2009	0	0
Li Binxue	Male	48	Supervisor, Chairman of the Supervisory	June 17, 2006-June 16, 2009	0	0
Luo Tao	Male	44	Supervisor	June 17, 2006-June 16, 2009	0	0
Zhang Xinliang	Male	36	Supervisor	June 17, 2006-June 16, 2009	0	0
Yang Jianhui	Male	36	Employee Supervisor	June 17, 2006-June 16, 2009	0	0
Wang Guangye	Male	48	Employee Supervisor	June 17, 2006-June 16, 2009	0	0
Guo Dongri	Male	41	Deputy General Manager	June 17, 2006-June 16, 2009	0	0
Ren Yongjian	Male	43	Deputy General Manager, Secretary of the Board	June 17, 2006-June 16, 2009	0	0
Luo Bojun	Male	44	Deputy General Manager	June 17, 2006-June 16, 2009	0	0
Feng Yu	Male	39	Deputy General Manager	June 17, 2006-June 16, 2009	0	0

II. Main work experience of directors, supervisors and senior executives in the recently five years and particulars about holding the post or taking part-time job in other units barring the Shareholding Company

Name	Main work experience and holding the post or taking part-time job
Zhang Ruili	He ever took the posts of Divisional Manager of Financial Company of Shenzhen Special Economic Zone Development (Group) Company and Manager of Assets Department of Shenzhen Special Economic Zone Development (Group) Company; now, he takes the post of Chairman of the Board of the Group. At the same time, he concurrently Chairman of the Board in Shenzhen Auto Industries & Trading Corporation (the controlling subsidiaries of the Company), Chairman of the Board in Shenzhen Huari Automobile Co. Ltd. (the controlling subsidiaries of the Company) and Vice Chairman of the Board in Shenzhen Renfu Tellus Automobile Service Co., Ltd. (the share-holding company of the Company).
Cheng Peng	He ever took the post of Director of General Office in Shenzhen Kaifeng Special Automobile Industry Co., Ltd., and successfully took the posts of Deputy Ministry and Ministry of Enterprist Management Department, General Manger and Vice Secretary of Party Committee in Shenzhen Auto Industries & Trading Corporation. He now acts as Director and General Manager of the Group. At the same time, he concurrently took the post of Director of Shenzhen Auto Trading Corporation (the controlling subsidiaries of the Company), Director of Shenzhen Huari Automobile Co. Ltd. (the controlling subsidiaries of the Company) and Director of China Pufa Machinery Industry Corporation (the share-holding company of the Company).
Fu Bin	He ever took the post of lecturer in Hunan College of Finance and Economics, Business Manager of Assets Operation Department in Shenzhen SDG Co., Ltd., CFO of Shenzhen SDG Xiaomeisha Tourism Center. He now acts as Director and CFO of the Group. At the same time, he concurrently took the post of Director Shenzhen Auto Trading Corporation (the controlling subsidiaries of the Company)
Li Mingjun	She ever took the post of Manger of Financial Department, Employee Supervisor of ShenZhen Tellus. CFO of Shenzhen SDG Xiaomeisha Tourism Center. She now acts as Director of the Group and Manager of Planning and Financial Department of Shenzhen SDG Co., Ltd.
Xue Gang	He ever took the post of Business Manger of Asset Operation Dept. and Deputy General Manager of Enterprise Division I of Shenzhen Special Economic Zone Development (Group) Company, Employee Director, Secretary of Board, and Manger of Investment Department of Shenzhen SDG Co., Ltd. Now, he takes the post of director of the Company.
Chen Baojie	He ever took the post of inspector of Tianjin Military Procuratorate and Beijing Military Area Command Procuratorate; Deputy Director of Member Dept., Office Director of Shenzhen Enterprise Confederation and Shenzhen Entrepreneur Association; Assistant to General Manger and Office Director of Beijing Youji Real-estate Development Co., Ltd. Now, he takes the post of director of the group, employee director and Secretary of Board of Directors of Shenzhen SDG Co., Ltd.

Zhou Chengxin	He ever took the post of Lector and Associate Professor in Law College of Wuhan University (during the period, visiting scholar of U.S.A Michigan University, further studied American Business Law and Law of International Commercial Arbitration); Deputy Director, Deputy Researcher of Law and Researcher of Institute of Shenzhen Legal System. Now, he acts Deputy Researcher of Law and Researcher of Institute of Shenzhen Legal System (Law Service Department of Shenzhen WTO Affairs Center). At the same time, he concurrently takes Intercessor of China International Economic and Trade Arbitration Commission and social post of intercessor of Shenzhen, Zhuhai, Shanghai, Nanjing Arbitration Commission; Lawyer of Guangdong Orient Kunlun Law Firm Shenzhen Branch; Deputy of Shenzhen 4th People's Congress and Committee for Legal Affairs; Expert of Shenzhen Expert Consultative Committee. Now, he acts the Independent Director of the group and concurrently takes the Independent Director of Shenzhen Nanshan Power Co., Ltd.
Shi Weihong	She successively took the post of Accountant in Shenzhen Sunshine Certified Public Accountants, Head of Sunshine Certified Public Accountants, as a convener of Sunshine Certified Public Accountants; she reformed the said CPA into a partnership with corporation responsibility system and acted as chief partner. She obtained certificate for CPA, Certificate for Chinese Certified Assets Appraiser, Certificate for Chinese Certified Tax Agents and Certificate for Professional of Budgetary Estimation and Budget of Guangdong Province Construction Engineering. She took charge the auditing, evaluation and liquidation of all kind of enterprises early and late, and accumulated a plenty of experiences. She now acts as Independent Director of the Group.
Ji Dejun	He ever took the post of GM of Shenzhen Industry Co., Ltd.; Chief Economist of Shenzhen Special Economic Zone Development (Group) Company; Chairman of Shenzhen SDG Information Co., Ltd and Shenzhen SDG Information Alcatel Fiber Co., Ltd. Now, he acts the Independent Director of the group, and concurrently Independent Director of Shenzhen Century Plaza Hotel Co., Ltd and Guilin Tourism Corporation Limited.
Li Binxue	He successfully took the posts of Manager of Technology Dept. and Production Dept. of Shenzhen Shenguang Industrial Company, Business Manager of Enterprise Dept. in Shenzhen Special Economic Zone Development (Group) Company, Deputy Director of Technology Development Center and Deputy Manager of Investment Development Dept. of Shenzhen Special Economic Zone Development (Group) Company. Now he takes the post of Chairman of the Supervisory Committee of the Group, and concurrently acts as Secretary of Discipline Inspection Commission of the Group.
Luo Tao	He ever took the posts of Deputy Chief Engineer of Shenzhen Changhong Communication Equipment Co., Ltd., Deputy Manager of Development Dept. and Deputy Manager of Enterprise Dept. of Shenzhen Special Economic Zone Development (Group) Company. He now acts as Supervisor of the Group, Manager of Investment and Development Department of Shenzhen SDG Co., Ltd. At the same time, he concurrently holds the post of Director of Shenzhen SDG Information Co., Ltd.

Zhang Xinliang	He ever took the post of Manager of Financial Dept in Machinery And Equipment Import And Export Company, Deputy Manager of Shenzhen SDG Co., Ltd. Now, he acts the supervisor of the group, Head of Audit and Supervision Dept. and concurrently the Secretary of the Board of Shenzhen SDG Co., Ltd.
Yang Jianhui	He ever took the post of Head of Auditing Dept. and of Enterprise Management Dept. and Head of Enterprise Management Department in Shenzhen Auto Industrial Trading Corporation. He now acts as Manager of Planning & Financial Dept. in Shenzhen Tellus Holding Co., Ltd, Employee Supervisor of the Group, at the same time, he concurrently took the post of Director of Shenzhen Tellus New Yongtong Automobile Development Co., Ltd. (the controlling subsidiaries of the Company), of Shenzhen SDG Tellus Property Management Co., Ltd. (the controlling subsidiaries of the Company) and Shenzhen Xinglong Mould Company (the share-holding company of the Company).
Wang Guangye	He ever took the post of Deputy General Manger of Financial Department and Deputy General Manager of Auditing Department in ShenZhen Tellus Holding Co., Ltd. Now, he acts as the Manager of Auditing Department in ShenZhen Tellus Holing Co., Ltd and Employee Supervisor of the group.
Guo Dongri	He ever took the posts of Manager of Chinamarketing Department of Shanghai Pepsi Food Co., Ltd. and Assistant General Manager of the Group. He now acts as Deputy General Manager of the Group. At the same time, he concurrently took the posts of Chairman in ShenZhen Tellus Automobile Service Development Co., Ltd. (the share-holding subsidiaries of the Company) and of Shenzhen Renfu Tellus Automobile Service Co., Ltd. (the share-holding company of the Company).
Ren Yongjian	He ever took the posts of Deputy Manager of Planning & Financial Dept. and Manager of Auditing Dept. in Shenzhen Special Economic Zone Development (Group) Company; Director and CFO in ShenZhen Tellus Holding Co., Ltd. He now acts as Deputy General Manager of the Group and concurrently holds the post of Secretary of the Board. At the same time, he concurrently takes the posts of Director of Shenzhen Auto Industrial Trading Corporation (the controlling subsidiary of the Company) and of Shenzhen Xinglong Mould Company (the share-holding company of the Company)
Luo Bojun	He ever took the post of Deputy Manager of HR Dept. and Director of Human Resource Communication Training Center in Tellus Group, and Deputy General Manger of Shenzhen Auto Industrial Trading Corporation. Now he takes the post of Deputy General Manager of the Group, at the same time, he concurrently took the posts of Director of Shenzhen Auto Industrial Trading Corporation (the controlling subsidiary of the Company), Director of Shenzhen Huari Automobile Co. Ltd. (the controlling subsidiaries of the Company), Chairman of the Board of Shenzhen SDG Tellus Real Estates Co., Ltd. (the controlling subsidiaries of the Company) and Chairman of the Board of Shenzhen Teyao Investment Development Co., Ltd. (the controlling subsidiaries of the Company).
Feng Yu	He ever took the Deputy General Manger of Shenzhen Xianke Real-estate Co., Ltd., Manager of Investment Department of China Sports Group Industry Co., Ltd.; Director to the Office of General Manger of Shenzhen SDG Co., Ltd; Supervisor of the group. Now, he acts as the Deputy General Manager of the group.

Note: Particulars about directors and supervisors holding the post in Shareholding

Company

Name	Name of Shareholding Company	Title in Shareholding Company	Office term
Li Mingjun	Shenzhen SDG Co., Ltd.	Manager of Planing & Financial Dept.	March, 2006 till now
Xue Gang	Shenzhen SDG Co., Ltd.	Manager of Investment Dept.	March-Dec.,2006
Chen Baojie	Shenzhen SDG Co., Ltd.	Employee Director, Secretary of the Board of the Directors	Dec., 2006 till now
Luo Tao	Shenzhen SDG Co., Ltd.	Manager of Investment and Development Dept.	Dec., 2006 till now
zhangXinliang	Shenzhen SDG Co., Ltd.	Manager of Audit and Supervision Dept.	March, 2006 till now

III. Particulars about the annual remunerations of directors, supervisors and senior executives in office at present

(I) In the report period, the remuneration and welfare of directors, supervisors and senior executives taking the position in the Company were determined in accordance with the present distribution system, welfare system of the Nation and the Company and work position in the Company. As decided by the Extraordinary Shareholders' General Meeting 2002 of the Company, the allowance of three independent directors of the Company was respectively RMB 30,000 per year.

(II) In the report period, the Company has 18 directors, supervisors and senior executives in office at present, among them, 13 persons drew the remuneration from the Company. The total annual remuneration received from the Company was RMB 1,424,500.

Unit: RMB'000

Name	Total remuneration	Name	Total remuneration
Zhang Ruili	19.5	Li Binxue	15.7
Cheng Peng	16.1	Yang Jianhui	9.2
Fu Bin	13.9	Wang Guangye	9.1
Zhou Chengxin	3.0	Guo Dongri	13.9
Shi Weihong	3.0	Ren Yongjian	13.9
Ji Dejun	1.75	Luo Bojun	13.1
		Feng Yu	10.3

(III) Directors and supervisors taking the position in the Company received their remuneration according to their position in the Company, Li Mingjun, Xue Gang, Chen Baojie, Luo Tao and Zhang Xinliang took the positions in the shareholding companies of the Company and drew their remuneration from these companies, while received no payment from the Company.

