Stock Code: 000025, 200025 Short Form of Stock: Tellus A, Tellus B No.: 2007-008

SHENZHEN TELLUS HOLDING CO., LTD.

SUMMARY OF ANNUAL REPORT 2006

§1. Important Notice

1.1 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. The Summary of Annual Report 2006 is abstracted from the full text of Annual Report; the investors are suggested to read the full text of the Annual Report to understand more details.

1.2 No director supervisor and senior executive stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.

1.3

Name of absence	Reason for absence	Name of entrustee
Xue Guang	Ask for leave	Chen Baojie

1.4 Shenzhen Nanfang Minhe Certified Public Accountants and Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants issued a standard unqualified Auditors' Report for the Company.

1.5 Chairman of the Board of the Company Mr. Zhang Ruili, General Manager Mr. Cheng Peng, Chief Financial Officer Mr. Fu Bin and Manager of Planning and Financial Department Mr. Yang Jianhui hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

§2. Company Profile

2.1 Basic information

Short form of the stock	Tellus A, Tellus B
Stock code	000025, 200025
Listed stock exchange	Shenzhen Stock Exchange
Registered address	3/F, Tellus Building, Shui Bei Er Road, Luohu District, Shenzhen
Post code of registered address	518025
Office address	15/F, Zhonghe Building, Shennan Middle Road, Futian District, Shenzhen
Post code of office address	518031
Internet web site of the	www.tellus.cn

Company	
E-mail	sztljtgf@public.szptt.net.cn

2.2 Contact person and method

	Secretary of the Board	Securities Affairs Representative
Name	**Ren Yongjian**	**Yang Jianhui**
Contact address	15/F, Zhonghe Building, Shennan Middle Road, Futian District, Shenzhen	15/F, Zhonghe Building, Shennan Middle Road, Futian District, Shenzhen
Telephone	0755-83989338	0755-83989363
Fax	0755-83989399	0755-83989399
E-mail	ryj@tellus.cn	yjh@tellus.cn

§ 3. Summary of Accounting Data and Financial Indexes

3.1 Major accounting data

Unit: RMB

	2006	2005	Increase or decrease over last year（%）	2004
Income from main operations	1,133,692,161.07	1,043,810,667.42	8.61%	1,124,745,615.76
Total profit	-87,222,546.28	10,435,983.82	-935.79%	13,903,513.53
Net profit	-92,148,791.60	5,676,304.77	-1,723.39%	4,319,754.28
Net profit after deducting the non-recurring losses/gains	-7,861,349.37	3,759,441.57	-309.11%	-2,056,290.71
Net cash flows from operating activities	5,551,011.33	35,943,414.04	-84.56%	-79,921,661.82
	At the end of 2006	At the end of 2005	Increase/Decrease from the end of previous year (%)	At the end of 2004
Total assets	830,866,309.81	859,358,659.13	-3.32%	1,063,458,822.65
Shareholders’ equity (excluded minority interest)	134,859,194.63	225,872,478.83	-40.29%	216,276,817.86

3.2 Major financial indexes

Unit: RMB

	2006	2005	Increase/Decrease over last year (%)	2004
Earnings per share	-0.4183	0.0258	-1,721.32%	0.02
Earnings per share (Note)	-0.4183	-	-	-
Return on equity	-68.33%	2.51%	-70.84%	2.00%
Return on equity as calculated based on net profit after deducting non-recurring	-5.83%	1.66%	-7.49%	-0.95%

losses and gains				
Net cash flow per share arising from operating activities	0.025	0.16	-84.38%	-0.36
	At the end of 2006	At the end of 2005	Increase/Decrease from the end of previous year (%)	At the end of 2004
Net asset per share	0.612	1.025	-40.29%	0.98
Net assets per share after adjustment	0.47	0.89	-47.19%	0.14

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

Items of non-recurring gains and losses:
√ Applicable ☐Inapplicable

Unit: RMB

Items of non-recurring gains and losses	Amount
Income from disposal of long-term investment	1,671,820.87
Funds occupied capital received from non-finance enterprises reckoned into this period	25,200.00
Non-operating income	12,570,418.57
Non-operating expenses after deducting reserve for impairment losses	-97,975,831.14
Previous reserve for impairment losses switched back	0.00
Impact on income tax	-579,050.53
Total	-84,287,442.23

3.3 Difference of net profit as audited by Chinese Accounting Standard (CAS) and International Accounting Standard (IAS)
√ Applicable ☐Inapplicable

Unit: RMB

	CAS	IAS
Net profit	-92,148,791.60	-88,604,000.00
Explanation on the difference	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.	

