深圳中华自行车（集团）股份有限公司

SHENZHEN CHINA　BICYCLE COMPANY（HOLDINGS）LIMITED

2006 ANNUAL REPORT

April 27, 2007

IMPORTANT NOTICES:

Directors, supervisors and senior executives of the Shenzhen China Bicycle Company (Holdings) Limited (hereinafter referred to as the Company) hereby confirm that there are no any important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

No director stated that they couldn't ensure the correctness, accuracy and completeness of the contents of 2006 Annual Report or have objection for this report.

Hong Kong Wong Lam Leung & Kwok C.P.A. Limited issued auditor's report with disclaimer opinion, the Board of Directors and the Supervisory Committee of the Company made explanations on the relevant matters in details; the investors are suggested to notice the content.

Mr. Zhang Xiaofeng, Chairman of the Board, Mr. Ye Qing, General Manager and Ms. He Yili, Chief Accountant hereby confirm that the Financial Report of 2006 Annual Report is true and complete.

Content

I. Company Profile

1. Legal Name of the Company in Chinese: 深圳中华自行车（集团）股份有限公司
   In English: SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
   Short form of English Name: CBC

2. Legal Representative: Mr. Zhang Xiaofeng

3. Secretary of the Board of Directors: Mr. Li Hai
   Contact Address: Zhonghua Industrial Park, Yousong Industrial Zone, Longhua, Shenzhen, Guangdong Province, China
   Tel: (86) 755 – 25516998, 28181666
   Fax: (86) 755 –28181009
   E-mail: dmc@szcbc.com
4. Registered Address and Office Address: No. 3008, Buxin Road, Shenzhen, Guangdong Province, PRC
   Post Code: 518019
   Office Address: Zhonghua Industrial Park, Yousong Industrial Zone, Longhua, Shenzhen, Guangdong Province, China
   Post Code: 518131
   The Company's Internet Website: www.cbc.com.cn
   E-mail: cbc@szcbc.com
5. Newspapers Chosen for Disclosing the Information: Securities Times and Hong Kong Wen Wei Po
   Internet Website Designated for Publishing the Annual Report: www.cninfo.com.cn
   Place Where the Annual Report is Prepared and Placed: Secretariat of the Board of Directors
6. Stock Exchange Listed with, Short Form of the Stock and Stock Code:
   Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock: SST ZHONGHUA – A, ST ZHONGHUA – B
   Stock Code: 000017 for A-share, 200017 for B-share
7. Other Information about the Company
   (1) Initial registered date: Aug. 24, 1984
   (2) Initial registered place: Buxin Road, Shenzhen
   (3) Registration number for business license of legal person of corporation: PGYSZZi No.101165
   (4) Registration number of tax:
   State Revenue SHEN ZI No. 440301618830452,
   Land Tax SHEN ZI No. 440303618830452
   (5) Name of the Certified Public Accountants engaged by the Company:
   i. Domestic: Shenzhen Pengcheng Certified Public Accountants Co., Ltd.
   Address: 5/F, Baofeng Building, 2006 South Dongmen Road, Shenzhen
   ii. International Accountant: Hong Kong Wong Lam Leung & Kwok C.P.A. Limited.
   Office address: 11/F, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong

II. Summary of Accounting Highlight and Bussiness Highlight

1. Major profit indexes as of the year 2006

Unit: RMB'000

Total Profit	-11,817
Net Profit	-11,817
Net profit after deducting non-recurring losses and gains	-11,817
Profit from main operations	4,379
Other operation profit	-18
Net cash flow arising from operating activities	23,283

Net increase in cash and cash equivalents	11,169

Note: Explanations on difference of auditing results:
Net profit as audited by domestic certified public accountants and overseas certified public accountants was RMB -9,648,015.34 and RMB -11,817,000 respectively, a difference of RMB 2,169,000 existing. The main reason was that the differences on certification in losses and gains of subsidiaries between the CAS and IAS, losses and gains of subsidiaries were all listed according to IAS, while adjusted to items of Minority shareholders' equity and unconfirmed investment loss according to CAS.

2. Major accounting data and financial indexes over the recent three year at the end of report year (Unit: RMB)

Item	2006	2005	2004
Income from main operations	219,673,000.00	164,222,000.00	138,192,485.82
Net profit	-11,817,000.00	9,953,000.00	-17,230,298.62
Total assets	267,022,000.00	305,007,000.00	427,572,002.72
Shareholder's equity (excluding minority interests)	-1,863,530,000.00	-1,851,713,000.00	-1,702,797,501.39
Earnings per share (Fully diluted)	-0.0247	0.0208	-0.036
Earnings per share (Weighted average)	-0.0247	0.0208	-0.036
Net assets per share after deducting non-recurring gains and losses	-0.0247	-0.0208	-0.034
Net assets per share	-3.8869	-3.8623	-3.5517
net assets per share after adjustment	-3.8869	-3.8623	-3.9543
Net cash flow per share arising from operating activities	-0.05	0.05	-0.0121
Return on equity %(Fully diluted)	0.00	0.00	0.01
Return on equity% (Weighted average)	0.00	0.00	0.01
Net weighted equity on assets after deducting non-recurring gains and losses (%)	0.00	0.00	0.01

3. Supplemental statement of profit (return on equity and earnings per share) in the report period

Profit as of the year 2006	Return on equity (%)		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	-	-	0.0091	0.0091
Operating profit	-	-	-0.0246	-0.0246
Net profit	-	-	-0.0247	-0.0247
Net profit after deducting non-recurring losses and gains	-	-	-0.0247	-0.0247

4. Changes in shareholders' equity in the report period (Unit: RMB'000)

Items	Share capital	Surplus public reserve	Retained profit	Equity of shareholders
Amount at the	479,433	32,673	-2,363,819	-1,851,713

year-begin				
Increase in the report period	0.00	0.00	0.00	0.00
Decrease in the report period	0.00	0.00	11,817	11,817
Amount at the year-end	479,433	32,673	-2,375,636	-1,863,530

III. Changes in Share Capital & Particulars about Shareholders

(I) Particulars about change in share capital

1. Change in shares

Unit: share

	Before the change		Increase/decrease of this time (+, -)						After the change	
	Amount	Proportion（%）	Rationed share	Bonus shares	Capitalization of public reserve	Additional issuing	Others	Subtotal	Amount	Proportion (%)
I. Unlisted Shares	186,713,192	38.94							186,713,192	38.94
1. Sponsors' shares	186,713,192	38.94							186,713,192	38.94
Including: State-owned share										
Domestic legal person's shares	111,607,002	23.28							111,607,002	23.28
Foreign legal person's shares	75,106,190	15.67							75,106,190	15.67
Others										
2. Raised legal person's shares										
3. Inner employees' shares										
4. Preference shares or others										
II. Listed Shares	292,719,811	61.06							292,719,811	61.06
1. RMB ordinary shares	76,752,000	16.01							76,752,000	16.01
2. Domestically listed foreign shares	215,967,811	45.05							215,967,811	45.05
3. Overseas listed foreign shares										
4. Others										
III. Total shares	479,433,003	100							479,433,003	100

Note: In the report period, there is no change in share capital of the Company.

2. Issuance and listing of the share:

(1) The Company has not issued new shares over the recent three years.

(2) In the report period, the Company had never conducted any activities in connection with distributing bonus shares, transferring public reserve into shares capital, rationed share, additional issuance of new shares, consolidation by merger, transferring convertible bonds into shares, capital reduction, listing of inner employee's shares, etc.

(3) The Company issued 5.3 million employee's shares at the issuance price of RMB 3.75 per share dated Dec.28, 1991. Of the total, the directors of the Company hold 135,000 inner employee' shares now, and entrusted Shenzhen Securities Registration Company Limited for the trusteeship; other 5,165,000 shares were all listed.

(II) About shareholders at the report period

1. In the report period, the Company had no changes on share capital. Ended Dec. 31, 2006, the Company had 31,931 shareholders in total, including 17,003 shareholders of A-shares and 14,928 shareholders of B-shares,

2. Particulars about shares held by the top ten shareholders (Unit: share)

Shareholders	Shares held at the year-end	Proportion	Holding amount of non-circulating shares	Pledged or Frozen	Types
China Huarong Assets Management Company	65,098,412	13.58	65,098,412	0	State-owned shareholder
Hong Kong Zhuorun Technology Co., Ltd.	44,104,246	9.20	44,104,246	44,104,246	Foreign shareholder
Hong Kong (Link) Bicycles Limited	26,000,000	5.24	26,000,000	26,000,000	Foreign shareholder
Guangdong Sunrise Holding Co., Ltd.	11,968,590	2.50	11,968,590	11,968,590	State-owned shareholder
Chenhong(Hong Kong) Investment Co., Ltd.	11,720,036	2.45	0	0	Foreign shareholder
Xinliyi Investment Group Co., Ltd.	11,200,000	2.34	11,200,000	0	State-owned shareholder
Airline Trust and Investment Co., Ltd.	10,340,000	2.16	10,340,000	10,340,000	State-owned shareholder
Shenzhen New Land Tool Consultants PTE. LTD	8,000,000	1.67	0	0	State-owned shareholder
Shenzhen International Trust & Investment Co., Ltd.	6,000,000	1.25	6,000,000	0	State-owned shareholder
Jingchao Investment Co., Ltd.	5,001,944	1.04	5,001,944	0	Foreign shareholder

Note: Among the top ten shareholders, Guangdong Sunrise Holding Co., Ltd. and Shenzhen International Trust & Investment are subsidiary companies of Shenzhen Investment Holding Corporation; Hong Kong Zhuorun Technology Co., Ltd. is subsidiary company indirectly controlled by Shenzhen Investment Holding Corporation. Except for that, there exists no associated relationship among the top ten shareholders.

3. The controlling shareholder and the actual controller of the Company remained unchanged in the report period.

4. Introduction of the controlling shareholder or actual controller of the Company

(1) China Huarong Assets Management Company is a state-owned sole company limited, which was wholly owned company possessed by the Ministry of Finance of PRC. Its registered capital is RMB 10 billion; legal representative is Mr. Yang Kaisheng. China Huarong Assets Management Company was located in No. 10, Baiyun Road, Xicheng District, Beijing. Business scope: purchase and operation of bad assets peeled off from China Industrial and Commercial Bank, recovery of debts, replacement of assets, transfer and sale; reorganization of debts and enterprise; debt-to-equity; staggered holding share, securitizations of assets, listing recommendation, underwriting of bond and shares in the scope of assets management; direct investment; issuance of bond; commercial loan; loan from finance organization, application of reloan from People's Bank of China; investment, finance and law consultation; evaluation of assets and project; bankruptcy liquidation and enterprise auditing; and the other business approved by the financial supervisory department.

