SHENZHEN TELLUS HOLDING COMPANY LIMITED
(Incorporated in the People's Republic of China)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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 RMB'000	2005 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 RMB' 000	2005 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

	RMB'000
Cost	
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 "Agreement". 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 "Stock Transfer Contract". 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 "Agreement", "Loan for Investment & Stock Transfer Agreement " and "Stock Transfer Contract" 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 "Guarantee Contract for a limited loan" 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.