§4. Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share capital

Unit: share

	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	159,588,000	72.45%	0	-13,717,440	0	0	-13,717,440	145,870,560	66.22%
1. State-owned shares	0	0.00%	0	0	0	0	0	0	0.00%
2.State-owned legal person's shares	159,588,000	72.45%	0	-13,717,440	0	0	-13,717,440	145,870,560	66.22%
3. Other domestic shares	0	0.00%	0	0	0	0	0	0	0.00%
Including: Domestic legal person's shares	0	0.00%	0	0	0	0	0	0	0.00%
Domestic natural person's shares	0	0.00%	0	0	0	0	0	0	0.00%
4. Foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
Including: Foreign legal person's shares	0	0.00%	0	0	0	0	0	0	0.00%
Foreign natural person's shares	0	0.00%	0	0	0	0	0	0	0.00%
II. Unrestricted shares	60,693,600	27.55%	0	13,717,440	0	0	13,717,440	74,411,040	33.78%
1. RMB Ordinary shares	34,293,600	15.57%	0	13,717,440	0	0	13,717,440	48,011,040	21.80%
2.Domestically listed foreign shares	26,400,000	11.98%	0	0	0	0	0	26,400,000	11.98%
3. Overseas listed foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
4. Others	0	0.00%	0	0	0	0	0	0	0.00%
Ⅲ. Total shares	220,281,600	100.00%	0	0	0	0	0	220,281,600	100.00%

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

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 for sales

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.

4.2 Statement of shares held by the top ten shareholders and the top ten unrestricted shareholders

Unit: share

Total number of shareholders	16,628				
Particulars about shares held by the top ten shareholders					
Full Name of shareholder	**Nature of shareholders**	**Proportion of shares held**	**Total amount of shares held**	**Amount of the restricted shares held**	**Amount of shares 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 the shares held by the top ten unrestricted shareholders		
Full Name of shareholder	**Amount of unrestricted shares held**	**Type of shares**
HE XING	327,016	Domestically listed foreign share
HU GUANG HUA	290,386	Domestically listed foreign share
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 share
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.	

4.3 Particulars about controlling shareholders and actual controller of the Company

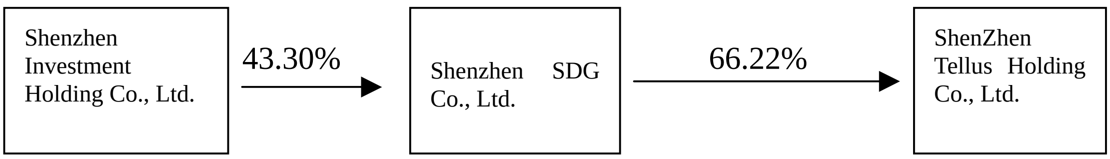
4.3.1 Particulars about change in controlling shareholders and actual controller of the Company

☐Applicable √ Inapplicable

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

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.