(2) The property relationship between the actual controller and the Company was as follows:

China Huarong Assets Management Company

13.58%

Shenzhen China Bicycle Company (Holding) Limited

5. The top ten circulating shareholders of the Company:

Name of shareholders	Amount of Circulating shares held shareholders (share)	Types
Chenhong(Hongkong) Investment Co., Ltd.	11,720,036	Domestically listed foreign shares
Shenzhen New Land Tool Consultants PTE. LTD	8,000,000	RMB common share
CUOTAI JUNAN SECURIES H.K LIMITED	3,458,351	Domestically listed foreign shares
Zhang Huiling	2,384,722	Domestically listed foreign shares
TANG JING YUAN	1,924,500	Domestically listed foreign shares
Liu Yuan	1,865,500	Domestically listed foreign shares
Lai Hai	1,736,800	Domestically listed foreign shares
Huang Junxiong	1,573,100	Domestically listed foreign shares
ABN AMRO BANK NV	1,415,900	Domestically listed foreign shares
Liu Baohua	1,400,000	Domestically listed foreign shares

The Company was unaware of whether there existed any associated relationship among the top ten circulation shareholders and whether there existed consistent actionist regulated in the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies.

IV. Particulars about Directors, Supervisors, Senior Executives & Employees

(I) Directors, supervisors and senior executives

1. Basis information:

Name	Title	Gender	Age	Office term	Amount of shares held（share）	
					Holding shares at the year-begin	Holding shares at the year-end
Zhang Xiaofeng	Chairman of the Board	Male	36	June, 2004-June, 2007	0	0
Ye Qing	Director, General Manager	Male	45	June, 2004-June, 2007	0	0
Shi Zhanxiong	Director	Male	63	June, 2004-June, 2007	75000	75000
Liu Linfeng	Director	Male	50	June, 2004-June, 2007	0	0
Yi Xiaoming	Director	Male	46	June, 2004-June, 2007	0	0
Yang Fenbo	Director	Male	50	June, 2006-June, 2007	0	0
Deng Bo	Director	Male	32	June, 2006-June, 2007	0	0
Yang Lixun	Independent Director	Male	44	June, 2004-June, 2007	0	0
Wang Fuqing	Independent Director	Male	40	June, 2004-June, 2007	0	0
Ma Hong	Independent Director	Male	40	June, 2004-June, 2007	0	0
Zhuang Yuemin	Independent Director	Male	36	June, 2004-June, 2007	0	0
Li Hai	Deputy General Manager and Secretary of the Board	Male	38	Sep., 2004-Sep., 2007	0	0
He Xiongsen	Convener of the Supervisory Committee	Male	48	June, 2005-June, 2008	0	0
Lan Qihua	Supervisor	Male	57	June, 2005-June, 2008	0	0
Peng Tiesheng	Supervisor	Male	58	June, 2005-	0	0

				June, 2008		
Hu Eryi	Deputy General Manager	Female	43	Sep., 2004-Sep., 2007	0	0
He Yili	Chief Accountant	Female	35	Apr., 2005-Sep., 2008	0	0

Note: There was no increase or decrease in shares of the Company held by directors, supervisors, and senior executives of the Company in the report period.

2. Particulars about directors or supervisors holding the position in Shareholding Company

Name	**Name of Shareholding Company**	**Title in Shareholding Company**	**Office term**	**Drawing the payment from the Shareholding Company**
Zhang Xiaofeng	China Huarong Assets Management Company, Shenzhen Office	Assistant General Manager	Since May,2006	Yes
Yang fenbo	Shenzhen Lionda Group Co., Ltd.	General manager	Since May,2002	Yes
Shi Zhanxiong	Hong Kong (Link) Bicycles Limited	General manager	Since April, 2006	Yes
Yi Xiaoming	China Huarong Assets Management Company, Shenzhen Office	Senior Manager	Since Sep., 2000	Yes
Deng Bo	China Huarong Assets Management Company, Shenzhen Office	Assistant manager	Since Nov., 2001	Yes
He Xiongsen	China Huarong Assets Management Company, Shenzhen Office	Senior Manager	Since Jan., 2002	Yes

3. Main work experiences of directors, supervisors and senior executives

Mr. Zhang Xiaofeng, China economist with master degree of economic, since March 2000 he entered to work at China Huarong Assets Management Company, Shenzhen Office and now is in charge of assistant general manager of China Huarong Assets Management Company, Shenzhen Office.

Mr. Ye Qing, China economist with bachelor degree, from Apr. 2000 he entered to work at China Huarong Assets Management Company, and took the post of senior deputy general manager of China Huarong Assets Management Company from Apr. 2001 till now. From March 2002 held the position of director and standing general manager of the Company and now is in charge of director and general manager of the Company.

Mr. Shi Zhanxiong, member of CPPCC, director of National Association of Enterprises with Foreign Investment, Vice-chairman of Shenzhen Association of Enterprises with Foreign Investment, has lots of experiences on management of enterprise operation and international business, and has engaged in industry of bicycles for over 20 years.

Mr. Yang Fenbo, China senior economist with master degree of MBA and engineer, held the position of deputy minister, minister of development department, concurrently minister of science and technology department, assistant general manager, assistant to chairman, deputy chief engineer and chief engineer at Shenzhen Lionda Group from 1985 to March, 2002; from March, 2002 to March, 2003, took the chairman and concurrently general manager of Guangdong Sunrise Holding Co., Ltd.; from March, 2003 to March, 2006, took the chairman of Guangdong Sunrise Holding Co., Ltd; now, he is the chairman of Shenzhen Liona Group Co., Ltd.

Mr. Liu Linfeng, MBA, senior engineer, ever took the post of director, general manager, standing deputy general manager and secretary of Communist Party of Shenzhen China Bicycle Company (Holdings) Limited; now he is the Vice-president of Shenzhen Furuide Group Co., Ltd and Executive President of Shenzhen Angel Drinking Water Group Co., Ltd.

Mr. Yi Xiaoming, China economist with bachelor degree, ever worked at Bank for a long time; from

March 2000 he took the post of charger of 1st group of China Huarong Assets Management Company, Shenzhen office, from Sep. 2000 till now held the position of senior manager of operation department of China Huarong Assets Management Company, Shenzhen office till now.

Mr. Deng Bo, master degree, from Nov. 2001 till now, he took the post of assistant manager of asset operation department, investment banking department of Huarong Assets Management Company, Shenzhen office.

Mr. Yang Lixun, Law Master Degree. Member of Committee of CPPCC, consular of consultant committee of Preventing Office Crime of Shenzhen Procuratorate, now he is in charge of researcher of Shenzhen Academy of Social Science.

Mr. Wang Fuqing graduated from agro-economic department of Fujian Parent Directory with master degree. From 1996 he was engage in investment bank business, ever took the post of manager associate of investment bank department of Merchants Securities Company, deputy general manager of investment department of Hengtai Securities Co., Ltd., and now works in Shenzhen Mindray Co., Ltd.

Mr. Ma Hong, Master Degree, China CPA and China Certified Tax Agent, was copartner of Shenzhen Licheng CPAs from January 2000; in July, 2004, he established the first private CPAs of China—Shenzhen Mahong CPAs.

Mr. Zhuang Yuemin, middle rank economist with master degree of economics, General Manger in brokerage management headquarter of China Southern Securities Co., Ltd in 2000; from 2003 to 2005 held the position of general manager of south China business headquarter of Xiangcai Stock Co., Ltd. Since 2005, he is General Manager of Investment Management Headquarter of China South Headquater of Huaxi Securities.

Ms. Hu Er'yi, senior accountant with economic master degree and senior CPA, deputy minister of finance department and deputy chief accountant of Shenzhen Lionda Group, and now is Deputy General Manger of the Company.

Mr. Li Hai graduated from Economic department of Shenzhen University in major of accounting, on-study Doctorate of MBA, he took the turns of deputy manager of finance department, chief supervisor associate of finance department and secretary of the Board, etc. of the Company, and now is in charge of deputy general manager of the Company.

Ms. He Yili, two degrees of Economics and Law, China CPA. Since 1994, she respectively was the Chief Accountant of Shenzhen Fountain Corporation, Financing Manager of Embest Info & Tech Co.,Ltd, Financing Manager of China Shenzhen Color TV Corp. Since April 2005, she entered the Company and holds the Chief Accountant of the Company.

4. Particulars about the annual salary of directors, supervisors and senior executives

Referring to the standard of the same industry and local salary situation, the Company decided the annual salary of the above personnel integrated the operating achievements of the Company.

(1) There are total 17 of directors, supervisors and senior executives in the Company, total 6 persons drew the remuneration from the Company, they are: Mr. He Qing amounting to RMB 371,800, Mr. Lan Qihua amounting to RMB 124,200, Mr. Peng Tiesheng amounting to RMB 53,600(on March 1, 2006, he got early retirement), Mr. Li Hai amounting to RMB 285,800, Ms. Hu Er'yi amounting to RMB 264,900 and Ms. He Yili amounting to RMB 264,900. The total annual salary of directors, supervisors and senior executives received from the Company was RMB1, 365,200.

(2) The Company paid the allowance of independent director of RMB 20,000 respectively. The Company reimbursed the expenses for business trips according to the actual situation, which independent directors attended the Board meeting and shareholders' general meeting.

(3) Director Zhang Xiaofeng, Director Shi Zhanxiong, Director Yang Fenbo, Director Yi Xiaoming,

Director Deng Bo and Convener of the Supervisory Committee Mr. He Xiongsen drew salary from the controlling shareholder's company.

5. Directors, supervisors and senior executives leaving the office and the reason in the report year
In the report period, Mr. Pan Shiming and Mr. Wan Nianqing put forward the resignations on directors of the 6th Board of Directors of the Company due to personal work; with the examination on the 15th Shareholders' General Meeting of the Company, Proposal on Changing Director of the 6th Board of Directors was approved.

(II) About staff
1. The Company has totally 480 employees at present, including:
(1) Classified according to professional/occupational composition: 357 production personnel; 30 salespersons; 17 technicians; 17 financial personnel and 69 administrative personnel.
(2) Classified according to the educational background: master degree or above: 6 persons of Master degree, 32 persons of bachelor degree; 60 persons of junior college graduates. Proportion of the personnel with education background of junior college or above in the whole staff: 20.42%.
2. The Company needs to bear the expenses of 2 retirees.