IV. During the report period, name of directors, supervisors and senior executives leaving the office and the reason

(I) In the report period, because of the expiration of the office term of the 4th Board of Directors, the Company held the 15th Extraordinary Meeting of the 4th Board of Directors dated May 12, 2006, in which the Proposal of Determining the Candidates for Directors and Independent Directors of the 5th Board of Directors was examined and approved. On June 17, 2006, the Company held the 2005 Annual Shareholders' General Meeting, Zhang Ruili, Cheng Peng, Fu Bin, Li Mingjun, Xue Gang, Chen Baojie were elected as the directors of the 5th Board of Directors; Zhou Chengxin, Shi Weihong, Ji Dejun were elected as the independent directors of the 5th Board of Directors. The relevant public notice has published on Securities Times and Ta Kung Pao dated June 20, 2006

(II) In the report period, because of the expiration of the office term of the 4th Supervisory Committee, the Company held the meeting of the Supervisory Committee dated May 12, 2006, in which Proposal of Determining the Candidates for Supervisors of the 5th Supervisory Committee was examined and approved. On June 17, 2006, the Company held the 2005 Annual Shareholders' General Meeting, Li Binxue, Luo Tao, Zhang Xinliang were elected as the supervisors of the 5th Supervisory Committee; in addition, the Company's Enlarged Meeting of Trade Union Committee elected Yang Jianhui and Wang Guangye as Employee Supervisor of the 5th Supervisory Committee. The relevant public notice has published on Securities Times and Ta Kung Pao dated June 20, 2006.

(III) In the report period, on June 17, 2006, the Company held the 1st Extraordinary Meeting of the 5th Board of Directors, Zhang Ruili was elected as the Chairman of the 5th Board of Directors, Cheng Peng was engaged as the General Manger, Fu Bin was engaged as the Chief Financial Officer; Guo Dongri, Ren Yongjian, Luo Bojun and Feng Yu were engaged as the Deputy General Manger, Ren Yongjian was engaged as the Secretary of the Board of Directors. The relevant public notice on resolution was published on Securities Times and Ta Kung Pao respectively dated June 20, 2006.

(IV) In the report period, on June 17, 2006, the Company held the 1st Extraordinary Meeting of the 5th Supervisory Committee, Li Binxue was elected as the Chairman of the 5th Supervisory Committee. The relevant public notice on resolution was published on Securities Times and Ta Kung Pao respectively dated June 20, 2006.

V. About employees

By the end of the year 2006, the Group had totally 976 on-the-job employees, including 466 production personnel, 103 salespersons, 98 technical personnel, 72 financial personnel and 160 administration personnel; the Company has 20 master, 122 bachelor, 199 persons graduated from 3-years regular college and 635 other graduated from senior higher or lower. The Company needs bear the expenses of 456 retirees.

Section V. Administrative Structure

I. Administrative structure of the Company

In the report period, according to the Company Law, Securities Law and the standardized documents related with Administration Rules of Listed Companies newly promulgated by CSRC, the Company further perfected the administrative structure, established and consummated a series of regulations and systems.

In accordance with the aforesaid laws and relevant regulations of CSRC, the Company revised standardized documents such as Articles of Association of the Company, Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of Board of Directors, and Administrative Measures on Hierarchical Authorization, Implementation Detailed Rules and Rules of Procedure of Supervisory Committee in the report period. The administrative situation is in accordance with the standardized documents related with Administration Rules of Listed Companies promulgated by CSRC.

II. Performance of Independent Directors:

In the report period, independent directors of the Company performed their duties in line with the relevant laws and regulations, actively knew the Company's business and operation situations and issued independent opinion to the significant events of the Company, and gave full play to active function in order to ensure the benefit of the Company and medium and small shareholders.

(I) Particulars about independent directors' presented the Board meeting:

Name of independent directors	Times that should attend the Board meeting	Times of personal presence	Times of commission presence	Times of absence	Remark
Shi Weihong	8	8	0	0	
Zhou Chengxin	8	8	0	0	
Zhang Yuan	5	4	1	0	Business trip
Ji Dejun	3	3	0	0	

(II) In the report period, the Company's independent directors did not propose the objection on the relevant matters.

III. The Company is separated from the controlling shareholder in terms of Business, Personnel, Assets, Organization and Finance; the Company possessed the whole business and independent operating capability.

(I) Separation in Business: The Company was an independent corporate body. The Company was absolutely independent from its controlling shareholder in business, and had an independent and complete business system and independent management capability. The Company has independent production, sales and service system and own leading industry. There exists no competition in the same line among the Company, controlling shareholders and related parties.

(II) Separation in Personnel: The Company was absolutely independent in management of labor, human affairs, and salaries, enacted an independent administration systems. All the senior executives of the Company receive emoluments from the Company and have taken no post concurrently in the Shareholder Company.

(III) Separation in Assets: The Company was strictly separated from its controlling shareholder, and they conducted completely independent management. The Company has complete and independent purchase system, production system, marketing system and the relevant service systems. The Company exclusively owns such intangible assets as industrial property rights, trademarks and non-patent technologies.

(IV) Separation in Finance: The Company set up an independent financial accounting department, and established a complete set of accounting systems and financial administration systems. The controlling shareholder has never disturbed the Company in fund operation; The Company has opened independent bank account and has never been

involved in such activities as depositing funds in the accounts of the financial company or the clearing center controlled by any of the principal shareholders or other related parties. The Company independently pays taxes according to the law.
(V) Separation in Organization: The Board of Directors and the Supervisory Committee and the other inner organization operate independently. The Organizations of the Company were set up according to the standardized requirements of listed company and actual business features, and had independent office building.

IV. At the end of report period, the Company's Board of Directors evaluated senior executives aiming at work outstanding achievement.

Section VI. Brief of the Shareholders' General Meeting

During the report period, the Company held one 2005 Annual Shareholders' General Meeting and one 2006 1st Extraordinary Shareholders' General Meeting.
I. 2005 Annual Shareholders' General Meeting
The Board of Directors of the Company published the notification on holding 2005 Annual Shareholders' General Meeting on the designated newspapers namely Securities Times and Hong Kong Ta Kung Pao dated May 18, 2006. On the morning of June 17, 2006, the Company held the 2005 Annual Shareholders' General Meeting of ShenZhen Tellus Holding Co., Ltd. at the meeting room of the Company on 15/F, Zhonghe Building.
The Public Notice on Resolutions of the 2005 Annual Shareholders' General Meeting was published in Securities Times and Hong Kong Ta Kung Pao respectively dated June 20, 2006.
II. The 2006 1st Extraordinary Shareholders' General Meeting
The Board of Directors of the Company published the notification on holding the 2006 1st Extraordinary Shareholders' General Meeting on the designated newspapers namely Securities Times and Hong Kong Ta Kung Pao dated Sep.5, 2006. On the morning of Sep.20, 2006, the Company held the 2006 1st Extraordinary Shareholders' General Meeting of ShenZhen Tellus Holding Co., Ltd. at the meeting room of the Company on 15/F, Zhonghe Building, Shenzhen.
The Public Notice on Resolutions of the 2006 1st Extraordinary Shareholders' General Meeting was published in Securities Times and Hong Kong Ta Kung Pao respectively dated Sep.21, 2006.

Section VII. Report of the Board of Directors

I. Operating review of the Company in the report period
In 2006, the Company realized sales income amounting to about RMB 1.14 billion in the whole year, realized total profit RMB -87.22 million and net profit RMB -92.149 million.
(I) The overall operation of the Company in the report period
1. In the report period, the revenue from main operations of the Company amounted to RMB 1133.69 million, increased 8.6% compared with last period, which was mainly owing to the increasing sales of automobiles. The profit from main operations amounted to RMB 93.14 million, decreased 5.9% compared with last period, and the main reason is due to the decreasing gross profit of automobile sales.
In the report period, the Company realized net profit amounting to RMB -92.149 million, which was mainly due to ensuring the estimated liability amounting to RMB 87.57

million according to relevant regulations of accounting systems resulted from involving in warranting the lawsuit matters for Shenzhen Petrochemical Industry (Group) Co., Ltd..

2. Main problems and difficulties existed in the Company

i. The profit-earning level and market shares were relatively low, the new profit increasing point hasn't been formed completely yet. The competition in automotive after-market service area was more and more severe, and gross profit was decreasing year after year. Moreover, the market share of the Company in automotive after-market area in Shenzhen was merely 7%. Otherwise, due to the financial difficulty, the investment in new project was very few. The Project of Automobile Comprehensive Service Chains was still in incubation period and there existed many difficulties.

ii. Problems left over by history, such as the warranty case for Shenzhen Petrochemical Industry (Group) Co., Ltd., as the Shenzhen Petrochemical Industry (Group) Co., Ltd. has already been delisted from the Bulletin Board of Shenzhen Stock Exchange and hasn't the ability to repay its liabilities, in Apr, 2006, Shenzhen Municipal Intermediate People's Court adjudged the Company undertook joint obligation, which directly leading to a great loss of the Company in 2006.

iii. The capital shortage. Due to the influence of problems in history etc., the financing process got along slowly; plus the key project of the Company was still in incubation period and need increasing investment, the financial pressure was very heavy.

iv. The impact of policy environment such as macro-economy and tax increase on automotive after-market industry. Compulsory cognizance of ordinary taxpayer qualification of vehicle maintenance and repair enterprises in Shenzhen, the tax rate has been up-regulated from 6% to 17%, directly influenced the profit of the Group in the whole year; adjustment on policy of automobile inspection led to the great fall of automobile inspection business in the whole year compared with last period; and the implementation of vehicle consumption tax and the up-regulation of oil price also significantly influenced the automobile sales.

(II) Scope of main operations and particulars about business in the report period

1. Scope of main operations and particulars about business

The Company was mainly engaged in automobile inspection and maintenance, automobile trade and lease service etc..

i. In the report period, the Company's income from main operations and profit from main operations was RMB 1133.69 million and RMB 93.14 million respectively. The Company's income from main operations and profit from main operations were classified as follows according to industrial and products:

Unit: RMB

Products	Income from main operations	Cost of main operations	Profit rate of main operations (%)
Automobile inspection and maintenance	71,127,511.01	52,031,481.59	25.69
Automobile trade	986,857,463.26	950,000,564.34	3.72
Lease service	75,707,186.80	34,454,632.22	50.45

ii. The operating activities of the Company's business or main products taking over 10% in total amount of income from main operations or profit from main operations:

Unit: RMB

Products	Income from main operations	Increase/ decrease year-on-year （%）	Cost of main operations	Increase/ decrease year-on-year （%）	Gross profit rate of main operations (%)
Automobile inspection and maintenance	71,127,511.01	-3.84%	52,031,481.59	19.63%	25.69
Automobile trade	986,857,463.26	9.37%	950,000,564.34	9.69%	3.72
Lease service	75,707,186.80	12.10%	34,454,632.22	10.73%	50.45

2. Main suppliers and customers of the Company

In the report period, the Company's total purchase amount from the top five suppliers was RMB 800 million, accounting for 90% in total purchase amount in the whole year. The Company's main sales customers were terminal consumers and the sales income from the top five customers occupied no more than 3% in the income from main operations.

3. In the report period, there was no great change in the Company's main operations and their structure and capability of main operations.

(III) In the report period, particulars about the great change situation in the Company's assets structure, operating expense, administrative expense, financial expense and income tax compared with the same period of last year and the main influencing factors:

1. In the report period, particulars about the great change situation in the Company's assets structure compared with the same period of last year and main influence factors:

Unit: RMB

Items	Dec.31, 2006	Proportion in total assets（%）	Dec.31, 2005	Proportion in total assets（%）
Accounts receivable	28,265,819.96	3.40	23,910,250.18	2.78
Other receivable	53,714,852.49	6.47	52,311,978.58	6.09
Inventories	95,020,892.78	11.44	101,769,734.83	11.84
Long-term equity investment	154,495,325.87	18.59	138,197,572.90	16.08
Fixed assets	359,150,328.05	43.23	391,601,999.64	45.57
Short-term loans	224,318,670.55	27.00	223,491,173.85	26.01
Notes payable	90,000,000.00	10.83	86,498,377.80	10.07
Other payable	150,530,736.32	18.12	124,154,084.91	14.45

i. The subordinate subsidiaries of the Company Shenzhen Biaoyuan Automobile Co., Ltd. and Shenzhen Biaoyuan Investment Company jointly invested RMB 10 million to establish Shenzhen Biaoyuan Luhua Automobile Sales & Service Company, Biaoyuan Automobile Co., Ltd invested RMB 9 million in it and held 90% shares; the affiliated company of the Company Renfu Tellus Automobiles Service Co., Ltd. and Biaoyuan Automobile Maintenance Corporation brought investment income to the Company amounting to RMB 3.5 million and RMB 2.84 million respectively, which caused the increase of proportion of long-term equity investment in total assets compared with the same period of last year.

ii. The Company sold No.1 workshop, Shuibei and the subordinate company Shenzhen Auto Industries Trading Corporation sold Fuyiyaju shop, leading to a decrease in fixed assets compared with the same period of last year.