4. 3. 3 Property right and controlling relationships between the actual controller of the Company and the Company is as follows:



§5. Particulars about Directors, Supervisors, Senior Executives

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

Names	Titles	Sex	Age	Beginning date of office term	Terminating date of office term	Shares held at the year-begin	Shares held at the year-end	Reason of change	Total remuneration drew from the Company in the report period (RMB'0000)	Draw the remuneration from other shareholder units or associates or not
Zhang Ruili	Chairman of the Board	Male	43	June 17, 2006	June 16, 2009	0	0		19.50	No
Cheng Peng	Director, General Manager	Male	43	June 17, 2006	June 16, 2009	0	0		16.10	No
Fu Bin	Director, CFO	Male	44	June 17, 2006	June 16, 2009	0	0		13.90	No
Li Mingjun	Director	Female	41	June 17, 2006	June 16, 2009	0	0		0.00	Yes
Xue gang	Director	Male	35	June 17, 2006	June 16, 2009	0	0		0.00	Yes
Chen Baojie	Director	Male	39	June 17, 2006	June 16, 2009	0	0		0.00	Yes
Zhou Chengxin	Independent Director	Male	51	June 17, 2006	June 16, 2009	0	0		3.00	No
Shi Weihong	Independent Director	Female	39	June 17, 2006	June 16, 2009	0	0		3.00	No
Ji Dejun	Independent Director	Male	62	June 17, 2006	June 16, 2009	0	0		1.75	No
Li Binxue	Chairman of the Supervisory	Male	48	June 17, 2006	June 16, 2009	0	0		15.70	No
Luo Tao	Supervisor	Male	44	June 17, 2006	June 16, 2009	0	0		0.00	Yes
Zhang Xinliang	Supervisor	Male	36	June 17, 2006	June 16, 2009	0	0		0.00	Yes
Yang Jianhui	Supervisor	Male	36	June 17, 2006	June 16, 2009	0	0		9.20	No
Wang Guangye	Supervisor	Male	48	June 17, 2006	June 16, 2009	0	0		9.10	No
Guo Dongri	Deputy General Manager	Male	41	June 17, 2006	June 16, 2009	0	0		13.90	No
Ren Yongjian	Deputy General Manager, Secretary of the Board	Male	43	June 17, 2006	June 16, 2009	0	0		13.90	No
Luo Bojun	Deputy General Manager	Male	44	June 17, 2006	June 16, 2009	0	0		13.10	No
Feng Yu	Deputy General Manager	Male	39	June 17, 2006	June 16, 2009	0	0		10.30	No
Total	-	-	-	-	-	0	0	-	142.45	-

§6. Report of the Board of Directors

6.1 Discussion and analysis to the whole operation 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. 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.

6.1.1 Alterations on accounting policy and accounting estimation of the Company, and influences on financial status and business results of the Company after implementing the New Accounting Standards.

√ Applicable ☐Inapplicable

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.

6.2 Statement of main operations classified according to industries or products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Automobile inspection and maintenance	7,112.75	5,203.15	25.69%	-3.84%	19.63%	-15.51%
Automobile trade	98,685.75	95,000.06	3.72%	9.37%	9.69%	-0.29%
Lease service	7,570.72	3,445.46	50.45%	12.10%	10.73%	-3.48%
Main operations classified according to products						
Automobile inspection and maintenance	7,112.75	5,203.15	25.69%	-3.84%	19.63%	-15.51%
Automobile trade	98,685.75	95,000.06	3.72%	9.37%	9.69%	-0.29%
Lease service	7,570.72	3,445.46	50.45%	12.10%	10.73%	-3.48%

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease in income from main operations over the last year (%)
Shenzhen	113,369.22	8.61%

6.4 Application of the raised proceeds

☐Applicable √ Inapplicable

Particulars about the changed projects

☐Applicable √ Inapplicable

6.5 Application of the proceeds not raised through shares offering

☐Applicable √ Inapplicable

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

□Applicable √ Inapplicable

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

□Applicable √ Inapplicable

The Company didn’t appropriate share distribution preplan though the Company achieved the profit in the report period

□Applicable √ Inapplicable

§7 Significant Events

7.1 Purchase of assets

□Applicable √ Inapplicable

7.2 Sales of assets

√ Applicable □Inapplicable

Unit: RMB’0000

The other party of transaction	Assets sold	Sales date	Sales price	Net profit contributed to the Company from this year-begin to sales date	Gains and losses rising from sales	Related transaction or not	Explanation on price setting	Assets rights concerned transferred ownership fully or not	Credit and liability concerned shifted fully or not
Qin Kebo	A-B103, 203 Shops of Shenzhen Fuyi Yaju	May 18, 2006	1,660.00	-0.40	213.00	No	Based on Appraisal Report	Yes	Yes

Influences on the business continuity and stability of management of the Company by the matters 7.1 and 7.2 concerned

The purpose of selling asset was to increase the cash flow of the Company and relieve the Company’s tense situation of capital; the recovering fund was good for the Company to centralize to develop the main operations, and have certain active influence on the operations of the Company.