V. Administrative Structure
I. Administration of the Company
Pursuant to the regulations of Articles of Association of the Company and normative documents including Company Law, Securities Law and Code of Corporate Governance for Listed Companies, in comparison with the Company's actual conditions, perfected the administrative structure and regulated the operations of the Company. In 2006, the Company revised Articles of Association, Rules of Procedure for Shareholders' General Meeting, Rules of Procedure for the Board of Directors and Rules of Procedure for the Supervisory Committee according to relevant laws and regulations, made the shareholders' general meeting, the board of directors, the supervisory committee and the management groups of the Company operated normatively according to various documents and the requirements of the rules and systems. At the same time, the Company strengthened management of the investors' relationship and improved the quality of information disclosure to consummate the administrative structure in further step.

II. Performance of Obligations by Independent Directors
In accordance with the requirements of Guidance Opinion on Establishment Independent Director System of Listed Company and Code of Corporate Governance for Listed Companies, the Company established the system of independent director. At present, the Company has 4 independent directors.
Particulars about independent directors attending the Board Meeting:

Name	This year should attend (times)	Presence in person (times)	Entrusted presence (times)	Absence (times)
Yang Lixun	6	6	0	0
Ma Hong	6	6	0	0
Wang Fuqing	6	5	1	0
Zhuang Yuemin	6	6	0	0

In the report period, the independent directors of the Company was able to regard protecting the largest interests of shareholders and the Company as behavior criterion, strictly in accordance with relevant rules of Articles of Association and related laws and regulations, faithfully performed their own duties. 4 independent directors of the Company had no different opinions on various proposals approved by the Board of Directors of the Company in 2006 or other significant events.

III. Separation from the Controlling Company in respect of Business, Personnel, Organization and Finance etc.

1. In respect of business: The Company is absolutely separated from the controlling shareholder in business and has independent and integrated business system and self-management capability. The Company has independent production, sales and service system as well as its own leading industry. The Company is not competing with the controlling shareholder and related parties in the same domain. The Company has been carrying out management activities all along in the name of independent legal person enterprise.
2. In respect of personnel: The Company is absolutely independent in management of labor, human affairs and salaries, and has established independent function department of labor and personnel administration as well as a series of corresponding administration systems.
3. In respect of assets: The Company is strictly separated from its controlling shareholder in assets, and they conduct wholly independent management. The Company holds integrated and independent purchase system, production system, sales system and corresponding service system, and intangible assets such as industrial property right, trademark and non-patent technologies all belong to the Company independently.
4. In respect of organization: The Company establishes organizations according to the normative requirements for listed company and the Company's actual business features, which have independent offices.
5. In respect of finance: The Company has established independent financial and accounting department as well as a complete set of integrated accounting systems and financial management systems. The Company is independent in making financial decisions, and the controlling shareholder hasn't interfered in operation of funds. The Company has opened independent bank account, and never deposited money in the financial company or settlement center controlled by big shareholder or other related parties. The Company pays taxes independently according to law.

IV. Establishment and Implementation of Performance Evaluation and Encouragement Mechanism and Relevant Rewarding System for Senior Executives
The Company originally has established open and transparent performance evaluation criteria and encouragement and restriction mechanism for directors, supervisors and managers. Engagement of managers is open and transparent, which is in accordance with law.
In the report period, whereas the operation group of the Company realized the overall objective made by the Board of Directors by way of unremitting efforts in 2005, and made decision of 2005 Rewarding plan for the Operation Group of the Company, which has been examined and approved, and implemented by the 15th Shareholders' General Meeting of the Company.

VI. Brief Introduction to the Shareholders' General Meeting
In the report period, the Company held the 15th (2005) annual shareholders' general meeting with details as follows:
On June 30, 2006, the 15th shareholders' general meeting was held at the meeting room of Company's headquarter, 3/F, No.3008 Buxin Road, Shenzhen, the resolution of the Meeting has been published on Securities Times and Hong Kong Wen Wei Po dated Jul.1, 2006.

VII. Report of the Board of Directors

I. Review on the operations of the Company in the report period
1. The overall operation in the report period
In 2006, under the leading of the board of directors and the operation group, faced the intense market competition environment, the whole staff of the Group Company strived for developing the operation business, strengthened to expand the main business of electronic bicycle, and gained sustainable development of the main business.
During Jan. to Dec. in 2006, the Company realized revenue from main operation amounting to RMB 219,673,000; up 33.77% compared with the same period of last year; and the loss was amounting to RMB 11,817,000.
2. Discussion and analysis to main business and operation of the Company in the report period
The Company was mainly engaged in the production and sales of bicycles, electronic bicycles and accessories and fittings. In the report period, the Company realized revenue from main operation amounting to RMB 219,673,260.11, and profit from main operation amounting to RMB

4,379,155.31.

i. Statement of main operations classified according to products

Unit: RMB'0000

Products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease of income from main operations compared with the last year (%)	Increase/decrease of cost of main operations compared with the last year (%)	Increase/decrease of gross profit ratio compared with the last year (%)
Bicycles and accessories and fittings	21,647.14	21,109.42	2.48	35.05	45.85	-7.23
Income of property management	320.19	394.43	-23.18	-18.52	-10.92	1.76
Including: related transaction	Naught	Naught	Naught	Naught	Naught	Naught
Principle of pricing of related transaction	Naught					
Explanation of necessity and durative of related transaction	Naught					

ii. Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease of income from main operations compared with the last year (%)
Shandong	5,890.27	2.09
Henan	4,675.33	9.54
Hebei	3,560.74	1.73
Jiangsu	2,318.50	1.30

iii. Major suppliers and customers

In the report period, the purchasing amount of top five suppliers amounted to RMB 209,750,000, taking 88.70% of annual purchasing amount; the sales amount to top five suppliers amounted to RMB 200,470,000, taking 75.89% of annual sales amount.

3. Changed on formation of asset and expenses of the Company in the report period.

Unit: RMB

	2006		2005		Increase/ decrease ratio in proportion in total asset (%)
	Amount	Proportion in total asset（%）	Amount	Proportion in total asset（%）	
Monetary fund	15,979,853.39	5.98	27,149,491.74	8.90	-32.81%
Account receivable	5,947,972.00	2.23	6,430,044.8	2.11	5.69%
Inventory	43,709,649.82	16.37	37,611,682.54	12.33	32.77%
Long-term investment of equity	28,563,096.5	10.70	33,442,675.99	10.96	-2.37%
Net values of fixed asset	122,775,206.49	45.98	135,316,802.43	44.37	3.63%
Short-term loan	438,825,765.41	164.34	461,055,464.21	151.16	8.72%
Long-term loans due within one year	1,025,960,035.56	384.22	1,046,295,633.96	343.04	12.00%
Item	2006		2005		Increase/decrease (%)
Operating expense	6,742,974.66		12,056,850.43		-44.07

Administrative expense	22,230,735.06	33,037,027.21	-32.71
Financing expense	-14,465,143.27	-8,113,732.19	-78.28
Income tax		3,926.74	---

Explanations:
(1)The proportion of monetary fund in total asset in the report period decreased 32.81% over last year, which was resulted by the losses in operations.
(2) The proportion of inventory in total asset in the report period increased 32.77% over the last year, which was resulted by the increases in subsidiary of the Company Emmelle's inventory.
(3)In the report period, the operating expense decreased 44.07% over last year, which was resulted by decrease in expense of subsidiary this year.
(4) In the report period, the administrative expense decreased 32.71% over last year, which was resulted by decrease in expense of subsidiary in the report period.
(5) In the report period, the financial expense decreased 78.28% over last year, which was resulted by the losses and gains of exchange due to appreciation in RMB this year.

4. Changes on cash flow of the Company

Item	2006	2005	Increase/decrease amount	Increase/decrease proportion（%）
Net cash flow arising from operating activities	-9,953,587.30	22,377,763.45	-32,331,350.75	-144.48
Net cash flow arising from investing activities	-57,945.05	-1,360,655.23	1,302,710.18	95.74%
Net cash flow arising from financing activities		0.00		

Explanations:
(1)In the report period, cash flow arising from operating activities was mainly the sales money collection formed from the operation product related to bicycle of the Company and the purchase expense, which decreased RMB 32,331,400 over last year resulted by operation losses this year and changes in consolidated statement scope of last year.
(2)In the report period, the cash flow arising from investing activities was mainly cash paid for purchasing the fixed asset, which increased RMB 1,302,700 resulted by the decreases in purchasing fixed asset of the Company.

5. The operation and analysis to the operation and achievements of the main holding company and shareholding companies of the Company

i. Shenzhen Emmelle Industry Co., Ltd.: Its registered capital is RMB 2 million, with its main business scope in establishing industry. The asset scale of the Company amounted to RMB 38,662,700 and was brought into the scope of consolidation in latter half year, the net profit in latter half year amounted to RMB -658,300.

ii. Shenzhen Anjule Property Management Co., Ltd.: Its registered capital is RMB 2 million, with its main business scope in property management. The asset scale of the Company amounted to RMB 17,122,000 and the net profit amounted to RMB-2,299,100.

iii. China Bicycles (Hong Kong) Co., Ltd.: Its registered capital is HKD 5 million and its place of registration is Hong Kong, with its main business scope in bicycle trading. The Company hasn't occurred any trading business in recent years.

6. After the implementation of New Accounting Standards, the possible changes in accounting policy, accounting estimate and the influences on financial and operational results of the Company

After the implementation of New Accounting Standards promulgated by Ministry of Finance by the Company since Jan.1, 2007, the possible changes in accounting policy, accounting estimate and the influences on financial and operational results of the Company:

Main influences on financial status 2006 of the Company while implementing the New Accounting Standards:
According to the regulations of Accounting Standard for Business Enterprises No.18 Income Tax, the Company transferred the taxes payable method to Tax-affect-accounting method of balance sheet, the deferred income tax asset of the Company amounting to RMB 9,849,555.22 and shareholders' equity amounting to RMB 9,849,555.22 while implementing the New Accounting Standards.
In the future, the mains influences on operation resulted and financial status of the Company by implementing the New Accounting Standards:
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 current net profit of parent company, but no influence on net profit and shareholders' equity in the Company's consolidation on financial statement.
2. According to the regulations of Accounting Standard for Business Enterprises No.3—Investment Properties, the Company will calculate investment properties by adopting cost measurement, thus, the profit and shareholders' equity of the Company will not be influenced.
3. According to the regulations of Accounting Standard for Business Enterprises No.12—Debt Restructurings, while taking debt restructurings, the debtor should take the differences on the book value of restructurings debts which exceeded the fair value of asset paid off the debts in stead, fair value of shares held or debt book value after restructurings acknowledged as gains from debt restructurings and calculated into income from non-operating activities, and will influence the current net profit and shareholders' equity.
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 will influence the income tax expense and profit in current period, and further influence the current net profit and shareholders' equity of the Company.
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 owners' equity in balance sheet. The alteration will influence the shareholders' equity of the Company. The item of unconfirmed investment losses was cancelled in profit statement and will influence the current net profit 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.