2. In the report period, particulars about the great change situation in the Company's operating expense, administrative expense, financial expense and income tax compared with the same period of last year and main influencing factors:

Unit: RMB

Items	2006	2005	Increase/decrease	Increase/decrease (%)
Operating expense	48,776,413.62	48,616,595.68	159,817.94	0.33
Administrative expense	52,679,410.50	49,259,499.37	3,419,911.13	6.94
Financial expense	11,645,244.88	9,925,621.75	1,719,623.13	17.33
Income tax	1,060,469.54	2,997,959.92	-1,937,490.38	-64.63

i. The administrative expense has increased compared with the same period of last year because the Company offset the provision for devaluation of inventory in the previous year.

ii. The financial expense has increased compared with the same period of last year because the interest of loans increased.

(IV) Particulars about structure of cash arising from operating activities, investing activities and financing activities of the Company, change situation and reasons:

Unit: RMB

Items	2006	2005	Increase/decrease	Increase/decrease (%)
Net cash flows arising from operating activities	5,551,011.33	35,943,414.04	-30,392,402.71	-84.56
Net cash flows arising from investing activities	3,467,030.89	-2,288,536.54	5,755,567.43	251.50
Net cash flows arising from financing activities	-39,385,726.44	-44,847,721.46	5,461,995.02	12.18

i. Settlement method of the Company's auto sales is mainly bank acceptance. Net cash flows arising from operating activities has decreased greatly due to timeliness difference.

ii. Net cash inflows arising from investing activities has increased greatly owing to the Company sold No.1 workshop, Shuibei and the subordinate company Shenzhen Auto Industries Trading Corporation sold Fuyiyaju shop and transferred the equity of Shenzhen Steyr Auto Sales Co., Ltd..

(V) Operations and achievements of main holding companies

In the report period, the main holding companies of the Company were: Shenzhen Auto Industries Trading Corporation (hereinafter referred to as Auto Industrial Trading), ShenZhen Tellus New Yongtong Automobile Development Co., Ltd. (hereinafter referred to as New Yongtong Company), Shenzhen SDG Huari Automobile Co. (hereinafter referred to as Huari Automobile), Shenzhen Huari Toyota Auto Sales Co., Ltd. (hereinafter referred to as Huari Auto Trading), Shenzhen New Yongtong Motor Vehicle Inspecting Equipments Company (hereinafter referred to as Inspecting Equipments),.Shenzhen SDG Tellus Property Management Co., Ltd. (hereinafter referred to as Property Company), Shenzhen SDG Tellus Real Estate Co., Ltd. (hereinafter referred to as Real Estate Company), Shenzhen Zhongtian Industrial Co., Ltd. (hereinafter referred to as Zhongtian Company), and Shenzhen Tellus Real Estate Trade Co, Ltd. (hereinafter referred to as Trade Company). The main operations and business of the aforesaid holding enterprises was as follows:

Unit: RMB'0000

Items	Auto Industrial Trading	New Yongtong	Huari Automobile	Huari Auto Trade	Inspecting Equipments	Property Company	Zhongtian Company	Real Estate	Trade Company
Main products or service	Sale of auto and its fittings, development of real estates	Maintenance of auto	Maintenance of auto, production and sale of auto fittings	Sale of auto	Production and sale of inspecting equipments of auto	Lease and management of properties	Lease and of properties	Development of land, operating commercial housing	Agency of real estates
Registered capital	5,896	3,290	USD500	200	1,000	705	725	3,115	200
Scale of assets	43,293	13,053	7,736	3,126	2,413	3,163	1,683	4,426	331
Net profit	647	-741	192	269	-50	10	70	60	16

II. Future development of the Company

In 2007, the Company will mainly complete the following work:

(I) Complete "Two tasks"

One is to reinforce the adjustment on structure of debts to assets, carry on integration of group bank loan in great force, concentrate resources and cooperation, and enhance the bank credit standing. The other is to continuously and appropriately deal with the problems left over by history, especially try our best to response to the case of Shenzhen Petrochemical Industry (Group) Co., Ltd. and Yueyang lawsuits, protect the legal rights of the Company, and make great effort to reduce the loss to a minimum extend.

(II) Resolve the three problems of development

1. The problem of broadening the financing channels, raise development capital

In 2007, the Company will solve the problem mainly through direct financing and indirect financing.

2. The problem of implementation of share incentive

According to the relevant resolutions of the shareholders' meeting in relation to Share Merger Reform, the Company will actively promote managers and technology cadre man to hold share, combine the benefit of enterprise, operator, and shareholders, each other accelerate and supervise, form an active and steady operation environment, accomplish the purpose of long-term incentive and promoting an sustainable development of the

Enterprise.
3. The problem of sticking to main business, developing and starting key projects
The project of Fast Repair Chain: In 2007, try hard to exploit chain network, comprehensively arrange in main municipalities in Guangdong province, form an auto service network that covers the whole province, and with interconnected operation and effective logistics.
The project of Tellus Jimeng Jewelry Industrial Park: In order to ensure the property operation income of the Group won't fluctuate greatly in development period of the project, the Company will complete the project by 3 stages according to the principle of Development by Stages and Rolling Investment.
The project of Property Reconstruction in Yannan Road: Should press on with the preparation work; try to officially start reconstruction with approval at an early date.

III. After the implementation of New Accounting Standards, the possible changes in accounting policy, accounting estimate and the influences on financial and operational results of the Company
According to the regulation of CK [2006] No.3 Notice on Print and Distribute 38 Specific Guidelines including Enterprise Accounting Standards No.1—Inventory etc. promulgated by Ministry of Finance on Feb.15, 2006, the Company should implement the New Accounting Standards from Jan.1, 2007.
(I) Influences on the shareholders' equity on first implementation date of New Accounting Standards on Jan.1, 2007
1. Long-term equity investment balance
According to the relevant regulations of Accounting Standards for Business Enterprises No.38—First Time Adoption of Accounting Standards for Business Enterprises, the Company retroactively adjusted the equity investment balance originally resulted under the same control which amounting to RMB 8,852,218.84, reduced the retained earnings amounting to RMB 8,852,218.84.
2. Employee termination indemnity
According to the regulations of Accounting Standards for Business Enterprises No.9—Employee Compensation and Accounting Standards for Business Enterprises No.38—First Time Adoption of Accounting Standards for Business Enterprises, the Company retroactively adjusted the amortization balance of employee termination indemnity which amounting to RMB 9,013,636.92, reduced the retained earnings amounting to RMB 9,013,636.92.
3. Income tax
According to relevant regulations of Accounting Standards for Business Enterprises No.38—First Time Adoption of Accounting Standards for Business Enterprises, on Jan.1, 2007, the Company will retroactively adjust the influence of provisionally differences on income tax which resulted from the differences of book value and basis of tax calculation between assets and liabilities, and adjust retained earnings according to influenced sum. Hereby, the Company increased the retained earnings according to the influenced sum on income tax amounting to RMB 20,918,300.59, whose assets book value is lower than the basis of tax calculation of assets, which resulted from provision for assets impairment, accumulated amortization of long-term equity investment balance and accrued expense, including RMB 444,451.61 reckoned in minority shareholders' equity.
4. Minority shareholders' equity

According to relevant regulations of Accounting Standards for Business Enterprises No.38—First Time Adoption of Accounting Standards for Business Enterprises and Accounting Standard for Business Enterprises No.33—Consolidated financial statements, the minority shareholders' equity separately listed under existing accounting systems should be listed as minority shareholders' equity item under owners' equity in consolidated balance sheet. Therefore, the Company listed the minority shareholders' equity of RMB 54,799,722.84 on shareholders' equity on Jan.1, 2007, which already included the minority shareholders' equity amounting to RMB 444,451.61 reckoned in from adjustment of income tax.

Ended Dec.31, 2006, the shareholders' equity under existing accounting standards implemented by the Company was RMB 134,859,194.63 (According to audited financial statement of the Company in 2006), on Jan.1, 2007 after the implementation of New Accounting Standards, the shareholders' equity amounted to RMB 192,266,910.69, the adjustment amount of shareholders' equity balance between new and old accounting standards add up to RMB 57,407,716.06.

(II) The possible alterations in accounting policy, accounting estimation after implementation of New Enterprise Accounting Standards and its influences on financial and operation results of the Group

1. According to the regulations of Accounting Standard for Business Enterprises No.2—Long-term Equity Investments, the Company will transfer the calculation method of long-term equity investment for subordinate subsidiaries from equity method to cost method, the alteration will reduce the investment income of parent company, but not influence on report form consolidation of the Group; the equity investment balance resulted from the consolidation of enterprises under the same control one-off adjust to the beginning balance of retained earnings at the period beginning, not amortize any longer, this event will increase the net profit of the parent company and consolidated statements.

2. According to the regulations of Accounting Standards for Business Enterprises No.9—Employee Compensation and Accounting Standards for Business Enterprises No.38—First Time Adoption of Accounting Standards for Business Enterprises, the Company retroactively adjusted the amortization balance of employee termination indemnity, one-off adjust to the retained earnings at the period beginning, not amortized any longer, this event will increase the net profit of consolidated statements.

3. According to the regulations of Accounting Standard for Business Enterprises No. 18—Income Taxes, the Company will transfer the calculation method of income tax from taxes payable method to Tax-affect-debt method of balance sheet, the alteration may possibly influence the income tax expense and profit in current period, assets, debts and shareholders' equity at the end of the period.

4. According to the regulations of Accounting Standard for Business Enterprises No. 33 - Consolidated financial statements, the Company changed the minority shareholders' equity separately listed in balance sheet under existing accounting policy to minority shareholders' equity item listed under the item of shareholders' equity in consolidated balance sheet. This policy change will influence the shareholders' equity of the Company.

The aforesaid events and influences events are likely to adjust to the further explanation of New Accounting Standards by Ministry of Finance.

IV. Investments of the Company in the report period

1. In the report period, the Company had no proceeds raised through share offering or

there was no such situation that the application of proceeds raised in previous period used in the report period.
2. In the report period, there was no significant project invested with non-raised proceeds.

V. Shenzhen Nanfang Minhe Certified Public Accountants Ltd. And Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants have issued unqualified Auditor's Reports for the Company.

VI. Routine work of the Board of Directors

(I) Meetings held by the Board of Directors and contents of the resolutions

In the year 2006, the Board of Directors of the Company held 8 meetings in total:

1. The 13th meeting of the 4th Board of Directors was held on Feb.15, 2006 in the meeting room of the Company on 15/F in Zhonghe Building. 9 directors should have been presented at the Meeting, and all 9 did actually. The Meeting examined and approved the Annual Report 2005. Relevant public notice on resolutions of the meeting was published in Securities Times and Hong Kong Ta Kung Pao dated Feb.17, 2006.

2. The 14th meeting of the 4th Board of Directors was held on Apr.13, 2006 by way of communication, 9 directors should have attended the Meeting and actually 8 did. The Meeting examined and approved The 1st Quarterly Report for 2006. The 1st Quarterly Report was published in Securities Times and Hong Kong Ta Kung Pao dated Apr.15, 2006.

3. The 14th extraordinary meeting of the 4th Board of Directors was held on Apr.25, 2006 by way of communication, 9 directors should have attended the Meeting and all 9 did. The Meeting agreed the Company to raise a short-term loan of RMB 3 million from Shenzhen SDG Development Center Construction Supervision Co., Ltd. Public notice on relevant resolutions of the Meeting was published in Securities Times and Hong Kong Ta Kung Pao dated Apr.27, 2006.

4. The 15th extraordinary meeting of the 4th Board of Directors was held in Huizhou on May 12, 2006, 9 directors should have attended the Meeting and actually 8 did. Independent director Zhang Yuan was on a business trip then and therefore entrusted independent director Shi Weihong to attend the Meeting and exercise the voting right. Public notice on relevant resolutions of the Meeting was published in Securities Times and Hong Kong Ta Kung Pao dated May 18, 2006.

5. The 1st extraordinary meeting of the 5th Board of Directors was held in the meeting room of the Company on 15/F, Zhonghe Building on Jun.17, 2006. 9 directors should have attended the Meeting and all 9 did actually. Public notice on relevant resolutions of the Meeting was published in Securities Times and Hong Kong Ta Kung Pao dated Jun.20, 2006.