7.3 Significant guarantees

√ Applicable □Inapplicable

Unit: RMB’0000

Particulars about the external guarantee of the Company (Barring the guarantee for the controlling subsidiaries)						
Name of the Company	Date of happening	Amount of	Guarantee type	Guarantee	Complete	Guarantee for related party

guaranteed	(Date of signing agreement)	guarantee		term	Implementation or not	(yes or not)
Shenzhen Auto Industry Import & Export Company	March 30, 2006	800.00	Credit	1 year	No	Yes
Shenzhen Auto Industry Import & Export Company	Jan.26, 2006	1,000.00	Credit	1 year	No	Yes
Shenzhen Auto Industry Import & Export Company	July 6, 2006	1,000.00	Credit	1 year	No	Yes
Shenzhen Auto Industry Import & Export Company	Aug.2, 2006	1,562.00	Credit	1 year	No	Yes
Total amount of guarantee in the report period		4,362.00				
Total balance of guarantee at the end of the report period(A)		4,362.00				
Guarantee of the Company for the controlling subsidiaries						
Total amount of guarantee for controlling subsidiaries during the report period		628.00				
Total balance of guarantee for controlling subsidiaries at the end of the report period（B）		1,102.00				
Total amount of guarantee of the Company (including guarantee for controlling subsidiaries)						
Total amount of guarantees（A+B）		5,464.00				
Ratio of total guarantee to net assets of the Company		40.52%				
Including:						
Amount of guarantee for shareholders, actual controller and its related parties（C）		0.00				
The debts guarantee amount provided for the guarantee of which the assets-liability ratio exceeded 70% directly or indirectly（D）		4,362.00				
Proportion of total amount of guarantee in net assets of the Company exceeded 50%（E）		0.00				
Total amount of the aforesaid three guarantees *（C+D+E）		4,362.00				

*Note: While filling in the aforesaid three guarantee amounts (C+D+E), if three conditions occurred in one guarantee, only one calculation was needed in the total calculations.

7.4 Significant related transaction

7.4.1 Related transaction connected to operations

☐Applicable √ Inapplicable

7.4.2 Related credits and liabilities current

√ Applicable ☐ Inapplicable

Unit: RMB’0000

Related parties	Supply funds to related parties		Related parties supplied funds to the Company	
	Occurred amount	Balance	Occurred amount	Balance
Shenzhen SDG Co., Ltd.	0.00	0.00	590.49	5,642.49
Shenzhen SDG Swan Industrial Company	-10.36	0.00	2.55	2.55
Shenzhen Xinglong Machinery Mould Company	7.60	142.55	0.00	0.00
Shenzhen Machinery Equipment Import & Export Company	-9.64	0.00	19.66	19.66
Shenzhen Telongfa Industrial Co., Ltd	-55.50	0.00	0.00	847.74

Shenzhen Tellus Real Estate Yueyang Company	-0.13	0.00	0.00	0.00
Worker's Union of Shenzhen Tellus Holding Co., Ltd	0.00	120.00	0.00	0.00
Shenzhen Xiandao New Materials of Chemical Industry Co., Ltd	0.00	70.81	0.00	0.00
Shenzhen Huatong Automobile Company	-45.41	0.00	100.09	278.91
Shenzhen Chihe Automobile Co., Ltd.	-360.00	0.00	200.00	200.00
Shenzhen Tellus Auto Service Development Company	246.05	555.16	0.00	0.00
Construction and Supervision Co., Ltd of Shenzhen SDG Development Center	0.00	0.00	360.55	1,045.07
Shenzhen Longgang Tellus Real Estate Company	0.00	0.00	0.00	109.57
Shenzhen Biaoyuan GM Automobile Co., Ltd	0.00	0.00	0.00	469.37
Shenzhen Biaoyuan Investment Company	0.00	0.00	-2,805.17	0.00
Shenzhen Tellus Yangchun Real Estate Company	0.00	0.00	7.48	47.99
Shenzhen Renfu Tellus Automobile Service Co., Ltd.	0.00	0.00	-500.00	0.00
Hong Kong Yujia Investment Co., Ltd	0.00	0.00	-3.04	246.66
Total	-227.39	888.52	-2,027.39	8,910.01