II. Prospect for the future development of the Company

1. The development trend in the industry of the Company and the market competitive pattern the Company faces
Since 2002, the Company actualized its industry upgrade into the domain of electronic bicycle; the electronic bicycles took on a relatively high increasing speed in sales amount, the sales of bicycles also kept the tendency of increasing in maintenance. In view of development of the industry in recent several years, the sales amount of electronic bicycles in the whole industry also basically realized a relatively high increasing speed, the price of products kept the trend of slowing down, and the sales amount of electronic bicycle shrank. In recent years, the companies which mainly engaged in the electronic bicycles increases, but most of them are small-scaled, and the market competition in keen, the entering into and quitting from the industry occurs often. It is predicted that the bicycle operation and development trend of the industry and the Company will basically remained.

2. The development chances and challenges for the future of the Company
i. Quicken the general reorganization progress including liabilities reorganization in order to improve the wicked internal and external operating environment of the Company in the several years, and realize a success of debt reorganization within the year.

ii. Actively deal with relevant examination and approval procedures of the Share Merger Reform Scheme, accomplish the implementation of the scheme as soon as possible.
iii. Further enlarge the current scale of production and sale of main business and make efforts to realize a high speed increase of main business.
iv. Continue to quicken stimulating the present deposit assets to supply current capital for the production and operation and further relieve the intense situation of current capital.
v. Further perfect legal person administration structure and establish high-efficiency encouragement and binding mechanism.

3. The risk that not good for the development of the Company
i. At present, the main business still has not achieved to support its operation scale in true sense.
ii. Under the significant circumstance of reorganization of the Company, there are still many uncertain factors.
Faced with the aforesaid problems, on one hand, the Company tries to expand its products sales, especially in the production and sales of electronic bicycles with high additional values; on the other hand, the Company actively promotes the integrated reorganization of the Company, including the debts reorganization.

III. Investment of the Company
In the report period, there was no raised fund in the Company, or raised fund before the report period used till the report period.

IV. Auditor's opinion and accounting policy
1. Auditors' opinion issued by Hong Kong Wong Lam Leung & Kwok C.P.A. Limited.
Hong Kong Wong Lam Leung & Kwok C.P.A. Limited issued auditors' report with disclaimer opinion for 2006.
2. Explanations on qualified opinion report of the Company issued by Hong Kong Wong Lam Leung & Kwok C.P.A. Limited from board of directors of the Company:
The board of directors of the Company agreed the auditing report on A shares issued by Hong Kong Wong Lam Leung & Kwok C.P.A. Limited. The work on debt reorganization of the Company has not been accomplished at last in 2006, the debts risk of large amount still remained, so Hong Kong Wong Lam Leung & Kwok CPA Co., Ltd. regarded that the debts of the Company in auditing report still remained uncertainty and issued the qualified opinion.
The explanations from board of directors are as follows:
Since March 2002, the largest creditor of the Company China Huarong Assets Management Company entered into Zhonghua, the work on debts reorganization achieved breakthrough development. The Plan on Debts Reorganization of Shenzhen China has obtained approval from CBRC, and now it is in the period of gradual implementation. At present, debts relief by the creditor of financial organization of the Company had no policy obstacles; the creditor of financial organization has exempted and stopped calculating all the interest ended Dec. 30, 2004 and part of interest in current year owed by the Company. China Huarong Assets Management Company had applied bankruptcy to Shenzhen Intermediate People's Court on August 1, 2005, the purpose of which was to get to debts reorganization by bankruptcy and reconciliation procedure, and finally solve the debts of the Company.

With the progress of debts reorganization, the main operation of the Company increases with a large margin and the main operation unceasingly gained profits.

Thus, the board of directors of the Company thought: the short-term payment pressure of the Company reduced a lot, the sustainable operation capability improved, and the operation environment and operation status of the Company further improved with the unceasing development of debts and asset reorganization and continuous increase in the business achievements of the Company.

V. Routine work of the Board of Directors
(I) The board of directors of the Company totally held 6 meetings in the report period, the details and resolutions of the board meeting:
1. On Apr.27, 2006, the 13th meeting of the 6th board of directors was held, relevant resolutions have

been published on Securities Times and Hong Kong Wen Wei Po dated Apr.28, 2006.
2. On May 30, 2006, the 14th meeting of the 6th board of directors was held, relevant resolutions have been published on Securities Times and Hong Kong Wen Wei Po dated May 31, 2006.
3. On Jun.19, 2006, the 15th meeting of the 6th board of directors was held, relevant resolutions have been published on Securities Times and Hong Kong Wen Wei Po dated Jun.20, 2006.
4. On Aug.18, 2006, the Company held the 16th meeting of the 6th board of directors, examined and approved the Semi-annual Report 2006 of the Company.
5. On Oct.26, 2006, the Company held the 17th meeting of the 6th board of directors, examined and approved the 3rd Quarterly Report 2006 of the Company.
6. On Dec.20, 2006, the 18th meeting of the 6th board of directors was held, relevant resolutions have been published on Securities Times and Hong Kong Wen Wei Po dated Dec.21, 2006.

(II) Implementation of resolutions of shareholders' general meeting by the board of directors
1. The Board of Directors strictly implemented all resolutions of shareholders' general meeting in the report period with no material warps or errors.
2. In the report period, the Company had no profit distribution plan, or plan of converting public reserve into share capital, had no proposal on shares allotment or proposal on additionally issuing new shares.

VI. Profit distribution plan or preplan of capitalization
As audited by Hong Kong Wong Lam Leung & Kwok C.P.A. Limited, the loss of the Company amounted to RMB 11,817,000 in 2006 and has neither dividend distribution nor transfer from capital public reserve into share capital.

VII. Other issues
(I) Special explanation and independent opinion of independent directors on the Company's accumulated and current external guarantees and guarantees out of line:
In compliance with the spirit in China ZJF [2003] No.56 Document, Notification on Standardizing Listed Companies' Capital Relationships with Related Parties, External Guarantees and Other Several Problems promulgated by CSRC, we, as independent directors of the Company, has seriously inspected the Company's implementation in external guarantee and guarantee out of line and now make the following explanations on relevant problems:
In the report period, the Company did not provide guarantees or guarantees out of line for its controlling shareholder and affiliated enterprises stated in Notification on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Several Problems released by CSRC. Ended Dec.31, 2006, total accumulative external guarantee of the Company was amounting to RMB 94,618,924.66 and USD 11,740,000.00. The Company has ever provided guarantees and guarantees out of line for its controlling shareholder and affiliated enterprises. However, it belonged to the problem left in the history. Since majority of guaranteed parties was unable to refund the liabilities, the Company conducted disposal of estimated liabilities to majority of guarantees.

(II) In the report period, the domestic newspaper for information disclosure engaged by the Company is Securities Times and the overseas newspaper for information disclosure is Hong Kong Wen Wei Po.

VIII. Report Of Supervisory Committee

In the spirit of being responsible to shareholders and strictly according to regulations in PRC Company Law, Securities Law and Articles of Association of the Company, the Supervisory Committee has dutifully performed its obligations endowed by relevant laws and legislations, carried out work positively and hard, and safeguarded the legal rights and interests of the Company and shareholders in 2006. It has also put forward its opinions and suggestions promptly towards significant decisions made for productions, management and investment, and supervised the behaviors of directors and senior executives in terms of implementation of their obligations.

I. Work of the Supervisory Committee in the report period

In the report period, the Supervisory Committee of the Company held altogether three meetings.
1. The 2nd meeting of the 5th Supervisory Committee was held on the morning of Apr.27, 2006 in the 3/F conference room of the Company headquarters, No.3008 Buxin Road, Shenzhen. The public notice of relevant resolutions was published on Securities Times and Hong Kong Wen Wei Po dated Apr.28, 2006.
2. The 3rd meeting of the 5th Supervisory Committee was held on the afternoon of Aug.18, 2006 in the 3/F conference room of the Company headquarters, No.3008 Buxin Road, Shenzhen. The meeting examined and approved the Semi-annual Report 2006 of the Company.
3. The 4th meeting of the 5th Supervisory Committee was held on the morning of Dec.20, 2006 in Shenzhen Five Continents Hotel Songshan Room. The meeting examined and approved the Proposals on Engaging 2006 Domestic and Overseas CPAs of the Company. The public notice of relevant resolutions was published on Securities Times and Hong Kong Wen Wei Po dated Dec.21, 2006.

II. Opinions on relevant issues in 2006 expressed by the Supervisory Committee
1. Operation according to law:
In accordance with relevant national laws and regulations, the Supervisory Committee has carried out supervision work on the holding procedures of Shareholders' General Meetings and Board meetings, resolution, implementation of resolutions of Shareholders' General Meetings by the Board of Directors, performance of duties of senior executives as well as the Company's administration system etc.; it believes that, in 2006, the Board of Directors strictly complied with PRC Company Law, Securities Law, Rules for Stock Listing, Articles of Association and other relevant regulations and systems, operated in a standardized manner, worked conscientiously, conducted business and made decisions in a scientific and reasonable way, and further improved internal administration and internal control system; the directors and managers haven't violated any laws, regulations, the Articles of Association or done harm to the interests of the Company and shareholders when performing duties.

2. Financial Inspection
In the report period, Hong Kong Wong Lam Leung & Kwok C.P.A. Limited issued qualified auditor's report for the Financial Statement 2006 of the Company. The Financial Report of the Company objectively and truly reflected the financial status and operation achievements of the Company this year.

3. Use of raised funds:
The Company has not raised funds in the report period.

4. Purchases and sales of assets:
In the report period, the Company has no purchases or sales of assets.
5. Opinions towards related transactions
Related transactions conducted by the Company are fair and square, and haven't done harm to the interests of the Listed Company, and there was no insider dealing.