6. The 1st meeting of the 5th Board of Directors was held on Jul.31, 2006 by way of communication. 9 directors should have attended the Meeting and all 9 did actually. The Meeting examined and approved The Interim Report 2006 and Summary. The Interim Report was published in Securities Times and Hong Kong Ta Kung Pao dated Aug.2, 2006.

7. The 2nd extraordinary meeting of the 5th Board of Directors was held in Huizhou on Aug.31, 2006. 9 directors should have attended the Meeting and actually 8 did. Director Xue Gang was on a business trip then and therefore entrusted director Chen Baojie to attend the Meeting and exercise his voting right. The Meeting examined and approved

The Proposal on Warranty of Auto Industrial Trading for Automotive Industry Import & Export Corporation, revised the Administrative Measures on Hierarchical Authorization, the proposal on Administrative Measures on Capital Construction, Notice on Convening of the 1st Extraordinary Shareholders' General Meeting 2006. Public notice on relevant resolutions of the Meeting was published in Securities Times and Hong Kong Ta Kung Pao dated Sep.5, 2006.

8. The 2nd meeting of the 5th Board of Directors was held on Oct.20, 2006 by way of communication. 9 directors should have attended the Meeting and all 9 did actually. The Meeting examined and approved The 3rd Quarterly Report 2006 of the Company. The 3rd Quarterly Report was published in Securities Times and Hong Kong Ta Kung Pao dated Oct.24, 2006.

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

According to the resolutions approved by Annual Shareholders' General Meeting 2005, the Board of the Company did not distribute any profit or transfer any reserve fund into share capital in 2006.

VII. Profit distribution preplan

In the year 2006, the Company realized a net profit of RMB -92,148,791.60 and it is planned that no profit made by the Company in 2006 would be distributed or capitalized. This profit distribution plan is still need to be examined and approved by the Annual Shareholders' General Meeting 2006.

VII. Other events

The Company did not change the newspapers designated for information disclosure in the report period. On Mar.28, 2007, the Company changed the newspaper designated for oversea information disclosure from Hong Kong Ta Kung Pao to Hong Kong Wen Wei Po, while newspaper and network for domestic information disclosure are still Securities Times and Juchao Website. Relevant public notice was published in Securities times and Hong Kong Wen Wei Po dated Mar.28, 2007.

Section VIII. Report of the Supervisory Committee

The Supervisory Committee held 5 meetings in total in the report period, with main contents as follows: 1. Deliberation on the significant events of the Company. Examined and approved successively were Proposal on the Modification of the Articles of Association，Proposal on the Modification of the Rules of Procedure of the General Shareholders' Meeting, Proposal on the Modification of the Rules of Procedure of the Board of Directors, Proposal on the Modification of Detailed Implementation Rules and Rules of Procedure of the Supervisory Committee, Proposal on the Loan Guarantee Provided by Shenzhen Auto Industries and Trading Coporation for Shenzhen Auto Industry Import & Export Company, Proposal on the Modification of Administrative Measures on Hierarchical Authorization, Proposal on the Modification of Administrative Measures on Capital Construction, and the Property Leasing Management System of Tellus Group. 2. Deliberation on the Board's Work Reports, Performance Reports of the Administration Team, Quarterly and Annual Financial Reports of the Company, and the

Profit Distribution Plan, etc. 3. Approval of the Work Report 2006 of the Supervisory Committee and resolutions made.

During the past year, members of the Supervisory Committee had attended each meetings held by the Board as delegates, and, with the rights authorized by relevant laws, regulations and the Articles of Association, conducted surveys and supervision over the Company's operation according to laws, the work and behaviors of members of the Board and other senior executives, etc. through the attendance as a nonvoting delegate at meetings of the Board, office meetings of General Manager and other various means. They had strictly and dutifully performed their supervisory responsibilities.

Independent opinions of the Supervisory Committee on relevant events of the Company in 2006:

(I) Operation according to laws of the Company

In accordance with the rules of relevant laws and regulations such as the Company Law, the Administration Rules of Listed Companies and the Articles of Association, etc, the Supervisory Committee of the Company had conducted supervision over the convening procedures and resolutions of the General Shareholders' Meeting and the Board meetings, the Board's implementation of the resolutions made by the General Shareholders' Meeting, the work performance of the Company's senior executives, and the management system of the Company, etc. The Committee believed that, for the current year, the operation of the Board and the administration team as well as the procedures of each resolution had all been in conformity with the Company Law, the Administration Rules of Listed Companies and the Articles of Association, and that resolutions of the General Shareholders' Meeting could be implemented. No wrong doings against laws or regulations was detected that directors or senior executives had committed while performing their duties.

(II) Opinions after the inspection of the Company's financial status

The Supervisory Committee had conducted careful and prudent inspection over the financial system and financial status of the Company and believed that the Company's inner controlling system is sound, and management is perfect. The Financial Report of this year can truly reflect the Company's financial status and operation achievements. Shenzhen Nanfang Minhe Certified Public Accountants Ltd and Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants had issued unqualified Auditors' Reports.

(III) No fund was raised in the report period.

(IV) During this accounting year, the Company had made no significant purchases of assets or merger items except sales of parts of assets, and sales procedure was legitimate.

Shenzhen Auto Industries & Trading Corporation, the controlling subsidiary company of the Company, transferred all its possessed Shops A-B103, 203 in Shenzhen Fuyiyaju to Mr. Qin Kebo. This sale of assets aimed to increase the cash flow of the Company, relieve the situation of the shortage of funds, and the reflowed capital would benefited the Company's focusing its strength on expanding the main operations and had a positive influence on the Company's production and management.

(V) The related transactions of the Company in the report period

1. The paying off items agreed on in the Agreement signed by the Company and its controlling shareholder Shenzhen SDG were all cleared this year. As for this related transaction, the Company aimed to faithfully fulfill the requirements of Circulars on Standardizing Capital Current between the Listed Companies and Related Parties and

Several Problems about External Guarantee of Listed Companies (ZJF [2003] No. 56 Document by CSRC and solve the problem of fund occupation of shareholding subsidiaries of the related parties. The Supervisory Committee believed this relates transactions had completely settled the Company's long-term fund occupation problem from shareholding subsidiaries of the related parties.

2. The Company borrowed RMB 3,000,000 from Shenzhen Special Zone Development Center Construction Supervision Co., Ltd., (a controlling shareholder of the Company), and signed an Agreement on Short-term Loan, with the term limit of 3 months and annual interest rate of 6.5%. This related transaction aimed to relieve the actual difficulties of fund turnover of the Company.

3. The Company borrowed RMB 12,600,000 from SDG and signed an Agreement on Loan, with the term limit of 1 year (Jun. 30, 2006-Jun. 30, 2007) and annual interest rate of 7.02%, for buying the debts issued in Guangdong Development Bank Shenzhen Branch by the Company. This related transaction aimed to relieve the actual difficulties of fund turnover of the Company.

Section IX. Significant Events

(I) Significant lawsuits and arbitrations

In the report period, the Company had some new significant lawsuits and arbitrations, with details as follows:

40 owners of Yueyang Tellus Shopping City including Ji Jianjun and Zhou Linxia, purchased the housing and shops during 1995 to 1998 in Tellus Shopping City developed by Shenzhen Tellus Real Estate Yueyang Co., Ltd. (hereinafter referred to as Yueyang Company), and started a lawsuit against Yueyang Company, the Company, Tellus Real Estate Co., Ltd. (the controlling subsidiary of the Company), and SDG (the controlling shareholder of the Company) on the grounds of the quality of the building. The People's Courts in Yueyang County gave the sentence in Oct. 12, 2006 and decided that Yueyang Company should refund the amount for purchasing house and other compensation to the accusers totaling about RMB 2,980,000; the Company, Tellus Real Estate Co., Ltd. and SDG should undertake the related responsibilities. The Company had appealed to Yueyang Intermediate People's Courts. Yueyang Intermediate People's Courts had accepted and heard the appeal application of the Company, and the case was on the docket for the moment. Relevant public notice was published on Securities Times and Ta Kung Pao on Mar. 8, 2007.

Explanation on the result of original significant lawsuits and arbitrations of the Company in the report period:

1. For the case of the Company failing to repay the overdue loan amounting to RMB 13 million to the Luohu Sub-Branch of Shenzhen Development Bank Co., Ltd, the Company had reached a loan transfer agreement with Shenzhen Development Bank Co., Ltd.

2. In Oct., 2005, the Company lodged a complaint to the People's Court of Shenzhen Luohu District, demanding that Gintian Industry (Group) Co., Ltd repay the Company RMB 4,081,830 that had been deducted compulsively from the Company's account because of the bank loan guarantee provided for it. (Including the principal RMB 3,000,000, the interest RMB 1,051,380, the litigation cost RMB 25,160 and the execution cost RMB 5,290. For the fund taken away, the Company had recorded as losses.) The court pronounced that the Company won the lawsuit. Up to the disclosure date of this

report, the Company applied to the court for compulsive implementation, and it was in process.

3. In Oct., 2005, the Company lodged a complaint to Shenzhen Intermediate People’s Court, demanding that Shenzhen Zhonghao (Group) Ltd repay the Company RMB 16.62 million, mainly including the bank interest RMB 5 million, and the bank loan RMB 11.5 million that the Company paid for Zhonghao Company’s bank loans as well as the litigation cost and assessment cost RMB 120 thousand paid by the Company on its behalf (The aforesaid funds had been dealt as losses in previous years). The court pronounced that the Company won the lawsuit. Up to the disclosure date of this report, the Company applied to the court for compulsive implementation, and it was in process.

4. As to the case on the guarantee provided by the Company for the overdue loan totaling USD 2 million obtained by Gintian Industry (Group) Co., Ltd from Shenzhen Development Bank Co., Ltd, the Company has reached a loan transfer agreement with Shenzhen Development Bank Co., Ltd. The Company has assumed this overdue loan and will step up the debt recovery work on Gintian. Relevant notices have been published in the Apr. 28, 2006 editions of Securities Times and Ta Kung Pao.

5. As to the case on Shenzhen Shangbu Sub-Branch of Agricultural Bank of China suing Shenzhen Petrochemical Industry (Group) Co., Ltd for the overdue loan of RMB 57.6 million with guarantee provided by the Company, the Company received the Judgment Paper from Shenzhen Intermediate People’s Court on May 9, 2006, which ruled that the Company fulfill its joint liquidation responsibility for Petrochemical Company’s repayment duty. The Company has lodged a complaint to Guangdong High People’s Court. Relevant public notices were published in Securities Times and Ta Kung Pao on May 10, 2006.

6. As to the case on the Company’s subsidiary Tellus Real Estate Company suing Shenzhen Jinlu Industry & Trade Company (hereinafter referred to as Jinlu Company) on the cooperated construction contract dispute, Tellus Real Estate Company and Jinlu Company both as plaintiffs sued the Branch of the Housing Administration Bureau and 75731 Army in March 2005, demanding that the two defendants implement the cooperation contract and hand over the Liyehui Food Street property amounting to 11,845 square meters (with the value totaling approximately RMB 11,851,357) to the two plaintiffs, and that the two defend compensate the plaintiffs with RMB 5,034,664.94 for the rents receivable since the year 1998. In the meantime, Tellus Real Estate Company also signed an agreement with Jinlu Company, which stated that once the Liyehui Food Street property is recovered either by voluntary implementation or compulsory execution by the court, Tellus Real Estate Company would get a fixed share of 6,000 square meters while the remaining property would be given to Jinlu Company; if the whole property did not total 6,000 square meters, Tellus Real Estate Company would have it all; and that the two parties would split the accounts receivable to be recovered 5:5. The court accepted the case. Till the disclosure of this report, the court was still hearing the case. Tellus Real Estate Company withdrew a 50% bad debt reserve for this account receivable.

(II). Significant assets purchases, sales or reorganization in the report period

In the report period, the Company’s shareholding subsidiary Shenzhen Auto Industry & Trade Corporation (hereinafter referred to as Auto Industry & Trade) signed a property sale contract with Mr. Qin Kebo on May 18, 2006, which stated that Auto Industry & Trade would transfer the A-B 103 and 203 shops at Shenzhen Fuyiyaju to Mr. Qin Kebo

at the price of RMB 16.6 million. This sale of assets was a non-related transaction. Relevant notices were published on Securities Times and Ta Kung Pao in Jul. 15, 2006.
The purpose of this sale of assets was to increase the cash flow of the Company and alleviate the current capital shortage situation. The reflowed capital would help the Company to develop its main operations, which would have some positive influence on the Company's production and operation.