Including: In the report period, the amount of capital of the listed company provided for controlling shareholders and its subsidiaries was RMB -756,300, and the balance was RMB 0.00.

7.4.3 Progress of paying off the occupied fund at the end of year 2005

√ Applicable ☐Inapplicable

Unit: RMB'0000

Balance of large shareholder and its affiliated enterprise' occupation of non-business funds ('0000)		Total pay-off in the report period('0000)	Mode of pay-off	Amount of pay-off	Date of pay-off (month)
Jan.1, 2006	Dec.31, 2006				
75.63	0.00	75.63	Other	75.63	May, 2006
Details on Large shareholder and its affiliated enterprise' occupation of non-business funds and progress of paying off the debts		At the end of April, 2006, the Company's occupied fund by the large shareholder and its affiliated enterprises has been paid off. The relevant notice was published on Securities Times and Hong Kong Ta Kung Pao dated May 9, 2006.			

Occupation of newly increased fund during the year 2006

☐ Applicable √ Inapplicable

Reasons, measures of paying off debts adopted and plan for responsibility ascertainment in case of listed companies' failure to complete paying off the occupied non-operating fund at the end of 2006

☐Applicable √ Inapplicable

7.5 Entrusted assets management

☐ Applicable √ Inapplicable

7.6 Implementation of commitments

7.6.1 Commitment during the Share Merger Reform made by the original non-tradable shareholders and its implementations

√ Applicable ☐Inapplicable

Shareholders	Commitments	Commitment implementation	Remarks
Shenzhen SDG Co., Ltd	Within 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; 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, 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.	Implementing	Under the process of implementing the commitment.

7.6.2 Amount of tradable shares with unrestricted conditions held by original non-tradable shareholders whose holding proportion exceeded 5% at the end of report period

☐ Applicable √Inapplicable

7.7 Significant lawsuit and arbitrations

√Applicable ☐Inapplicable

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.

§8. Report of the Supervisory Committee

√ Applicable ☐Inapplicable

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.

§9. Financial Report

9.1 Auditor's opinions

Auditor's opinions: standard unqualified auditor's opinions

9.2 Financial statement

9.2.1 Balance Sheet

Prepared by ShenZhen Tellus Holding Co., Ltd. December 31, 2006 Unit: RMB

Items	Amount at year-end		Amount at year-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Monetary funds	77,658,825.83	1,460,058.16	105,804,080.45	833,381.63
Short-term investment				
Notes receivable				
Dividend receivable				