6. Opinion on the qualified auditor's report issued by Hong Kong Wong Lam Leung & Kwok C.P.A. Limited
The Supervisory Committee agrees with the explanation of the Board of Directors on the qualified auditor's report issued by Hong Kong Wong Lam Leung & Kwok C.P.A. Limited.

IX. Significant Events

I. Material lawsuits and arbitrations in the report period:
The details about the material lawsuits or arbitrations that occurred in the previous years are in the notes of the Financial Statement.

II. The Company had no active purchase and sales of assets in the report period.

III. Significant related transactions in the report period
In the report period, there was no new significant related transaction; details about the significant related transactions that occurred in the previous years are in the notes of Financial Statement.

IV. Significant Contracts and Implementation of Contracts
1. In the report period, the Company had not entrusted, contracted or leased the assets of other companies, nor had other companies entrusted, contracted or leased the assets of listed companies.
2. In the report year, the Company had no new offering of guarantee; details about the significant guarantee events that occurred in the previous year are in the notes of financial statement.
3. In the report year, the Company had not entrusted any other party to manage assets.

V. Commitments of the Company and the shareholders holding more than 5% equity in the report period or lasting to the report period
The Company or the shareholders holding more than 5% equity had no commitments made in the report period or made in previous period but carried forward to the report period that were likely to produce significant influence on the operation achievements and financial status of the Company.

VI. Engagement and Disengagement of Certified Public Accountants of the Company
In the report period, with the examination in 15th Shareholders' General Meeting of the Company, the Company changed to engage Hong Kong Wong Lam Leung & Kwok C.P.A. Limited as the overseas auditing organ in this year with term of one year. In 2006, the Company paid auditing fee amounting to RMB 230,000 to Hong Kong Wong Lam Leung & Kwok C.P.A. Limited.

VII. In the report period, the Board of Directors of the Company and the directors have not been inspected, given administrative punishment or public criticism by CSRC, or publicly condemned by Shenzhen Stock Exchange.

VIII. Share Merger Reform of the Company

The Share Merger Reform Plan of Shenzhen China Bicycle Company (Holdings) Limited had been examined and approved by relevant shareholders' meeting of A-share market held in Feb.1, 2007, and published on Securities Times, China Securities and Juchao Website (www.cninfo.com.cn), the engaged information disclosure media of the Company. Now the plan is in the process of implementation.

According to the requirements of the Notice on Related Issues of Share Merger Reform of the Listed Companies involving the Management of Foreign Investment, the Share Merger Reform Plan of the Company had been reported to the Foreign Investment Department of Ministry of Commerce of PRC for examination and approval. Now, the Board of Directors of the Company is actively dealing with relevant examination and approval procedures in accordance with the requirements of Notice.

IX. Particulars about the Company's Reception of Investigation and Interview
In the report period, in accordance with the requirements of Guidance for Fair Information Disclosure for Listed Companies, the Company further perfected the inner control system and disclosure procedure of information disclosure. In the report period, the Company had no reception of activities such as investigation, communication or interview which was to invite specific objects.

X. Other significant events
1. Events on auction of corporate shares. On Apr.11, 2006, the Company published such a notice on Securities Times and Hong Kong Wen Wei Po as that the 11,968,590 shares of the sponsor domestic corporate share of the Company held by Guangdong Sunrise Holdings Co., Ltd. were decided by Guangzhou Railway Transportation Intermediate People's Court to be auctioned, and Shenzhen Kangsheng Investment Development Co., Ltd got the share equity of the aforementioned corporate shares.
2. Events on transfer of larger shareholders' equity: The Company published such notices on

Securities Times and Hong Kong Wen Wei Po dated Sep.19, 2006, Oct.16, 2006 and Nov.17, 2006 as that China Huarong Asset Management Corporation signed the Complementary Agreement III of General Agreement on Assets Transfer and Complementary Agreement IV of General Agreement on Assets Transfer on the Company's reorganization items with Shenzhen Julongsheng Industrial Development Co., Ltd., and the Agreement For three sides with Shenzhen Guosheng Energy Sources investment Development Co., Ltd.

3. Events on checking and canceling account receivable of large amount of shareholders receivable: The board of directors of the Company approved the Proposal on Checking and Canceling on Bad Debts of Account Receivable; in view of Hong Kong (Link) Bicycles Limited (with the short form of HongKong Link) was one of shareholders of the Company, they have large amount of loans and fund currents with the Company in prior years, the balance of current account at period-end payable to the Company amounting to RMB 604,595,000. HongKong Link was appealed to bankruptcy by creditor in 1998. At present, it was under liquidation, and the shares of the Company held by HongKong Link were frozen and had no capability to pay off. In accordance with the recommendation of management level and regulations on relevant depreciation of asset, checked and canceled the current fund with HongKong Link wholly amounting to RMB 604,595,000, the account receivable needed to check and cancel had withdrawn the provision for bad debt amounting to RMB 604,595,000; and did not have influences on profit amount of the report period.

The canceling of bad debts was adopted canceling debt in files; the Company will continue to follow the liquidation on HongKong Link in Hongkong Court and tried to decrease the losses of the Company. With the confirmed and cancelled losses of bad debts, if taken back later, it would be dealt as accounting in actual receded fund. The resolution of the board of directors on the aforesaid event was approved by Shareholders' General Meeting on June 30, 2006.

X. Financial Report

(Please refer to the appendixes)

XI. Documents Available For Reference

1. Accounting statements carrying the personal signatures and seals of legal representative, person in charge of the accounting affairs and person in charge of the accounting department.
2. Original of Auditors' Report carrying the seal of the Certified Public Accountants as well as personal signatures and seals of certified public accountants.
3. Originals of all documents and public notices disclosed publicly on the newspapers as designated by China Securities Regulatory Commission in the report period.
4. Annual Report published in other securities markets.

The Company will provide the aforesaid documents for reference timely provided CSRC or Shenzhen Stock Exchange demands, or shareholders requires consultation according to the regulations and Articles of Association.

Board of Directors of
Shenzhen China Bicycle Company (Holdings) Limited
April 27, 2007

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

深 圳 中 華 自 行 車 (集 團) 股 份 有 限 公 司

(INCORPORATED IN THE PEOPLE’S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
深 圳 中 華 自 行 車 (集 團) 股 份 有 限 公 司
(INCORPORATED IN THE PEOPLE’S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

C O N T E N T S

(All amounts in Renminbi unless otherwise stated)

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

深圳中華自行車(集團)股份有限公司

(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

We have audited the consolidated financial statements of **Shenzhen China Bicycle Company (Holdings) Limited** (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 4 to 35, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, 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 as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

1. Scope limitation – Liabilities in respect of corporate guarantees
   As disclosed in note 18 to the consolidated financial statements, the Group has not provided contingent liabilities for its subsidiaries, associates and related companies amounting to RMB25,271,000 as at 31 December 2006. We were not provided with sufficient audit evidence to determine the completeness of the corporate guarantee entered into by the subsidiaries, associates and related companies. Therefore, we were unable to satisfy ourselves on the completeness of contingent liabilities disclosed as at 31 December 2006 nor had obtained adequate information to assess the completeness of liabilities of the Group in providing the corporate guarantees. Consequently, we were unable to determine whether the contingent liabilities had been properly disclosed and provided for in the financial statements..

(to be cont'd)

2. Scope limitation – land and buildings
   As disclosed in note 8 to the consolidated financial statements, land and buildings were carried at cost less accumulated depreciation and impairment losses. This is not in accordance with International Accounting Standard ("IAS") 17 "Leases" in which a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at valuation/cost less accumulated depreciation. As a result, we were unable to satisfy ourselves as to whether the fixed assets as at the balance sheet date are fairly stated.

3. Disclaimer opinion – liabilities
   As disclosed in notes 1 and 28 to the consolidated financial statements, the Group is under refinance and restructure process and has not yet completed. According to the confirmations received from the bankers and financial institutes, the Group's accrued interest was understated in amounting to RMB199,669,982.39. Up to the date of this report, the Group has not yet agreed the interest elements with the bankers and financial institutes. Adjustment has not recorded by the Group and we were unable to express our opinion to whether the liabilities of the Group was correctly recorded as at 31 December 2006.

4. Disclaimer opinion – interest in an associate and accounting treatment
   As disclosed in note 10 to the consolidated financial statements, the Company invested 39.83% in Jiang Xi Li Hua Enterprises Limited ("Li Hua"). According to the share register of Li Hua, the shareholder of investment in 39.83% should be Hong Kong (Link) Bicycles Limited. Therefore, we were unable to express our opinion as to whether the Company has equity right in Li Hua and the recoverability of the net carrying amount of investment in Li Hua in amounting to RMB26,879,903.07.

We were unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out in paragraphs 1 to 4 above.

Any adjustment that might have been found to be necessary in respect of the matters set out above would have a consequential effect on the financial positions of the Group as at 31 December 2006, the net loss and cash flows of the Group for the year then ended and the related disclosures in the consolidated financial statements

QUALIFICATION ARISING FROM MATERIAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosure made in note 1(b) to the consolidated financial statements which describes the liquidity issues and financial difficulties experienced by the Group and the steps undertaken by the Group to ensure the Group is able to continue as going concern. As described in note 20 to the consolidated financial statements that concerning the overdue bank borrowings as at 31 December 2006, the Group has outstanding borrowings of approximately RMB523,309,000 due to various banks plus accrued interest which is still under disputes. All these amounts were overdue and the Company is still in the process to re-negotiate the payment terms and dates with the lenders. The Group's adoption of going concern basis is based on the successful outcome of the debt restructuring as well as the resulting improvement in the financial position of the Group. It is uncertain at this stage whether and how the Group can be able to repay the overdue bank borrowings and other payables.

(to be cont'd)

QUALIFICATION ARISING FROM MATERIAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS (CONTINUED)

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the attainment of profitable and positive cash flow operations, the restructuring/refinancing of its debts, the continuing financial support of its bankers and the successful outcome of the steps undertaken as described in note 1(b) to the consolidated financial statements to ensure the Group is able to continue as going concern. The consolidated financial statements do not include any adjustments that would result from a failure to obtain such financial support. We consider that appropriate disclosures have been made. However, in view of the extent of the material uncertainties relating to the steps mentioned above that may cast significant doubt on the Group's ability to continue as a going concern, we have disclaimed our opinion. The consolidated financial statements do not include any adjustments that would be necessary if the various steps as described above fail to obtain. Any adjustment to the consolidated financial statements may have a consequential significant effect on the loss for the year and net liabilities as at 31 December 2006.