(III) Significant related transaction
1. In the report period, the Company had no related transaction of purchase and sale of commodity and supply of labor and service with the related parties.
2. In the report period, the Company had no related transaction of transfer of assets and equity with the related parties.
3. In the report period, the Company had no related transactions invested by the related parties and the Company.
4. On credit and liability and guarantee between the Company and the related parties, please read note of accounting statement for detail Note VIII.
(1) In the report period, the Company and its controlling shareholder SDG signed an Agreement. The both sides came to an agreement on the cash debts between the subsidiaries of SDG and the Company, and the controlling subsidiaries of the Company and SDG.
In accordance with the audit report SNCSBZ (2006) No.ZA004 from the Shenzhen Nanfang Minhe Certified Public Accountants Ltd, up to Nov. 30, 2005, the controlling subsidiaries such as SDG Swan, Yueyang Company, Import & Export Corporation, Tangxia Company, and Jinbian Company, owed the Company debt cash of totaling RMB 28,485,886.36. New Yongtong, the controlling subsidiary of The Company, owed SDG cash of RMB 24,939,055.00.
Through unanimous negotiation, the Company and SDG agreed that each shouldered the aforesaid debts their controlling subsidiaries owed them each other, then they both directly made an offset on the debts. They confirmed that the balance after offsetting became a debt of RMB 3,546,831.36 that SDG owed the Company, and they both agreed to use the debt SDG owed the Company to offset the previous debt the Company owed SDG; the aforesaid offset didn't concern the interest and their original financial claim and debt. The interest was to be settled through negotiation.
Relevant public notice of this related transaction was published on Securities Times and Ta Kung Pao on Feb. 15, 2006.
(2) In the report period, the Company negotiated with SDG, and came to an agreement on the Company's fund occupation by affiliated enterprises of SDG. Up to Mar.31, 2006, the balance of fund occupation by the affiliated subsidiaries of SDG, the controlling shareholder of the Company, was RMB 1,003,400.
① The newly added advanced disbursement expenses to Tellus Headquarter by Shenzhen Machinery and Equipment Import and Export Company and Shenzhen Tellus Real Estate Yueyang Co., Ltd. (the controlling subsidiaries of SDG), settled the debts Tellus Group Headquarter owed SDG Headquarter.
② SDG Headquarter shouldered the debts that other secondary enterprises of SDG owed the secondary enterprises of Tellus Group. Tellus Group shouldered the financial claim of its secondary enterprises, and settled the current between Tellus Group and SDG.
③ Every later newly added advanced disbursement expense would directly settle the

debts that Tellus Group Headquarter owed SDG.
After this debt settlement, the Company's fund occupation by SDG and its affiliated enterprises was all cleared.
Relevant public notice on this debt paying off was published on Securities Times and Ta Kung Pao in May 9, 2006.

5. Other significant related transactions.
(1) In the report period, the Company and Shenzhen Special Zone Development Center Construction Supervision Co., Ltd. (hereinafter referred to as "Special Zone Development Supervision") (a controlling subsidiary company of the Company's controlling shareholder SDG) signed an Agreement on Short-term Loan, the Special Zone Development Supervision offered short-term loan RMB 3,000,000, with the term limit of 3 months and annual interest rate of 6.5%. Relevant public notice was published on Securities Times and Ta Kung Pao on Apr. 27, 2006.
(2) In the report period, the Company and SDG signed an Agreement on Loan. SDG offered a loan of RMB 12,600,000 to the Company buy debts issued in Guangdong Development Bank Shenzhen Branch by the Company, with the term limit of 1 year and annual interest rate of 7.02%. Relevant public notice was published on Securities Times and Ta Kung Pao on Jul. 25, 2006.

(IV) Significant contracts and implementation
1. In the report period, the Company has no significant trusteeship and contract of other companies' assets and vice visa;
2. Significant guarantee;
(1) In the report period, the guarantee contract implemented or implementing
Ended Dec. 31, 2006, Automobile Industry & Trade, subsidiary of the Company, issued bank loan guarantee paper for Shenzhen Automobile Industry Import & Export Co.:

Items	Amount of Guarantee (RMB'0000)	Contents	Term	Way of Guarantee
Shenzhen Automobile Industry Import & Export Co.	RMB800.00	Short-term loan	Mar.30, 2006-Mar.30, 2007	Credit
Shenzhen Automobile Industry Import & Export Co.	RMB1,000.00	Short-term loan	Jan.26, 2006-Jan.26, 2007	Credit
Shenzhen Automobile Industry Import & Export Co.	RMB1,000.00	Short-term loan	Jul.6, 2006- Jul.5, 2007	Credit

Apart from these, Auto Industry & Trade Company also provided guarantee for this company's line of credit of not more than USD 2 million. The aforesaid guarantees were examined and approved by the 2006 First Extraordinary General Shareholders' Meeting of the Company on Sep. 20, 2006.
2. Guarantee amount provided to shareholding subsidiaries in the report period

Guarantor	Name of the company guaranteed	Property right relation	Amount guaranteed	Content	Term	Guarantee mode
ShenZhen Tellus Holding Co.,	Shenzhen Tellus New	Wholly-	RMB 4,740,000	Short-term	Feb. 28, 2005	Credit

Ltd	Yongtong Company	owned		loan	- Nov. 27, 2005	
Shenzhen Auto Industry & Trade Corporation	Shenzhen Biaoyuan Investment Company	Equity controlled	RMB 6,280,000	-	Apr., 2006 -Apr., 2007	Credit

By Dec.31, 2006, guarantees provided by the Company (including guarantees for controlling subsidiaries) amounted to RMB 54,640,000 taking up 40.52% of the Company's net assets. No guarantee has been provided by the Company for shareholders, the actual controller or other related parties this year, while the guarantees provided for companies with an asset-liability ratio of over 70 percent amounted to RMB 43,620,000.

The Company's decision-making procedures on the guarantees for shareholding subsidiaries were conducted strictly in conformity with the Company's relevant regulations.

The Company would actively take effective measures to control and evade guarantee risks.

3. In the report period, the Company had not entrusted others with cash management or loans borrowing.

4. In the report period, the Company had no other significant contracts.

V. Commitments

(I) SDG, the shareholder of non-circulating shares, made the following commitments during the work of Share Merger Reform of the Company:

1. Commitments on Lock-up period

(1) In accordance with the Measures for the Administration of the Share Merger Reform of Listed Companies, SDG would abide by the various laws, regulations and rules, and perform its statutory commitment duty.

(2) Apart from the above-mentioned statutory commitment, SDG also made the following special commitment: with 36 months since the day the reform plan starts to take effect, SDG would not list at Shenzhen Stock Exchange and sell the ST Tellus it held (except for the shares used to promote the administration level of ST Tellus).

(3) The administration level would abide by the laws, regulations and rules, and perform its statutory commitment duty.

(4) SDG made the commitment: "The Promiser hereby promises that, if the Promiser failed to fulfill its commitment or not fully fulfill its commitment, it would compensate other shareholders for their losses suffered thereafter".

(5) SDG declared: "The Promiser would dutifully fulfill its commitments and shoulder corresponding legal responsibilities. The Promiser would transfer the shares held by it only if the assignee agree and have the ability to shoulder the commitment responsibility."

2. Special commitment concerning the promoting system

To effectively boost the core management level and business backbones for long, SDG would take out its shares, not exceeding 10% in total number after the Share Merger Reform, and apply them to the boost of the administration level. The shares would be sold to the Company's administrative level over 3 years, with the selling price being the net asset value per share audited during the period nearest to the implementation. Before the implementation of the promoting plan by share selling each year, the administration level must prepay the Company a risk responsibility fund, i.e. 20% of the planned selling price; Should the work of the performance examination set by the Board failed to be finished, the paid risk responsibility fund would not be refunded and shall be owned by the Company. Detailed rules concerning the limitations on the administration level, such as the subscription conditions and risk responsibility fund, and boost plans would be set by the Board and submitted to relevant departments for approval. The implementation of the shares for promoting would be conducted strictly according to relevant laws and regulations, and the circulation conditions of these shares would be in conformity with relevant regulations set by the Shenzhen Stock Exchange.

3. Relevant expenses of this Share Merger Reform of ST Tellus would be paid by SDG.

(II). The aforesaid commitments is in process of implementation by SDG. The shares held by SDG are still in limited period.

VI. Particulars about the Company's reception of investigation and visiting

In the report period, in accordance with the Guidance for Fair Information Disclosure for Listed Companies, the Company as well as relevant obligors for information disclosure strictly obeyed the rule of fair information disclosure, without any implementation of discrimination policy, and any disclosure, revealing or leaking of non-public information selectively and privately to specific objects. In the report period, there was no reception of investigation and visiting to the Company.

VII. CPAs engaged

In the report period, the Company continued to hire Shenzhen Nanfang Minhe Certified Public Accountants Ltd as the domestic financial auditing agency for the year 2006, while Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants as the overseas financial auditing agency for the year 2006. The amount of domestic and overseas auditing charges totaled RMB 0.57 million. Up to now, the two CPAs have provided the Company with auditing services for 6 successive years.

VIII. In the report period, neither the Company, nor its Board or directors had been inspected by the CSRC, received any administrative punishments or circulating criticism from the CSRC, or publicly criticized by the Stock Exchange.

VIIII. Other significant events

Significant events disclosed by the Company:

(I) Relevant public notice on Repealing the Special Disposal of Share Transaction by the Company was published in Securities Times and Hong Kong Ta Kung Pao on Mar. 7, 2006;

(II) Relevant public notice on Paying-off Process of Fund Occupation from the Affiliated Enterprises of the Controlling Shareholder of the Company was published on Securities Times and Ta Kung Pao on May 9, 2006;

(III) Relevant public notice on Lawsuit Process of the Case on Shenzhen Bank of China's Complaint about the Overdue Loan of Shenzhen Petrochemical Industrial (Group) Co., Ltd. and the Company's Guarantee for It was published on Securities Times and Ta Kung Pao on May 10, 2006;

(IV) Relevant public notice on the Election Result on Changes of the Board of Directors and Supervisory Committee of the Company was published on Securities Times and Ta Kung Pao on Jun. 20, 2006;

(V) Relevant public notice on the Engagement of Senior Executives of the Company was

published on Securities Times and Ta Kung Pao on Jun. 20, 2006;
(VI) Relevant public notice on Modification of Related Items in the Articles of Association, Rules of Procedure of Shareholders' Meeting, Rules of Procedure of the Board of Directors, and Administrative Measures on Hierarchical Authorization was published on Securities Times and Ta Kung Pao on Sep. 21, 2006.

Section X. Financial Report

(See the attachment)

Section XI. Documents Available for Reference

Complete sets of documents are placed in the Company's office for the reference of the CSRC, SSE, relevant authorities and vast numbers of investors, including:
1. Original of 2006 Accounting Statements carried with the signatures and seals of the legal representative, Chief Financial Officer and manager of Plan & Financial Dept.;
2. Original of the Auditors' Report carried with the seal of Domestic Certified Public Accountants as well as the signatures and seals of certified public accountants; Original of the Auditors' Report prepared under the International Accounting Standards carried with the seals of International Certified Public Accountants (Chinese and English version).
3. Original of the Company's documents and manuscripts of the public notices disclosed in the newspapers designated by the CSRC;
4. Annual Report or its summary published in other stock exchange.

Signature of Chairman of the Board: Zhang Ruili
Board of Directors of
ShenZhen Tellus Holding Co., Ltd.
March 30, 2007

Reconciliation Statement on Differences of Shareholders' Equity Based on Old and New Accounting Standards

Unit: RMB

Items	Amount
Shareholders' equity as December 31 2006 (Based on Existing Accounting Standards)	134,859,194.63
differences of long-term equity investment	-8,852,218.84
Including: Differences in long-term equity investment caused by merger of enterprises under the same control	-8,852,218.84
Differences in credit of long-term equity investment calculated based on equity method	
Investment property measured with fair value	
Prior year depreciation withdrawal due to dismantling cost	
Dismissal indemnity conformed to the acknowledgement of estimated liabilities	-9,013,636.92
Share-based payment	
Reconstructuring duties conformed to the acknowledgement of estimated liabilities	
Enterprises merger	
Including: Book value of enterprises consolidated goodwill under the same control	
Provision for impairment of goodwill withdrawn based on New Accounting Standards	
Financial asset booked as current losses and gains with fair value measurement and changes, and disposable financial assets	
Financial liabilities booked as current losses and gains with fair value measurement and changes	
Increased equity due to demerger of financial instrument	
Derived financial instrument	
Income tax	20,473,848.98
Minority shareholders' interest	54,799,722.84
Other	
Shareholders' equity as January 1 2007 (Based on New Accounting Standards)	192,266,910.69

Auditors' Report

深圳南方民和会计师事务所有限责任公司

SHENZHEN NANFANG-MINHE CERTIFIED PUBLIC ACCOUNTANTS

(2007) No. SY006 Audited by Shenzhen Nanfang-Minhe CPAs

TO THE SHAREHOLDERS OF SHENZHEN TELLUS HOLDING CO., LTD.,

We have audited the accompanying Reconciliation Statement on Differences of Shareholders' Equity based on Old and New Accounting Standards ("Reconciliation Statement") of ShenZhen Tellus Holding Co., Ltd. ("the Company"). According to Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises and Notice on Fulfillment of Financial and Accounting Information Disclosures Related to the New Accounting Standards (ZJF[2006] No. 136, "Notice"), compilation on the Reconciliation Statement are the responsibility of the Company's management. Our responsibility is to express an opinion on these Reconciliation Statement based on our audit.