Interest receivable				
Accounts receivable	28,265,819.96	242,401.54	23,910,250.18	242,401.54
Other receivables	53,714,852.49	30,570,654.37	52,311,978.58	28,888,125.17
Accounts in advance	36,937,344.48	381,271.43	21,153,640.77	
Subsidy receivable			602,284.46	
Inventories	95,020,892.78		101,769,734.83	
Expenses to be apportioned	173,152.04		402,116.70	168,330.00
Long-term bonds investment due within one year				
Other current assets				
Total current assets	291,770,887.58	32,654,385.50	305,954,085.97	30,132,238.34
Long-term investment:				
Long-term equity investment	154,495,325.87	384,122,481.72	138,197,572.90	384,839,745.16
Long-term credit investment	121,300.00		121,300.00	
Total long-term investment	154,616,625.87	384,122,481.72	138,318,872.90	384,839,745.16
Consolidation variance				
Fixed assets:				
Fixed assets-original value	549,918,744.01	162,999,347.37	571,365,232.98	170,748,363.03
Less: Accumulative depreciation	186,537,114.64	51,316,698.85	175,531,932.02	50,258,055.77
Fixed assets-net value	363,381,629.37	111,682,648.52	395,833,300.96	120,490,307.26
Less: Provision for devaluation of fixed assets	4,231,301.32	3,555,385.70	4,231,301.32	3,555,385.70
Fixed assets-net amount	359,150,328.05	108,127,262.82	391,601,999.64	116,934,921.56
Engineering material				
Construction in progress	96,294.37			
Disposal of fixed assets				
Total fixed assets	359,246,622.42	108,127,262.82	391,601,999.64	116,934,921.56
Intangible and other assets:				
Intangible assets	1,267,733.29	1,267,733.29	1,283,424.95	1,283,424.95
Long-term expenses to be apportioned	13,276,097.67	1,012,247.35	11,127,551.45	1,432,721.54
Other long-term assets	10,688,342.98		11,072,724.22	
Total intangible and other assets	25,232,173.94	2,279,980.64	23,483,700.62	2,716,146.49
Deferred tax				
Deferred tax-debit				
Total assets	830,866,309.81	527,184,110.68	859,358,659.13	534,623,051.55
Current liabilities:				
Short-term loans	224,318,670.55	136,348,670.55	223,491,173.85	144,613,190.01
Notes payable	90,000,000.00		86,498,377.80	
Accounts payable	35,050,627.86	1,554.00	40,805,353.93	1,554.00
Accounts received in advance	14,662,029.70		37,095,598.94	
Wage payable	8,161,316.92	1,300,000.00	6,871,896.79	
Welfare funds payable	4,004,839.91	181,989.24	4,761,668.91	469,973.22
Dividends payable	1,674,491.98		1,674,491.98	
Taxes payable	5,321,945.94	1,018,902.67	6,557,071.92	4,294,079.65
Other duties payable	6,672,204.44	15,386.19	6,631,159.35	2,379.10
Other accounts payable	150,530,736.32	163,078,556.12	124,154,084.91	132,660,988.96

Accrued expenses	6,667,894.29	1,568,341.16	9,105,677.14	1,798,341.16
Projected liabilities	87,568,728.57	87,568,728.57	24,452,100.00	24,452,100.00
Long-term liabilities due within 1 year				
Other current liabilities				
Total current liabilities	634,633,486.48	391,082,128.50	572,098,655.52	308,292,606.10
Long-term liabilities:				
Long-term loans				
Bonds payable				
Long-term accounts payable	5,002,455.16		5,548,531.66	
Special accounts payable				
Other long-term liabilities				
Total long-term liabilities	5,002,455.16		5,548,531.66	
Deferred tax:				
Deferred tax-credit item	2,015,902.31		4,494,155.45	
Total liabilities	641,651,843.95	391,082,128.50	582,141,342.63	308,292,606.10
Minority interests	54,355,271.23		51,344,837.67	
Owner's equity (or shareholders' equity):				
Paid-in capital (or share capital)	220,281,600.00	220,281,600.00	220,281,600.00	220,281,600.00
Less: Restituted investment				
Net amount of paid-in capital (share capital)	220,281,600.00	220,281,600.00	220,281,600.00	220,281,600.00
Capital public reserve	7,315,726.38	7,315,726.38	5,780,685.92	5,780,685.92
Surplus public reserve	3,218,372.66	3,218,372.66	3,218,372.66	3,218,372.66
Including: Statutory public welfare fund				
Undistributed profit	-95,099,004.73	-94,713,716.86	-2,950,213.13	-2,950,213.13
Including: Cash dividend				
Unconfirmed investment	-857,499.68		-457,966.62	
Balance difference of foreign currency translation				
Total owner's equity (shareholders' equity)	134,859,194.63	136,101,982.18	225,872,478.83	226,330,445.45
Total liabilities and owner's equity (shareholder's equity)	830,866,309.81	527,184,110.68	859,358,659.13	534,623,051.55