DISCLAIMER OF OPINION : DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion section and the material uncertainties relating to the going concern basis as set out above, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the loss and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

For and on behalf of
Wong Lam Leung & Kwok C.P.A. Limited

WONG LUNG TAK PATRICK
Chartered Accountant
Certified Public Accountant (Practising), Hong Kong
Practising Certificate Number : P00448

Hong Kong, 24 April 2007

Ref : S629/PW/OH/912/486

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

深 圳 中 華 自 行 車 **(** 集 團 **)** 股 份 有 限 公 司

(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2006

	Note		
Gross profit		4,379	11,560
Other Revenue		52,283	66,145
Distribution costs		(6,743)	(9,649)
Administrative expenses		(26,141)	(35,819)
Share of loss of associates		(1,174)	(364)
Other operating expenses		(18)	(42)
PROFIT FROM OPERATIONS		22,586	31,831
Finance cost		(34,403)	(21,874)
(LOSS)/PROFIT BEFORE INCOME TAX	5	(11,817)	9,957
Income tax expense	6	-	(4)
(LOSS)/PROFIT FOR THE YEAR		(11,817)	9,953
DIVIDEND		-	-
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		(11,817)	9,953
MINORITY INTERESTS		-	-
		(11,817)	9,953
(Loss)/earning per share attributable to the equity holders of the company during the year (expressed in RMB per share)			
- Basis	7	(0.0247)	0.0208
- Diluted		N/A	N/A

The notes on pages 10 to 35 form an integral part of these consolidated financial statements.
Independent Auditor's Report – Pages 1 to 3

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

深 圳 中 華 自 行 車 (集 團) 股 份 有 限 公 司

(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2006

	Notes	2006 RMB'000	(restated) 2005 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	156,601	169,335
Interest in associates	10	27,604	30,643
Available for sale financial assets	11	959	2,800
		185,164	202,778
CURRENT ASSETS			
Inventories	12	43,710	37,612
Trade and bill receivables	13	5,948	11,551
Other receivables and prepayments	14	16,220	25,917
Amounts due from related companies	15	-	-
Cash and cash equivalents		15,980	27,149
		81,858	102,229
CURRENT LIABILITIES			
Trade and bill payables	16	121,986	109,753
Other payables, receipts in advance and accruals	17	274,452	291,549
Amounts due to associates	10	13,109	13,109
Amounts due to related companies	18	60,590	60,590
Loans due to related companies	19	915,955	933,049
Long-term borrowings payable within 1 year	20	548,831	548,127
Income tax payable		33,753	33,753
		1,968,676	1,989,930
NET CURRENT LIABILITIES		(1,886,818)	(1,887,701)
		(1,701,654)	(1,684,923)
NON-CURRENT LIABILITIES			
Provision for loss on guarantees	21	(161,876)	(166,790)
NET LIABILITIES		(1,863,530)	(1,851,713)

The notes on pages 10 to 35 form an integral part of these consolidated financial statements.
Independent Auditor's Report – Pages 1 to 3

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深 圳 中 華 自 行 車 (集 團) 股 份 有 限 公 司
(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2006
(CONTINUED)

	Notes	2006 RMB'000	(restated) 2005 RMB'000
CAPITAL AND RESERVES			
Issued capital	22	479,433	479,433
Reserves		(2,342,963)	(2,331,146)
		----------------------	----------------------
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT		(1,863,530)	(1,851,713)
MINORITY INTERESTS	23	-	-
		----------------------	----------------------
TOTAL EQUITY		(1,863,530)	(1,851,713)
		============	============

The consolidated financial statements on pages 4 to 34 were approved and authorised for issue by the board of directors on 24 April 2007 and are signed on its behalf by:

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Director

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Director

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
深 圳 中 華 自 行 車 (集 團) 股 份 有 限 公 司

(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the company					
	Share capital RMB'000	Statutory public welfare fund RMB'000	Accumulated loss RMB'000	Total RMB'000	Minority interest RMB'000	Total RMB'000
Balance at 1 January 2005						
- As previously reported	479,433	32,673	(2,217,784)	(1,705,678)	-	(1,705,678)
- Prior year adjustments	-	-	(119,584)	(119,584)	-	(119,584)
- As restated	479,433	32,673	(2,337,368)	(1,825,262)	-	(1,825,262)
Profit for the year	-	-	12,361	12,361	-	12,361
Balance at 31 December 2005	479,433	32,673	(2,325,007)	(1,812,901)	-	(1,812,901)
- Prior year adjustments (note 26)	-	-	(38,812)	(38,812)	-	(38,812)
- As restated	479,433	32,673	(2,363,819)	(1,851,713)	-	(1,851,713)
Loss for the year	-	-	(11,817)	(11,817)	-	(11,817)
Balance at 31 December 2006	479,433	32,673	(2,375,636)	(1,863,530)	-	(1,863,530)

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

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

i) used to make up loss; and

ii) converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, but when the statutory surplus reserve is converted into share capital, the amount remaining in the reserve shall not be less than 25% of the newly increased registered capital.

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

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

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
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CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2006

	Notes	2006 RMB'000	(restated) 2005 RMB'000
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(11,817)	9,957
Adjustment for:			
Income tax expense		-	4
Interest income		(195)	(144)
Interest expense		34,370	21,771
Depreciation		12,396	20,062
Provision for impairment loss on available for sale financial assets		1,841	-
Provision for impairment loss on interests in associates		1,865	-
Share of loss from associates		1,174	364
Provision for loss on guarantees		(4,914)	-
Gain on disposal of property, plant and equipment		(6)	(16,895)
Property, plant and equipment written off		621	3,296
Licence fee income		-	(3,318)
Provision/(reversal) of impairment loss on obsolete inventories		1,592	(16,044)
(Reversal)/provision for doubtful debts		(8,832)	23,750
Operating cash flows before movements in working capital		28,095	42,803
(Increase)/decrease in inventories		(7,690)	17,442
Increase in trade and bill receivables		13,705	4,114
Decrease/(increase) in other receivables and prepayments		10,427	(28,519)
Increase/(decrease) in account and bill payables		12,233	(11,121)
Decrease in other payables, receipts in advance and accruals		(17,097)	(7,279)
Decrease in loans due to related companies		(17,094)	(17,167)
Increase in long term borrowings payable within 1 year		704	21,181
CASH GENERATED FROM OPERATIONS		23,283	21,454
Income tax		-	(4)
NET CASH GENERATED FROM OPERATING ACTIVITIES		23,283	21,450

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CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2006
(CONTINUED)

	Notes	2006 RMB'000	(restated) 2005 RMB'000
INVESTING ACTIVITIES			
Interest received		195	144
Proceeds from disposal of property, plant and equipment		195	22,449
Payment for acquisition of property, plant and equipment		(472)	(1,361)
		----------------------	----------------------
NET CASH FROM INVESTING ACTIVITIES		(82)	21,232
		----------------------	----------------------
FINANCING ACTIVITIES			
Interest paid		(34,370)	(21,771)
		----------------------	----------------------
NET CASH USED IN FROM FINANCING ACTIVITIES		(34,370)	(21,771)
		----------------------	----------------------
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(11,169)	20,911
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		27,149	6,238
		----------------------	----------------------
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		15,980	27,149
		============	============

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

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(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

1. CORPORATE INFORMATION

(a) General

Shenzhen China Bicycle Company (Holdings) Limited (the "Company") is a joint stock limited company established in the People's Republic of China (the "PRC") with limited liabilities, its shares are listed on the Shenzhen Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the Company profile of the annual report.

The consolidated financial statements are presented in Renminbi, which is the functional currency of the Group.

The principal activities of the Company are manufacture of bicycles and investment holding. The principal activities of its subsidiaries are described in note 9.

(b) Going concern basis

The financial statements are prepared under the going concern concept though as at 31 December 2006, a net liability position is shown in the balance sheet for approximately RMB1,863,530,000. The management of the Group and major shareholder have taken the following steps to ensure the Group's continuity in business:

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

(ii) The major shareholder of the Group 中國華融資產管理公司 through its representative office in Shenzhen petitioned to wind up the Company on 1 August 2005 on the ground that the Company was unable to pay its debts. Hearing was held by the Shenzhen People's Court on 15 September 2005. The Group's intention is to ascertain its debts through the debts proving processes. The final outcome cannot be determined with certainty up to the date of this report.

(iii) On 13 November 2006, an agreement was signed between 中國華融資產管理公司, 深圳市聚隆盛實業發展有限公司 and 深圳市國晟能源投資發展有限公司 to progress the debt restructuring scheme. Please see detail in Note 28(b).

1. CORPORATE INFORMATION (CONTINUED)

(b) Going concern basis (continued)

(iv) The turnover of the Group has significant increase at the time of debt restructuring.

The board of directors is of the opinion that the pressure on short-term repayment is reducing. The ability of the Group to operate under continuing basis is improving. The process of debt restructuring scheme and the improvement of operation can ensure the Group's continuity of business.

2. IMPACT OF RECENTLY ISSUED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, interpretations and amendments issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new standards, interpretations and amendments had no material effect on how the results and the financial position for the current or prior periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

IAS 1 (Amendment)	Capital disclosures[1]
IFRS 7	Financial instruments: Disclosures[1]
IFRS 8	Operating segments[2]
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies[3]
IFRIC 8	Scope of IFRS2[4]
IFRIC 9	Reassessment of embedded derivatives[5]
IFRIC 10	Interim financial reporting and impairment[6]
IFRIC 11	IFRS 2 Group and Treasury Share Transactions[7]
IFRIC 12	Service concession arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IFRS, adjustments have been made to the PRC statutory financial statements. In additions, the financial statements have been prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and its subsidiaries made up to 31 December 2006 and include the Group's attributable share of post-acquisition results of its associates. Results of subsidiaries and associates acquired or disposed of during the year are consolidated/equity accounted for from or to their effective dates of acquisition or disposal, respectively. Except for those subsidiaries not consolidated for the reason stated below, all significant inter-company transactions and balances within the Group have been eliminated on consolidation.

(c) Investment in subsidiaries

A subsidiary is an enterprise in which the Company holds, directly or indirectly holds, more than half of the equity interest as a long-term investment and/or has the power to cast the majority of votes at meetings of the board of directors/management committee.

(d) Investment in associates

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

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are charged to consolidated income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditures are capitalised as an additional cost of the assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Land and buildings	20 years
Plant and machinery	10 years
Office equipment	5 years
Transport equipment	5 years
Others	5 years

The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

(f) Financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

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

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

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

(g) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking. Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The cost of finished goods and work in progress includes the actual costs of direct materials and direct labour together with an appropriate proportion of production overheads. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets 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 capitalisation.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Rental income from operating leases is recognized in the consolidated income statement on a straight-line basis over the term of the relevant lease.