Pursuant to the requirement of Notice, we conducted our audit in accordance with Standard on Review Engagements for CPAs of China No. 2101- Review of Financial Statements on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Reconciliation Statement is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Reconciliation Statement. An audit also includes assessing the accounting principles used and significant estimates made by the relevant persons of the Company, as well as evaluating the overall presentation of the Reconciliation Statement. The guarantee supplied from the review was lower than the audit. We did not conduct; thus, we issued no auditor's opinions.

In our opinion, we did not notice that any matters made us believed that, the Reconciliation Statement was not compiling in accordance with the Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises and Notice.

In Addition, we recommended the attention on the Reconciliation Statement of participants, as listed in significant note in the accompanying Reconciliation Statement: the New Accounting Standards of Shareholders' Equity listed in the Reconciliation Statement 1 January 2007 possibly remained differences between the relevant data listed in financial statements of 2007 Annual Report.

SHENZHEN NANFANG-MINHE CERTIFIED PUBLIC ACCOUNTANTS

CPA of P.R.C.: ZHENG LI HONG

CPA of P.R.C.: ZHOU WU ZHONG

Shenzhen, P.R.C. March 27, 2007

SHENZHEN TELLUS HOLDING COMPANY LIMITED

(Incorporated in the People's Republic of China)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

CONTENTS	**PAGES**

AUDITORS' REPORT

ALL SHAREHOLDERS OF SHENZHEN TELLUS HOLDING COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of Shenzhen Tellus Holding Company Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2006 and the related consolidated statements of income, cash flow and changes in equity for the year then ended. These financial statements as set out on pages 3 to 25 are the responsibility of the Group's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

In our opinion, the consolidated financial statements comply with the International Financial Reporting Standards and present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and the results of operations and cash flows of the Group for the year then ended.

Without qualifying our opinion, we draw attention to note 4 to the financial statements which indicates that the Group's current liabilities exceeded its current assets by RMB 331,928, 000 as at 31 December 2006. This condition, along with other matters as set out in note 4 to the financial statements, indicates the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern.

Moore Stephens Shenzhen Nanfang Minhe
Certified Public Accountants

27.03.2007

Registered in the People's Republic of China
Shenzhen, China

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in RMB Yuan)

	Note	2006 RMB'000	2005 RMB'000
Turnover	4	1,133,692	1,043,811
Less: Cost of sales		(1,040,556)	(944,852)
Profit/(loss) from principal activities		**93,136**	**98,959**
Add: Other operating income		24,346	42,768
Less: Distribution costs		(48,777)	(48,617)
General and administrative expenses		(52,703)	(49,259)
Other operating expenses		(103,509)	(25,925)
Operating profits/(loss)	5	**(87,508)**	**17,926**
Less: Financial expenses	6	(12,879)	(12,561)
Add: Income from associates		8,150	2,799
Dividend income from investments		7,285	5,824
Gain from disposal of associates			
Gain from disposal of investments		1,672	912
Less: Loss from disposal of a subsidiary		0	0
Profit/(loss) before income tax		**(83,279)**	**14,900**
Less: Income tax	7	(1,060)	(2,998)
Profit/(loss) after income tax		**(84,339)**	**11,902**
Less: Minority interest		(4,265)	(2,038)
Net profit/(loss) for the year		**(88,604)**	**9,864**
Profit/(loss) per share	8		
Basic		RMB-0.40	RMB0.04
Diluted		N/A	N/A

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006
(Expressed in RMB Yuan)

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Goodwill	9	9,976	10,567
Property, plant & equipment	10	86,566	91,682
Investment properties	11	274,696	299,875
Interests in associates	13	45,975	61,029
Long-term investments	14	99,882	65,307
		517,095	**528,460**
Current assets			
Properties held for sale	15	14,131	14,514
Inventories	16	91,578	98,328
Accounts receivable and payments in advance		124,029	99,293
Amount due from ultimate holding company		-	-
Pledged bank deposits	18	32,500	30,265
Cash at bank and on hand		45,159	75,539
Total assets		**307,397**	**317,939**
Current liabilities			
Accounts payable		49,713	77,901
Accruals and other payables	17	274,732	186,030
Provision for staff welfare		4,005	4,762
Bills payable	18	90,000	86,498
Bank loans	19	196,081	205,547
Other loans	20	20,494	10,200
Tax payable		4,300	4,700
Total current liabilities		**639,325**	**575,638**
Net current liabilities		**(331,928)**	**(257,699)**
		185,167	**270,761**
Capital and reserves			
Share capital	21	220,282	220,282
Reserves	22	(89,470)	(866)
Minority interests		54,355	51,345
Total liabilities and investor' equity		**185,167**	**270,761**

Chief Financial Officer

Chief Accountant

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in RMB Yuan)

	Note	2006	2005
		RMB’000	RMB’000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sale of goods or rendering of services		1,276,895	1,205,588
Other cash received relating to operating activities		26,745	27,898
Cash paid for goods and services		(1,146,286)	(1,058,216)
Cash paid to and for employees		(57,613)	(63,449)
Cash paid for all types of taxes		(29,176)	(28,457)
Other cash paid relating to other operating activities		(65,014)	(47,420)
Interest paid		(15,774)	(11,441)
Net cash (inflow)(outflow) from operating activities		(10,223)	24,503
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal of investments		3,761	3,461
Cash received from dividends and interests		11,905	5,931
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		27,344	61
Other cash received relating to investing activities		0	8,334
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(11,480)	(6,622)
Cash paid for acquisition of investments		(10,500)	(13,454)
Other cash paid relating to other investing activities		(17,563)	0
Net cash (inflow) (outflow) from investing activities		3,467	(2,289)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from disposal of investments		0	150
Cash received from borrowings		154,378	109,122
Other cash received relating to financing activities		0	24,504
Cash repayments of borrowings		(153,551)	(122,687)
Cash paid relating to other financing activities		(24,452)	(44,504)
Net cash (inflow) (outflow) from financing activities		(23,625)	(33,415)
NET (DECREASE)/ (INCREASE) IN CASH AND CASH EQUIVALENTS		(30,381)	(11,201)
Cash and cash equivalents at beginning of year		75,539	86,740
Cash and cash equivalents at end of year		45,158	75,539

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in RMB Yuan)

	Share capital	Share premium	Asset revaluation reserve	Staff welfare fund	General reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1/1/2005	220,282	124,248	36,389	3,218	55,472	(230,004)	209,605
Profit for the Year						9,864	9,864
Reserves make up for a loss		(124,248)	(36,389)		(55,472)	216,056	(53)
Addition							
At 31/12/2005	220,282	-	-	3,218	-	(4,084)	219,416
Profit for the Year						(88,604)	(88,604)
Reserves make up for a loss							
At 31/12/2006	220,282	-	-	3,218	-	(92,688)	130,812

a. The PRC laws and regulations restrict the distribution of share premium and asset revaluation reserve in the form of cash dividends to shareholders.

b. The PRC laws and regulations require companies to make appropriations to certain statutory reserves from net profit after taxation as reported in the statutory accounts. These statutory reserves include the staff welfare fund and the general reserve which are designated for specific purposes and are not distributable in the form of cash dividends.

c. Asset revaluation reserve represents surplus of revaluation of assets acquired.

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in RMB Yuan)

1. COMPANY STATUS

Shenzhen Tellus Machinery Co. Ltd. is a state-owned enterprise, established in Shenzhen in the People's Republic of China (the PRC) On 11 December 1992, the Shenzhen Municipal People's Government approved the reorganization of Shenzhen Tellus Machinery Co. Ltd. to become a public limited company. Shenzhen Tellus Machinery Co. Ltd. Was renamed Shenzhen Tellus Holding Company Limited (hereinafter referred to as "the Company") on 30 June 1994. The Company and its subsidiaries are collectively referred to as "the Group".

On 31 March 1997, with the approval of Shenzhen Municipal People's Government and China Security Regulatory Commission, Shenzhen Investment Administrative Company transferred 159,588,000 shares of the Company to Shenzhen Special Economic Zone Development (Group) Company. The shares transferred represent 72.45% of the issued shares of the Company.

In 2001, the Group had undergone large-scale restructuring and exchange of assets with its majority shareholder namely Shenzhen Special Economic Zone Development (Group) Company.

The principal activities of the Group are automobile repairing, inspection and other services, the manufacture and sale of machinery, electronic and electrical appliances, property development and management, and trading businesses.

On 09 December, 2005, a split-share reform of the company has been decided and voted by the shareholders' meeting. Details of the reform scheme are as followed,

1. In order to circulate all the non-negotiable shares in the A share market, Te Fa (Group) Company, as the one and only shareholder of non-negotiable shares in the Company, gave 13,717,440 shares to the holders of tradable shares of the company in the A share market(Per 10 tradable shares for 4 shares). The transferring was finished on 04 January 2006. After the split-share reform was completed, Te Fa (Group) Company holds 66.22% of the shares capital of the company.

2. Meanwhile, Te Fa (Group) Company pledged that the shares of the company held by Te Fa (Group) Company would not be exchanged at Shenzhen Bourse in 36 months from the date on which the split-share reform was launched (the shares held by the company management were excluded).

3. In order to encourage the core management of the company to be more effective in the long term, Te Fa (group) Company would sell less than 10% of its shares capital to the company management within 3 years ahead, at the price of the equity per share audited in the year before the transaction.

2. BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board on the historical cost basis except as disclosed in the accounting policies set out below.

2. BASIS OF PREPARATION (continued)

The accounting policies adopted by the Company in conformity with IFRS differ from the accounting policies used in the financial statements of the Group, which adopted in the preparation in accordance with Accounting Standards for Business Enterprise and Accounting Systems for Business Enterprise issued by the Ministry of Finance of the PRC. Adjustments to restate the results of operations and the net assets in compliance with IFRS will not be taken up in the accounting books of the companies in the Group. Details of impacts of such adjustments on the net assets as at 31 December 2006 and net profit for the year are included in note 24 to the financial statements.

The financial statements were prepared on the going concern basis. However, the Group's current liabilities exceeded its current assets by RMB 331,928,000 as at 31 December 2006. The management has made agreement on the deadline of the loan with the bank and other creditors. Meanwhile the directors have successfully negotiated with the Group about the allocation of the loan, owed the ultimate holding company totaling RMB 56,425,000, including the interests of RMB 6,352,942.

The ability of the Company and the Group to continue to operate as a going concern depended upon its future profitable operations, the continuing support of the bankers and the ultimate holding company. If the Company and the Group were not a going concern, non-current assets will not realize their full values and further liabilities will arise. In addition, non-current assets and non-current liabilities will be reclassified as current. The directors believe that it is appropriate with the available information for the financial statements to be prepared as a going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The results of operations of subsidiaries are included in the consolidated income statement and the share attributable to minority interests is excluded from the consolidated net profit. 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, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for impairment. The Company on the basis of dividends accounts for the results of subsidiaries received and receivable.

Associates

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investor.

The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates plus the unamortized goodwill less capital reserves on acquisition of the associates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the Company's balance sheet the investment in associates are stated at cost less provision, if necessary, for impairment.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis over its estimated useful life of 10 years.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognized as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognized as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet as a deduction from assets.

Intangible assets

Intangible assets represent the cost of acquisition of taxi licenses and computer software and are stated at cost less amortization and provision, if any, for impairment. Amortization is provided to write off the cost of taxi licenses over the license period granted by relevant authorities, namely 10 years, by equal installments. Amortization is provided to write off the cost of computer software over 5 years.

Property, plant & equipment

Property, plant & equipment except for construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. When an asset is sold, its cost and accumulated depreciation are removed from the 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 the profit and loss account.

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

Land and buildings	35 years
Furniture, fixture and office equipment	7 years

Motor vehicles	7 years
Plant and machinery	10 to 13 years

Construction-in-progress represents plant and properties under construction and includes the costs of construction plus interest charges arising from borrowings used to finance the construction during the construction period. No depreciation is provided for construction-in-progress until they are completed and put in use.