9.2.2 Profit and profit distribution statement

Prepared by ShenZhen Tellus Holding Co., Ltd. January-December, 2006 Unit: RMB

Items	This period		Same period of last year	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Income from core business	1,133,692,161.07	15,529,457.10	1,043,810,667.42	17,094,203.87
Less: Cost of core business	1,036,486,678.15	4,162,834.75	940,721,748.93	4,658,493.93
Taxes and extras of core business	4,069,821.82	807,531.75	4,130,528.92	888,898.60
II. Profit of core business (Loss is listed with "-")	93,135,661.10	10,559,090.60	98,958,389.57	11,546,811.34
Add: Profit of other business (Loss is listed with "-")	3,213,453.96		13,627,562.37	

Less: Operating expense	48,776,413.62		48,616,595.68	
Administrative expense	52,679,410.50	14,865,246.38	49,259,499.37	12,896,454.89
Financial expense	11,645,244.88	8,397,938.99	9,925,621.75	7,910,494.62
III. Operating profit (Loss is listed with "-")	-16,751,953.94	-12,704,094.77	4,784,235.14	-9,260,138.17
Add: Investment earnings (Loss is listed with "-")	14,934,820.23	6,175,320.97	7,363,615.19	15,440,547.12
Subsidy income				
Non- operating income	12,570,418.57	9,844,751.75	529,562.79	24,455.97
Less: Non-operating expenditure	97,975,831.14	95,079,481.68	2,241,429.30	528,560.15
IV. Total profits (Total loss is listed with "-")	-87,222,546.28	-91,763,503.73	10,435,983.82	5,676,304.77
Less: Income tax	1,060,469.54		2,997,959.92	
Minority interests	4,265,308.84		2,037,778.14	
Add: Occurring amount of unconfirmed investment loss	399,533.06		276,059.01	
V. Net profit (Net loss is listed with "-")	-92,148,791.60	-91,763,503.73	5,676,304.77	5,676,304.77
Add: Undistributed profits at the year-begin	-2,950,213.13	-2,950,213.13	-231,927,943.55	-231,927,943.55
Other transfer-in			223,301,425.65	223,301,425.65
VI. Profit available for distribution	-95,099,004.73	-94,713,716.86	-2,950,213.13	-2,950,213.13
Minus: Appropriation of statutory surplus public reserve				
Appropriation of statutory public welfare funds				
Appropriation of employees' encouragement and welfare funds				
Appropriation of reserve funds				
Appropriation of enterprise development funds				
Profits' restoring to investments				
VII. Profits available for distribution to investors	-95,099,004.73	-94,713,716.86	-2,950,213.13	-2,950,213.13
Less: Dividends of preference share payable				
Appropriation of arbitrary surplus public reserve				
Dividends of ordinary share payable				
Dividends of ordinary share converting into capital (share capital)				
VIII. Undistributed profit	-95,099,004.73	-94,713,716.86	-2,950,213.13	-2,950,213.13
Supplemental information:				
1. Income from selling or disposal branch and investee enterprise	1,671,820.87		911,762.04	-2,481.81
2. Losses due from natural disaster				
3. Increase (or decrease) of total profit due to the change of accounting policies				

4. Increase (or decrease) of total profit due to the change of accounting estimation				
5. Loss on debts reorganization				
6. Others				