(k) Income tax

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

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

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

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

(l) Cash equivalents

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

(m) Impairment of tangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of tangible assets (continued)

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

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

(n) Provisions and contingent liabilities

Provision is recognised when the Group has a present legal or constructive obligation as a result of a past event which is probable and will result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Foreign currencies

The Group's functional and presentation currency is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable PBOC rates ruling at the balance sheet date.

The Group's functional and presentation currency is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable PBOC rates ruling at the balance sheet date.

Foreign currency differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Renminbi at the PBOC exchange rates prevailing on the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Renminbi at the PBOC exchange rates at the dates the fair value was determined.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Related parties

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

(q) Retirement benefit costs

The Group participates in defined contribution retirement schemes organised by the PRC government. Contributions to retirement schemes and additional retirement benefits paid to retired employees are accrued in the year in which the associated services are rendered by employees.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

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

(iii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

深 圳 中 華 自 行 車 **(** 集 團 **)** 股 份 有 限 公 司

(INCORPORATED IN THE PEOPLE’S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

4. SEGMENT ANALYSIS OF TURNOVER AND RESULTS

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

	2006 RMB'000	(restated) 2005 RMB'000
Turnover		
Sale of goods	216,471	160,292
Property management	3,202	3,930
	219,673	164,222
Goss profit		
Sale of goods	5,290	12,265
Property management	(911)	(705)
	4,379	11,560

5. (LOSS)/PROFIT BEFORE TAXATION

	2006 RMB'000	2005 RMB'000
The Group's operating (loss)/profit before exceptional items is arrived at after crediting		
Interest income	195	144
Profit on disposal of property, plant and equipment	5	16,895
License fee income from trademark	-	2,370
Rental income	2,857	6,730
Exchange gain	48,674	29,843
Others	346	1,122
	============	============
And after charging		
Depreciation	12,396	20,062
Interest expense	34,370	21,771
Staff costs	6,468	17,586
Provision for impairment loss on available for sale financial assets	1,841	-
Provision for impairment loss on interests in associates	1,865	-
	============	============

6. INCOME TAX EXPENSE

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

	2006 RMB'000	2005 RMB'000
Income tax		
Company and subsidiaries	-	4
Associates	-	-
	----------------------	----------------------
	-	4
Deferred tax	-	-
	----------------------	----------------------
	-	4
	============	============

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

	2006 RMB'000	2005 RMB'000
(Loss)/profit before taxation	(11,817)	9,957
	============	============
Tax at the income tax rate of 15% (2005: 15%)	(1,773)	1,494
Tax effect:		
- disallowable expenses	-	-
- non-taxable revenue	-	-
- tax losses unrecognised	1,773	-
- tax losses utilised	-	(1,490)
	----------------------	----------------------
Actual tax expense	-	4
	============	============

7. (LOSS)/EARNING PER SHARE

The calculation of the basic (loss)/earning per share is based on the current year's loss of RMB11,817,000 (2005: profit RMB9,953,000) attributable to the shareholders and on the existing number of 479,433,003 shares (2005: 479,433,003 shares) that are in issue.

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Plant and Machinery	Office Equipment	Transport Equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'00
COST						
At 1 January 2005	432,698	255,384	19,835	8,255	18,506	734,6
Prior year adjustments	(32,419)	-	-	-	-	(32,4
Restated balance	400,279	255,384	19,835	8,255	18,506	702,2
Additions	-	-	594	723	44	1,3
Disposals	(17,205)	-	-	(1,250)	-	(18,4
At 31 December 2005	383,074	255,384	20,429	7,728	18,550	685,1
Prior year adjustments	(4,094)	(48)	-	(1,230)	(4,042)	(9,4
Restated balance	378,980	255,336	20,429	6,498	14,508	675,7
ACCUMULATED DEPRECIATION / PROVISION FOR IMPAIRMENT LOSS						
At 1 January 2005	213,687	238,522	17,200	6,886	15,596	491,8
Prior year adjustments	11,649	-	-	-	-	11,6
Restated balance	225,336	238,522	17,200	6,886	15,596	503,5
Charged for the year	18,622	818	5	482	135	20,0
Written back on disposals	(12,388)	-	(169)	-	-	(12,5
At 31 December 2005	231,570	239,340	17,036	7,368	15,731	511,0
Prior year adjustments (note 26)	(839)	(43)	-	(1,121)	(2,626)	(4,6
Restated balance	230,731	239,297	17,036	6,247	13,105	506,4
NET CARRYING AMOUNT						
At 31 December 2005	148,249	16,039	3,393	251	1,403	169,3

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and Buildings	Plant and Machinery	Office Equipment	Transport Equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2006	378,980	255,336	20,429	6,498	14,508	675,751
Additions	50	162	229	-	31	472
Disposals	(553)	-	-	-	(2,464)	(3,017
At 31 December 2006	378,477	255,498	20,658	6,498	12,075	673,206
ACCUMULATED DEPRECIATION / PROVISION FOR IMPAIRMENT LOSS						
At 1 January 2006	230,731	239,297	17,036	6,247	13,105	506,416
Charged for the year	10,812	530	697	-	357	12,396
Written back on disposals	(118)	-	-	-	(2,089)	(2,207
At 31 December 2006	241,425	239,827	17,733	6,247	11,373	516,605
NET CARRYING AMOUNT						
At 31 December 2006	137,052	15,671	2,925	251	702	156,601

A portion of the Group's land and buildings and plant and machinery had been taken for auction sale in order to repay the relevant secured loans. The title of these assets had not been transferred as at the balance sheet date. As the auction price was well below their net book vale, the Group had made a provision for impairment loss of RMB76,569,000 (2005:RMB76,569,000)

9. INTERESTS IN SUBSIDIARIES

The details of the subsidiaries at 31 December 2006 are as follows

(i) Subsidiaries consolidated

Company	Place of establishment/ operation	Effective equity held by the Group		Principal activities
		2006	2005	
China Bicycles (Hong Kong) Co., Limited	Hong Kong	100%	100%	Bicycle and spare part distribution
Shenzhen Augule Property Management Co., Ltd.	PRC	100%	100%	Property management
深圳市阿米尼實業有限公司	PRC	70%	-	Bicycle and spare part distribution

(ii) Subsidiaries not consolidated

		2006	2005	
Jiu Jiang Hua Tian Property Co., Ltd.	PRC	100%	100%	Property development
Shenzhen China Bicycle (Guangzhou) Distribution	PRC	100%	100%	Bicycle and spare part distribution
Zoria Pte. Ltd.	Singapore	100%	100%	Bicycle and spare distribution
Well Gain Enterprise (Shenzhen) Co., Ltd.	PRC	98%	98%	Material supplies
Shenzhen China Bicycle (Gansu) Distribution Co., Ltd.	PRC	80%	80%	Bicycle and spare part distribution
Shenzhen China Bicycle (Shanxi) Distribution Co., Ltd.	PRC	70%	70%	Bicycle and spare part distribution

9. INTERESTS IN SUBSIDIARIES (CONTINUED)

(ii) Subsidiaries not consolidated (continued)

Company	Place of establishment/ operation	Effective equity held by the Group		Principal activities
		2006	2005	
Shenzhen China Bicycle (Hainan) Distribution Distribution Co., Ltd.	PRC	70%	70%	Bicycle and spare part distribution
Shenzhen China Bicycle (Harbin) Distribution Co., Ltd.	PRC	60%	60%	Bicycle and spare part distribution
Shenzhen China Bicycle (Jiangxi) Distribution Co., Ltd.	PRC	55%	55%	Bicycle and spare part distribution
Huangzhou Chung Jiang Industrial Co., Ltd.	PRC	51%	51%	Property development
江西宏基房地產開發有限公司	PRC	51%	51%	Property development

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

10. INTERESTS IN ASSOCIATES

	2006 RMB'000	2005 RMB'000
Capital contributions, at cost	64,704	64,704
Share of post-acquisition loss	(17,296)	(16,122)
Share of net assets of associates	47,408	48,582
Provision for impairment loss	(19,804)	(17,939)
	27,604	30,643
Amounts due to associates	(13,109)	(13,109)
	14,495	17,534

The amounts due to associates are unsecured, interest free and repayable on demand. The directors consider that the carrying amounts of amounts due to related companies approximate to their fair values.

The details of the associates at 31 December 2006 are as follows:-

Company	Place of establishment/ operation	Effective equity held by the Group		Principal activities
		2006	2005	
Jiang Xi Li Hua Enterprise Ltd.	PRC	39.83	39.83%	Commercial service
Shenzhen Jinhuan Print Plate Co., Ltd.	PRC	38%	38%	Manufacture of bicycle and motorcycle spare parts
Shan Tou Special Economic Zone Da Peng Industrial	PRC	30%	30%	Manufacture of bicycle aluminum spare parts

10. INTERESTS IN ASSOCIATES (CONTINUED)

Company	Place of establishment/ operation	Effective equity held by the Group 2006	Effective equity held by the Group 2005	Principal activities
Shenzhen Canghai Enterprise Co., Ltd.	PRC	30%	30%	Manufacture of machinery
Yang Zhou Xing Hua Bicycle Parts Co., Ltd.	PRC	30%	30%	Manufacture of bicycle spare and motors, etc.
Jian Xu Huai Yin Huayu Bicycle Parts Co., Ltd.	PRC	25%	25%	Manufacture of bicycle spare parts
Shenzhen Tange Bicycle Parts Co., Ltd.	PRC	20%	20%	Manufacture of bicycle spare parts

11. AVAILABLE FOR SALE FINANCIAL ASSETS

	2006 RMB'000	(restated) 2005 RMB'000
Subsidiaries not consolidated, at cost	21,167	21,167
Unlisted equity investments, at cost	9,264	9,264
	30,431	30,431
Impairment loss in value	(29,472)	(27,631)
	959	2,800

12. INVENTORIES

	2006 RMB'000	(restated) 2005 RMB'000
Raw materials	255,752	250,724
Work in progress	4,493	5,339
Finished goods	29,540	26,530
Consumable stores	2,060	1,562
	291,845	284,155
Provision for impairment loss in value of obsolete inventories	(248,135)	(246,543)
	43,710	37,612

13. TRADE AND BILL RECEIVABLES

	2006 RMB'000	(restated) 2005 RMB'000
Trade receivables	732,625	741,209
Bill receivables	-	5,121
Provision for impairment loss in value	(726,677)	(734,779)
	5,948	11,551

The directors consider that the carrying amounts of trade and bill receivables approximate to their fair values.