Investment property

Investment property is land and/or buildings held to earn rentals or for capital appreciation or both.
Investment property is stated at fair value. Fair value is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Movements in fair value are recognized immediately in profit or loss.

Properties held for sale

Properties held for sale and properties under development are stated at costs including the cost of land use rights, construction and interest charges arising from borrowings used to finance the development of these properties during the construction period. Provision for impairment is made when it is expected that the total costs will exceed the sale proceeds.

When land use rights designated for property development are sold, the related transfer fee payable thereon is accrued. Provisions for these amounts are made based on management assessment of the ultimate amounts payable, after taking into account advice from the Shenzhen Land Bureau.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term investments

Long-term investments where the Group is not in a position to exercise significant influence or exert control are stated at cost less provision for impairment losses recognized, where investments' carrying amounts exceed their estimated recoverable amounts.

Long-term investments are recognized on a trade-date basis and are initially measured at cost, including transaction costs.

Long-term investments in equity and debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is deposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

Retirement benefit cost

In accordance with local government regulations, the Group is required to make contributions to a retirement insurance fund which is a defined contribution scheme and is administered by the local social security bureau in accordance with government regulations. The amount of contributions is determined at a fixed percentage of the basic salaries of the Group's existing PRC staff.

Retirement benefits are paid directly from the fund and are calculated based upon a retired employee's basic monthly salary and their number of years' service.

The amount charged to the income statement represents the amount of contribution payable to the scheme by the Group.

Foreign currency translation

Foreign currency transactions are converted at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these transactions are dealt with in the income statement.

Turnover and revenue recognition

Turnover represents the invoiced value of goods supplied and services performed, and properties sold to customers outside the Group, net of discounts, return and sale taxes.

Sales of goods are recognized when goods are delivered and title has passed.

Service income is recognized when the services are rendered.

Income from sales of properties together with the interest earned on deposits from the installment sales of flats are recognized upon the execution of a binding sales agreement or upon the issuance of an occupation permit completion certificate by the relevant authority, whichever is the later. Deposits received from forward sales of properties are carried in the balance sheet under current liabilities. Installment sales of developed properties are recognized to the extent that installments are received or become due under the relevant sales contracts.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rental income, including rental invoiced in advance from properties under operating leases, is recognized on a straight-line basis over the terms of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Deferred income tax

Deferred taxation is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. It is recognized in the financial statements to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Impairment of assets

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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 those 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 eligible for capitalization.

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

Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized 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 recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

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 Group.

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

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank balances and time deposits within three months of maturity when acquired.

4.TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate of the invoiced value of goods sold, after allowances for goods returned, trade discounts, value-added tax and sales returns. All of the Group’s operations are conducted in the PRC.

Segment analysis by principal activities:

	Manufacturing and others		Property development and management		Import and export trading		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	76,219	76,650	55,040	53,112	1,002,433	914,049	1,133,692	1,043,811
Segment results	(5,076)	2,049	(88,181)	2,508	2,745	8,441	(90,512)	12,998
Unallocated Corporate expense							(3,005)	(4,928)
Profit / (loss) from operations							(87,507)	17,926
Finance costs							(12,879)	(12,561)
Income from associates							8,150	2,799
Dividend income from investments							7,285	5,824
Gain from disposal of associates								
Gain from disposal of investments							1,672	912
Loss from disposal of a subsidiary								
Profit / (loss) before tax							(83,279)	14,900
Income tax expense							(1,060)	(2,998)
Profit / (loss) after tax							(84,339)	11,902
Minority interest							(4,265)	(2,038)
Net Profit / (loss) for the year							(88,604)	9,864

4. TURNOVER AND SEGMENT INFORMATION (continued)

	Manufacturing and others		Property development and management		Import and export trading		Total	
	2006	2005	2006	2005	2006	2005	2006	2005

	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION								
Segment assets	225,482	232,020	33,894	37,056	468,054	456,387	727,430	725,463
Interests in associates	--	--	--	--	14,998	12,715	14,998	12,715
Unallocated corporate assets							82,064	108,221
Consolidated total assets							824,475	846,399
Segment liabilities							641,651	575,638
Capital expenditure	713	2,973	465	11,607	20,803	5,638	21,981	20,218
Depreciation	7,547	10,745	6,783	7,245	4,788	5,289	19,118	23,279
Non-cash expenses other than depreciation	2,969	2,479	971	954	512	658	4,452	4,091

5. PROFIT FROM OPERATIONS

Profit from ordinary activities is stated after charging / (crediting):-

	2006 RMB'000	2005 RMB'000
Amortization	591	2,091
Staff costs	57,613	63,449
Depreciation	13,932	20,202
Provision for doubtful debts		
Provision for impairment losses of assets:		
- long-term investments	0	0
- inventories	145	(2,094)
- property, plant & equipment	0	3
Exchange losses	185	522

6. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest expenses	12,879	12,561

7. INCOME TAX EXPENSE

	2006 RMB'000	2005 RMB'000

Income tax for the year	1,060	2,998

Income tax is calculated in accordance with applicable income tax regulations and at 15% (2005: 15%) of the estimated assessable profit determined in accordance with the accounting principles and the relevant financial regulations applicable to enterprises in the PRC.

Reconciliation to the domestic tax expense is as follows:

	2006	2005
	RMB' 000	RMB' 000
Accounting profit before tax under IFRS	(83, 279)	14, 900
Difference arising from accounting policies based on IFRS	3, 944	4, 464
Accounting profit before tax under Accounting Standards for Enterprise Business of the PRC	(87, 223)	10, 436
Tax at the domestic rate of 15%	(13, 083)	1, 565
Net tax effect of expenses not deductible for tax purposes and other factors	14, 143	1, 433
Tax expense	1, 060	2, 998

8. PROFIT PER SHARE

(a) The calculation of basic profit per share is based on the consolidated profit of RMB-88,604,000 (2005: profit of RMB 9,864,000) and on the 220,281,600 shares (2005: 220,281,600 shares) in issue during the year.

(b) During the year ended 31 December 2006, there were no dilutive potential shares. Fully diluted profit per share is not disclosed.

9. GOODWILL

Cost	RMB'000
At January 1, 2006	18,430
Disposals	
At December 31, 2006	18,430
Amortization	
At January 1, 2006	7,863
Charge for the year	591

On disposals	
At December 31, 2006	8,454

9. GOODWILL (continued)

Net book value

At December 31, 2006	9,976
At December 31, 2005	10,567

10. PROPERTY, PLANT & EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture fixture, plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At January 1, 2006	117,811	32,557	32,347	15,687	9,826		208,228
Additions	5	585	2,201	1,866	852		5,509
Disposals	(11,395)	(129)	(2,473)	(2,969)	(847)		(17,813)
At December 31, 2006	106,421	33,013	32,075	14,584	9,831		195,924
Depreciation							
At January 1, 2006	43,563	27,527	23,074	10,905	7,247		112,316
Charge for the year	9,834	591	1,402	1,236	869		13,932
On disposals	(17,020)	(10)	(1,474)	(2,191)	(426)		(21,121)
At December 31, 2006	36,377	28,108	23,002	9,950	7,690		105,127
Provision for impairment							
At January 1, 2006	3, 555	--	676	--	--	--	4,231
Additions					0	0	0
On disposals					0	0	0
At December 31, 2006	3, 555		676	0	0	0	4,231
Net book value							
At December 31, 2006	66,489	4,905	8,397	4,634	2,141		86,566
At December 31, 2005	70,693	5,030	8,597	4,782	2,579		91,682

11. INVESTMENT PROPERTY

	Investment properties
	RMB'000
Fair value	
At January 1, 2006	272,501
Additions	2,195
At December 31, 2006	274,696

The group's investment properties were reevaluated at fair value as of the balance sheet date. The fair value reflected the actual market state and circumstances. The evidence of fair value is given by current prices on an active market for similar property in the same location and condition and subject to similar lease and other contracts.

12. SUBSIDIARIES

Subsidiaries held at 31 December 2006

Company name	Registered capital RMB'000	Proportion of shares held 2005	2004	Principal activities	Consolidated or not
Shenzhen Te Fa Tellus Property Management Co. Ltd.	7,050	100%	100%	Provision of services and management of industrial districts and employees' residential quarters	Yes
Shenzhen Te Fa Tellus Real Estate Development Co. Ltd.	31,150	100%	100%	Property development and sale of properties	Yes
Shenzhen Tellus Xin Yong Tong Automobile Dev. Co. Ltd.	32,900	100%	100%	Manufacturing and sale of automobile testing equipment, provision of repairs and inspection services	Yes
Shenzhen Zhong Tian Industry Co. Ltd.	7,250	100%	100%	Leasing of property	Yes
Shenzhen Automobile Machinery Industry and Trading Co. Ltd.	58,960	100%	100%	Sale of automobile and fittings, property development	Yes
Shenzhen Te Fa Hua Ri Automobile Co. Ltd.	USD5,000	60%	60%	Provision of automobile repairs and inspection services, manufacturing and sale of automobile fittings	Yes
Shenzhen Tellus Real Estate Trading Co. Ltd.	2,000	100%	100%	Properties trading agency	Yes
Shenzhen Hua ri Toyota Automobile Vendition Co. Ltd.	2,000	60%	60%	Sale of automobile	Yes

13. INTERESTS IN ASSOCIATES

	2006 RMB'000	2005 RMB'000
Share of net assets	43,691	61,141
Amount due from associates	6,977	4,581
Amount due to associates	(4,693)	(4,693)
	45,975	61,029

13. INTERESTS IN ASSOCIATES (continued)

As at 31 December 2006, associates were:

Company name	Principal activities	Proportion of shares held 2006
Shenzhen Xing Long Mechanical Models Co.	Manufacturing and sale of steel moulds for plastic products	50%
Shenzhen Automobile Industry Import and Export Co.	Automobile import and export	35.75%
Shenzhen Biao Yuan Automobile Maintenance Co. Ltd.	Provision of automobile repairs and inspection services	22.71%
Shenzhen Biao Yuan General Automobile Co. Ltd.	Sale of automobile	28.83%
Shenzhen Zung Fu Te Li Automobile Services Co. Ltd.	Provision of Benz Automobile repairs	35%
Shenzhen Te Li Automobile Services Development Co. Ltd.	Provision of automobile repairs and inspection services	40%
Shenzhen Hua Tong Automobile Co. Ltd.	Leasing of automobile, sale of automobile fittings	30%

During this report term, the Company together with Zung Fu Automobile Management Co. Ltd. (Shenzhen) has invested RMB 20million, which the Company invested RMB 7million, and occupied 35% of the shares, in founding Shenzhen Zung Fu Te Li automobile services co. Ltd that would run 20 years. The Company increased the investment by RMB 3.5 million later, but still held 35% of the shares.

14. LONG-TERM INVESTMENTS

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	129,952	95,377
Listed shares, at cost	3,522	3,522
Debt securities	121	121
Less: provision for impairment	(33,713)	(33,713)
	99,882	65,307

The unlisted shares are not available for sale to the public. In the opinion of the directors, the carrying values of them are not less than their fair values. Therefore, further provision for impairment losses for the investments is not necessary.

15. PROPERTIES HELD FOR SALE

	2006 RMB'000	2005 RMB'000
Developed properties held for sale, at cost	3,442	3,442
Properties under development, at cost	10,689	11,072
Less: provision for impairment	--	--
	14,131	14,514

16. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials, at cost	8,419	7,846
Work in progress, at cost	6,057	4,476
Finished goods, at cost		
Merchandise purchased, at cost	92,449	101,308
Less: provision for impairment	15,347	(15,302)
	91,578	98,328

17. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

	2006 RMB'000	2005 RMB'000
Shenzhen Special Economic Zone Development (Group) Company ("SDG")		
- current account, net	(34,351)	(24,376)
- unsecured and interest bearing	(22,074)	(26,144)
	(56,425)	(50,520)

18. BILLS PAYABLE

	2006 RMB'000	2005 RMB'000
Balance at December 31	90,000	86,498

Bank deposits totaling RMB 32,500,000 (2005: RMB 30,265,000) have been pledged as security for the Group's general banking facilities in respect of bills payable (see note 22).