9.2.3 Cash Flow Statement

Prepared by ShenZhen Tellus Holding Co., Ltd. January-December, 2006 Unit: RMB

Items	This period	
	Consolidation	Parent Company
Ⅰ. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	1,276,491,172.69	10,525,182.20
Write-back of tax received	403,739.81	
Other cash received concerning operating activities	26,745,232.59	52,886,159.78
Subtotal of cash inflow arising from operating activities	1,303,640,145.09	63,411,341.98
Cash paid for purchasing commodities and receiving labor service	1,146,286,296.71	
Cash paid to/for staff and workers	57,612,968.26	5,037,893.42
Taxes paid	29,175,919.93	6,272,114.68
Other cash paid concerning operating activities	65,013,948.86	27,679,072.39
Subtotal of cash outflow arising from operating activities	1,298,089,133.76	38,989,080.49
Net cash flows arising from operating activities	5,551,011.33	24,422,261.49
II. Cash flows arising from investing activities:		
Cash received from recovering investment	3,761,000.00	141,000.00
Including: Cash received from disposal of subsidiaries	3,620,000.00	
Cash received from investment income	11,904,657.19	5,172,926.72
Net cash received from disposal of fixed, intangible and other long-term assets	27,344,381.00	10,390,181.00
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	43,010,038.19	15,704,107.72
Cash paid for purchasing fixed, intangible and other long-term assets	11,480,276.39	16,500.00
Cash paid for investment	10,500,000.00	
Other cash paid concerning investing activities	17,562,730.91	
Subtotal of cash outflow from investing activities	39,543,007.30	16,500.00
Net cash flows arising from investing activities	3,467,030.89	15,687,607.72
Ⅲ. Cash flows arising from financing		

activities:		
Cash received from absorbing investment		
Cash received from loans	154,378,016.16	37,000,000.00
Other cash received concerning financing activities		
Subtotal of cash inflow from financing activities	154,378,016.16	37,000,000.00
Cash paid for settling debts	153,550,519.46	45,264,519.46
Cash paid for dividend and profit distributing or interest paying	15,761,123.14	6,756,553.29
Other cash paid concerning financing activities	24,452,100.00	24,452,100.00
Subtotal of cash outflow from financing activities	193,763,742.60	76,473,172.75
Net cash flows arising from financing activities	-39,385,726.44	-39,473,172.75
IV. Influence on cash due to fluctuation in exchange rate	-12,875.59	-10,019.93
V. Net increase of cash and cash equivalents	-30,380,559.81	626,676.53
Supplement information:		
1. Adjusting net profit to cash flows for operating activities:		
Net profit	-92,148,791.60	-91,763,503.73
Add: Withdrawal of provision for devaluation of assets	1,308,579.93	980,022.53
Depreciation of fixed assets	19,421,605.33	4,745,714.12
Amortization of intangible assets	39,691.66	39,691.66
Amortization of long-term expenses to be apportioned	5,084,231.88	840,199.19
Decrease of expenses to be apportioned (Less: increase)	76,049.23	168,330.00
Increase of accrued expenses (Less: decrease)	-2,107,782.85	-230,000.00
Loss on disposal of fixed, intangible and other long-term assets (Less: income)	-11,377,449.25	-9,031,605.93
Loss on rejection of fixed assets		
Financial expenses	13,626,526.63	8,434,986.19
Investment loss (Less: income)	-14,934,820.23	-6,175,320.97
Deferred tax- credit item (Less: debit)	-2,478,253.14	
Decrease of inventories (Less: increase)	-6,131,504.37	
Decrease of receivables in operating (less: increase)	-29,220,154.07	-4,908,784.62
Increase of payables in operating (less: decrease)	120,527,306.40	121,322,533.05
Other		
Unconfirmed investment losses	-399,533.06	
Minority shareholders’ gains/losses	4,265,308.84	
Net cash flows arising from operating activities	5,551,011.33	24,422,261.49

2. Investment and financing activities with no cash incomings/outgoings involved		
Capital transferred from debts		
Convertible company bonds due within one year		
Fixed assets leasing for financing		
3. Net increase of cash and cash equivalents:		
Balance of cash at the period-end	45,158,825.83	1,460,058.16
Less: Balance of cash at the period -begin	75,539,385.64	833,381.63
Add: Balance of cash equivalents at the period -end		
Less: Balance of cash equivalents at the period -begin		
Net increase of cash and cash equivalents	-30,380,559.81	626,676.53

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

□ Applicable √ Inapplicable

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

□ Applicable √ Inapplicable

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

□ Applicable √ Inapplicable

9.6 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

Chairman of the Board: Zhang Ruili

Board of Directors of ShenZhen Tellus Holding Co., Ltd.

March 30, 2007