19. BANK LOANS

	2006 RMB'000	2005 RMB'000
Secured and interest bearing	155,312	65,313

Unsecured and interest bearing	40,769	140,234
	196,081	205,547

20. OTHER LOANS

	2006 RMB'000	2005 RMB'000
Unsecured and non-interest bearing	50	10,200
Unsecured and interest bearing	20,444	--
Secured and interest bearing	--	--
Secured and non-interest bearing	--	--
	20,494	10,200

21. SHARE CAPITAL

	2006 RMB'000	2005 RMB'000
Registered, issued and paid-up (220,281,600 shares in total)		
193,881,600 "A" shares of RMB 1.00 per share	193,882	193,882
26,400,000 "B" shares of RMB 1.00 per share	26,400	26,400
	220,282	220,282

A and B shares have the same par value of RMB 1 per share and rank pari passu.

Te Fa (Group) Company such particular promise, the Company shares held by Te Fa (Group) Company would not be exchanged at Shenzhen Bourse in 36 months from the date on which the split-share reform was launched (the shares held by the company management were excluded).

22. RESERVES

	Share premium RMB'000	Asset revaluation reserve RMB'000	Staff welfare fund RMB'000	General reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1/1/2005	124,248	36,389	3,218	55,472	(230,004)	(10,677)
Profit for the Year					9,864	9,864
Reserves make up for a loss	(124,248)	(36,389)		(55,472)	216,056	(53)
At 31/12/2005	0	0	3,218	0	(4,084)	(866)
Profit for the Year					(88,604)	(88,604)
Addition						
Reserves make up for a loss						
At 31/12/2006	0	0	3,218	0	(92,688)	(89,470)

a. The PRC laws and regulations restrict the distribution of share premium and asset revaluation reserve in the form of cash dividends to shareholders.

b. The PRC laws and regulations require companies to make appropriations to certain statutory reserves from net profit after taxation as reported in the statutory accounts. These statutory reserves include the staff welfare fund and the general reserve which are designated for specific purposes and are not distributable in the form of cash dividends.

c. Asset revaluation reserve represents surplus of revaluation of assets acquired.

23. PLEDGE OF ASSETS

1. The gross book value of the Company is RMB 186,820,000; the non-current asset with net value of RMB 133,280,000 was pledged to bank, as the guaranty for a loan of RMB 155,310,000.

2. The Company pledged bank its 95% shares of the Shenzhen Te Li Xin Yong Tong Automobile Development Co. Ltd., 50% shares of the Shenzhen Xing Long Mechanical Models Co., 60% shares of the Shenzhen Te Fa Hua Ri Automobile Co. Ltd., as the guaranty for a loan of RMB 33,000,000.

3. 35% shares of the Shenzhen Zung Fu Te Li Automobile Services Co. Ltd. held by the Company was pledged to the Zung Fu Automobile Management (Shenzhen) Co. Ltd. , as the credit guarantee to bank for a loan for the Shenzhen Zung Fu Te Li Automobile Services Co. Ltd..

4. 25.23% shares of the Shenzhen Biao Yuan General Automobile Co. Ltd. held by the Group was pledged to bank, as a guaranty for a loan of RMB 15,000,000.

5. The fixed deposit of RMB 32,500,000 of the Shenzhen Biao Yuan General Automobile Co. Ltd., the subsidiary of the Group, was pledged to bank until 31 December 2006, as the guaranty for the banker's acceptance bill of RMB 90, 000, 000.

24. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

In addition to interests in associates and amount due from ultimate holding company stated in notes 12 and 16 respectively, the following entities have also been defined as related parties with whom the Group has had significant transactions during the year or with whom a significant balance exists for the year then end.

	Nature of relationship
Shenzhen Te Fa Swan Industry Co.	Fellow subsidiary
Shenzhen Te Fa Hua Tong Packing Industry Co. Ltd.	Fellow subsidiary
Shenzhen Mechanical Equipment Import & Export Co.	Fellow subsidiary
Shenzhen Te Long Fa Industry Co. Ltd.	Fellow subsidiary
Hong Kong Yu Jia Investment Co. Ltd.	Fellow subsidiary

Tellus (Jinbian) Development Co. Ltd.	Fellow subsidiary
Shenzhen Tellus Real Estate Dev. (Yue Yang) Co.	Fellow subsidiary
Shenzhen Te Fa Development Center Construction Management Co. Ltd.	Fellow subsidiary
Shenzhen Tellus Yang Chun Property Dev. Co. Ltd.	Fellow subsidiary
Shenzhen Long Gang Tellus Property Dev. Co. Ltd.	Fellow subsidiary
Shenzhen Machine Trade Co. Ltd.	Fellow subsidiary

25. MATERIAL LAWSUIT AND ARBITRATION

(a). Shenzhen Tellus Real Estate Development Co. Ltd. ("Real Estate Co."), a wholly-owned subsidiary of the Company, entered into a Joint Property Construction Contract with Shenzhen Jinlu Industrial and Trade Company ("Jinlu Company") on 29 November 1994 to build a real estate in Shenzhen. Real Estate Co. paid RMB 9,800,000 to Jinlu Company as of 31 December 1996. However, Jinlu Company breached the contract and cooperated with Guangzhou Military Area Shenzhen Property Administrative Department ("GMAA") to develop the real estate and paid the RMB9,800,000 received from Real Estate Co. to GMAA. Therefore, Real Estate Co. lodged a claim against Jinlu Company. The Futian District People's Court admitted GMAA as the third party of this case according to the law of the PRC. It was ruled by the Futian District People's Court that the contract was of no effect; GMAA shall repay Jinlu Company the principal of RMB9,800,000 plus interests, which shall be transferred to Real Estate Co. within three days of the reception by Jinlu Company. GMAA applied for further trial that was allowed, and the original judgement was suspended during the retrial. Since the target of the litigation was located out of Futian District, the second trial was undertaken by the Shenzhen Intermediate People' Court on 18 March 2003, which overruled the judgment of the Futian District People's Court. The Shenzhen Intermediate People's Court admitted that the original contract entered between Real Estate Co. and Jinlu Company is still effective. The Group has made provision of RMB4,900,000. As Real Estate Co. is still under negotiation with Jinlu Company, in the opinion of directors, no further provision is deemed necessary as of the balance sheet date. Up to the date of the approval of these financial statements, the settlement consultation of the two parties is still ongoing.

(b). The Company signed a "Guarantee Contract for a limited loan" with Shenzhen Petroleum & Chemical Limited Company ("Petroleum & Chemical Limited") and China Agricultural Bank Shenzhen Shangbu Subbranch on 14 December 1995. Our company guaranteed Petroleum & Chemical Limited to borrow a loan of RMB57,600,000 from China Agricultural Bank Shenzhen Shangbu Subbranch, which would expire on 14 December 2000.

On 29 December 2000, China Agricultural Bank Shenzhen Branch, China Grate wall Asset Management Corporation Shenzhen Branch ("Grate wall Corporation Shenzhen Branch") and Petroleum & Chemical Limited signed an "Loan for Investment & Stock Transfer Agreement ". Three parties agreed that China Agricultural Bank Shenzhen Branch would transfer a loan of RMB 270,000,000 (the above-mentioned loan of RMB 57,600,000 included), that he extended to Petroleum & Chemical Limited, to Great Wall Corporation Shenzhen Branch, as a way of investment. In the agreement, they promised that "From the date on which the contract become effective, Party A, Grate wall Corporation Shenzhen Branch, will be entitled with the rights as a investor; Party B, China Agricultural Bank Shenzhen Branch, will not be a lender again. "The agreement will become effective with the signatures of the representatives or agents from the three parties".

On the same date, Great wall Corporation Shenzhen Branch, Petroleum & Chemical Limited and Shenzhen Petroleum & Chemical Group Limited Company ("Petroleum & Chemical Group") signed an "<u>Agreement</u>". Three parties agreed that Grate wall Corporation Shenzhen Branch changed his investor's equity of RMB 270,000,000 in Petroleum & Chemical Limited as the investment returns in Petroleum & Chemical Group.

Meanwhile, Petroleum & Chemical Group and Great Wall Corporation Shenzhen Branch signed a <u>"Stock Transfer Contract"</u>. They agreed that Great Wall Corporation Shenzhen Branch would use his investment returns of RMB 270,000,000 in Petroleum & Chemical Group to invest as a stockholder in a newly-registered company of Petroleum & Chemical Group. The contract "will become effective with the signatures and chops from the two parties".

On 20 August 2004, the China Agricultural Bank Shenzhen Branch claimed that "<u>Agreement"</u>, <u>"Loan for Investment & Stock Transfer Agreement "</u> and <u>"Stock Transfer Contract"</u> have not been carried out. They appealed to the Shenzhen Municipal Court and required the borrower, Petroleum & Chemical Limited, to repay the loan of RMB 57,600,000, interest of RMB 16,652,286.37 and other overdue penalty. He also required our company to assure the guarantee responsibility.

On 9 May 2006, the Company received the civil judgment of (2004) Shen Zhong Fa Min No. 437 from the Shenzhen Intermediate People's Court. In its judgment of first instance, the Shenzhen Intermediate People's Court ordained that the Company should assume the joint liability of satisfaction for the loan of Petroleum & Chemical Limited. The Company shall repay the loan principal of RMB 57,600,000 and interests to the China Agricultural Bank Shenzhen Shangbu Subbranch, within 10 days upon effectiveness of this judgment. (The interests should be calculated in accordance with the overdue interest rate for the loan of the corresponding period issued by the People's Bank of China from 30 December 2000 to the date of liquidation.) As Petroleum & Chemical Limited was delisted and its assets were seized by the creditors, the Company made provision of RMB 87,568,728.57for the relevant loss, in accordance with the Accounting Regulations for Business Enterprises.

The Company thought its responsibility of guarantee under "<u>Guarantee Contract for a limited loan</u>" signed on 14 December 1995 had been void after the effectiveness of new legal responsibility of investment and interest among China Agricultural Bank Shenzhen Branch, Great Wall Corporation Shenzhen Branch, Petroleum & Chemical Limited and Petroleum & Chemical Group. The Company had no responsibility of guarantee for the loan. The Company had appealed to the Guangdong Supreme People's Court and the lawsuit had been accepted.

(c) In October of 2005, a lawsuit was brought before Shenzhen Fu Tian District People's Court by the Company, which was the recognizor of Jintian Industry (Group) Co. Ltd. ("Jintian") to require Jintian to redress RMB 4,081,830 (corpus: RMB 3,000,000, interest: RMB 1,051,380, legal fare: RMB 25,160, and executive fare: RMB 5,290, which were all dealt as a loss in last report term.). It was the amount money that was distrained forcibly. The Fu Tian District People's Court had adjudged that the Company won the lawsuit and the forcible execution had been applied by the

Company.

(d) In October of 2005, a lawsuit was brought to Shenzhen Fu Tian District People's Court by the Company, which is the recognizor of Shenzhen Zhong Hao (Group) Co. Ltd. ("Zhong Hao") to require Jin Hao to redress RMB 16,620,000 (corpus: RMB 11,500,000, interest: RMB 5,000,000, legal fare and evaluating fare: RMB 120,000, which were all dealt as a loss in last report term.). The Fu Tian District People's Court had adjudged that the Company won the lawsuit and the forcible execution had been applied by the Company.

(e) Ji Jianjun, Zhou Linxia, together with other 40 property owners, purchased the houses and stores in the Yueyang Te Li Plaza, that were developed by the Yueyang Subsidiary of Shenzhen Te Li Real Estate Company ("the Yueyang Company"), between 1995 and 1998. Owning to the quality problem of the plaza, they took the Yueyang Company, the Company, Shenzhen Te Li Real Estate Company (the Company's subsidiary), and the Shenzhen Te Fa Group (the holding shareholder of the Company) to court. On 12 October 2006, the Yueyang County People's Court adjudged that the Yueyang Company should redress RMB 2,980,000 to the plaintiffs for compensation. The Company, Shenzhen Te Li Real Estate Company and Shenzhen Te Fa Group should assume joint liability. The Company appealed to the Yueyang County People's Court in December 2006. The appeal was accepted by the court. At present, the lawsuit is still on the docket.

26. IMPACT OF DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS ON FINANCIAL STATEMENTS

	Net profit for the year RMB'000	Net assets RMB'000
As reported in the statutory consolidated financial statements in PRC	(92,149)	134,859
Adjustment for interest capitalized as cost of property, plant & equipment	--	(4,617)
Reversed amortization of investments in associates	483	(3,153)
Revaluation of workshops invested	(269)	1,344
Profit from subsidiaries not recognized previously	(399)	444
Interest received from the related parties	51	--
Gain from waiver of accounts payable	1,484	--
Investment balance would be recognized as loss	--	(2,090)
Gain from addition of investment properties' fair value	2,195	4,025
As reported in the consolidated financial statements prepared in accordance with IFRS	(88,604)	130,812

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 27 March 2007.