14. OTHER RECEIVABLES AND PREPAYMENTS

	2006 RMB'000	2005 RMB'000
Other receivables	463,127	470,003
Advance payments	2,406	5,802
Prepayments	-	155
	465,533	475,960
Provision for impairment loss in value	(449,313)	(450,043)
	16,220	25,917

The directors consider that the carrying amounts of other receivables and prepayments approximate to their fair values.

15. AMOUNTS DUE FROM RELATED COMPANIES

	2006 RMB'000	(restated) 2005 RMB'000
Amounts due from related companies	402,440	1,007,785
Provision for impairment loss in value	(402,440)	(1,007,785)
	-	-

The directors consider that the carrying amounts of amounts due from related companies are approximate to their fair values.

16. TRADE AND BILL PAYABLES

The directors consider that the carrying amounts of the trade and bill payables are approximate to their fair values.

17. OTHER PAYABLES, RECEIPTS IN ADVANCE AND ACCRUALS

	2006 RMB'000	(restated) 2005 RMB'000
Receipts in advance	1,591	16,567
Others	272,861	274,982
	274,452	291,549

The directors consider that the carrying amounts of the other payables, receipts in advance and accruals are approximate to their fair values.

18. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, interest free and repayable on demand. The directors consider that the carrying amounts of amounts due to related companies are approximate to their fair values.

19. LOANS DUE TO RELATED COMPANIES

	2006 RMB'000	(restated) 2005 RMB'000
China Huarong Asset Management Corporation	-	700,441
Guangdong Sunrise Holdings Company Limited	215,737	232,608
深圳市國晟能源投資發展有限公司	700,218	-
	915,955	933,049

The directors consider that the carrying amounts of loans due to related companies approximate to their fair values.

20. LONG-TERM BORROWINGS PAYABLE WITHIN 1 YEAR

	2006 RMB'000	2005 RMB'000
Secured bank loans	125,497	77,731
Guaranteed bank loans	397,812	470,396
Others	25,522	-
	548,831	548,127
The above borrowings are repayable as follows:		
overdue but pending, and are expected for restructuring soon	548,831	548,127
More than one year	-	-
	548,831	548,127

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

21. CONTINGENT LIABILITIES AND LOSSES

At 31 December 2006, the Group had contingent liabilities and losses as follows:

	2006 RMB'000	2005 RMB'000
Guarantees given to bankers, in respect of banking facilities utilised by subsidiaries, associates and related companies	187,147	192,061
Contingent loss on guarantees provided	(161,876)	(166,790)
Contingent liabilities not provided	25,271	25,271

22. SHARE CAPITAL

	2006 RMB'000	2005 RMB'000
Registered, issued and fully paid-up capital:		
479,433,000 ordinary 'Domestic' shares of RMB1 each, of which:		
- Non-listed	204,748	204,748
- Listed "A" shares	76,617	76,617
- Listed "B" shares	198,068	198,068
	---------------------	---------------------
	479,433	479,433
	===========	===========

23. MINORITY INTERESTS

	2006 RMB'000	2005 RMB'000
Minority interests	-	-
Absorption of (profit)/loss	-	-
	----------------------	----------------------
	-	-
	============	============

24. ASSETS UNDER PLEDGE AS SECURITY

At 31 December 2006, the buildings and the machinery of the Group at net book value of RMB197,465,000 (2005: RMB197,465,000) together with the guarantees from related companies were used to secure the borrowings of RMB534,890,000 (2005: RMB534,890,000) made available to the Group. However, the Group's collateral with net book value of RMB38,408,000 (2005: RMB38,408,000) was disposed of under auction sales and the transfer of ownership had not yet been completed by the end of this financial year.

25. RELATED PARTY TRANSACTIONS

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

Related parties	Transactions	2006	2005
		RMB'000	RMB'000
China Huarong Asset Management Corporation	Rental expenses of plant and machinery	-	210
	Plant and machinery management fee paid	-	110

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

26. PRIOR YEAR ADJUSTMENTS

	Accumulated loss at 2006	Profit the year of 2005	Accumulated loss at 2004
	RMB000	RMB000	RMB000
(a) Assets overstated	34,609	-	34,609
(b) Consultancy fee understated	1,182	-	1,182
(c) Gain on disposal of property, plant and equipment overstated	613	-	613
(d) Profits overstated	2,408	2,408	-
	38,812	2,408	36,404

(a) Assets overstated and adjustment made to reduce the assets for the year ended 31 December 2002 to 2004 for approximately RMB34,609,000.

(b) Consultancy fee understated and adjustment made to increase the loss for the year ended 31 December 2004 and increase the other payables at 31 December 2004 for approximately RMB1,182,000.

(c) Gain on disposal of property, plant and equipment overstated and adjustments made to increase the loss for the year ended 31 December 2002 and increase the other payables at 31 December 2002 for approximately RMB613,000.

(d) Profits overstated and adjustment made to reduce the profits for the year ended 31 December 2005 for approximately RMB2,408,000.

27. MATTERS OF LITIGATION

(a) Lawsuits were brought by sixteen various financial institutions against the Group requesting the repayment of the loan principals and the related interests of RMB408,555,000, USD99,160,100 and HKD8,261,600 as at 31 December 2006. The Group had settled most of the lawsuits out of court or was defeated in most of the above claims. During 2000, The Bank of China, Agricultural Bank of China and ICBC transferred all or part of their rights of debts to other related asset management companies and the parties involved in the case had changed.

(b) Lawsuits were brought by twenty-nine various suppliers against the Group was requesting repayment of debts of RMB30,580,800, HKD17,650,800 and USD1,668,500. The Group was defeated in most of the claims.

28. MATTERS OF SIGNIFICANT ISSUES

(a) According to the Announcement issued by the Office of the China Banking Regulatory Commission on 7 January 2004, 11 various banks and financial institutions were required to waive the interest expense of the Group for a period of three years commencing 1 January 2002. All interest (including penalty and compound interest) outstanding and accrued by the Group at 31 December 2001 was also waived. The total interest (including penalty and compound interest) prior to 31 December 2001 in the total sum of RMB357,993,665 had already been dealt with in the consolidated financial statements. In addition, no interest expense was accrued for the period from 1 January 2002 to 31 December 2004. The interest exemption period had come to an end by 31 December 2005. 華融資產管理公司深圳辦事處, 東方資產管理公司深圳辦事處, 信達資產管理公司深圳辦事處 and 長城資產管理公司深圳辦事處 stop to charge interest expenses in 2005. In 2006, interest was charged to the Group according to the bank's interest rate in respect of loan with one-year term.

Since the concerned parties have different interpretations on the term "停計利息" and the "貸款通則" also did not give an interpretation or explanation of the term. Therefore 華融資產管理公司深圳辦事處, 東方資產管理公司深圳辦事處, 信達資產管理公司深圳辦事處 and 長城資產管理公司深圳辦事處 did not require the Group to repay interest in the 3 years period. However 深圳發展銀行 required the Group to repay interest in the period from 1/1/2002 to 31/12/2004 in compound interest rate. The management of the Group considered that such interest needed not be repaid. Therefore, interest accrual only started after the "停計利息" period and at the normal credit rate, thus, interest was not accrued for the period from 1/1/2002 to 31/12/2004 at compound interest rate. Whether this part of interest is payable or not is still under negotiation.

28. MATTERS OF SIGNIFICANT ISSUES (CONTINUED)

(b) During the period from 2004 to 2006, the Company's major shareholder China Huarong Asset Management Corporation (hereinafter called "Huarong") signed the "Asset Transfer Agreement", the "Supplementary Agreement", the "Asset Transfer Agreement - Supplementary Agreement II", the "Asset Transfer Agreement - Supplementary Agreement III" and the "Asset Transfer Agreement - Supplementary Agreement IV" with Shenzhen Julongshing Industrial Development Co., Ltd. (hereinafter called "Julongshing"). Huarong will transfer/assign 65,098,412 "A" share and 5,001,944 unlisted foreign-invested shares in the Company as well as the rights of debts due by the Group in the sum of RMB27,883,900 and US$84,797,624 together with the disbursement of expenses paid on behalf of the Group amounting to RMB10,000,000 to Julongshing at a consideration of RMB53,269,559. Julongshing agreed to take up the above-mentioned shares and rights of debts and will provide funding for the debt restructuring. The first installment of the consideration (RMB40,000,000) was paid to Huarong before 30 June 2006. Julongshing agreed to settle the balance (RMB13,269,559) on or before 30 December 2006. Julongshing was required to settle the balance of the consideration before the completion of the share transfer if the share transfer procedures could be completed before 30 December 2006.

On 13 November 2006, Huarong, Julongshing and 深圳市國晟能源投資發展有限公司(hereinafter called 國晟能源) signed an Agreement. 國晟能源 will takeover Julongshing's rights and obligations stated in the "Asset Transfer Agreement", including taking up 65,098,412 "A" share and 5,001,944 unlisted foreign-invested shares in the Company, the rights of debts due by the Group in the sum of RMB27,883,900 and US$84,797,624 together with the disbursement of expenses paid on behalf of the Group amounting to RMB10,000,000 at the same consideration (RMB53,269,559) and providing funding for debt restructuring. The first installment (RMB40,000,000) paid by Julongshing was regarded as part of the consideration paid by 國晟能源. 國晟能源 agreed to settle the balance (RMB13,269,559) on or before 30 December 2006. 國晟能源 paid RMB13,269,559 to Huarong before 30 December 2006.

The above agreements have positive effects on the Company's debt restructuring.

28. MATTERS OF SIGNIFICANT ISSUES (CONTINUED)

(c) The resolution of treatment of the amount due from 香港大環自行車有限公司 (hereinafter called 香港大環) was passed by the Board of Directors on 27 April 2006. 香港大環 is one of the shareholder and had many inter-company transactions with the group in the previous financial years, the remaining balance due to the group amounted to RMB604,594,981. 香港大環 was declared bankrupt by a Court order in Hong Kong following the claims by her creditors since 1998. Her right of share was being frozen because 香港大環 is considered as insolvent. According to the recommendation by the management, a full provision of doubtful debt amounting to RMB604,594,981 should be made in the current year. However, this treatment would not cause any influence to the amount of profit reported in the income statement for the year ended 31 December 2006. In respect of the above issue, the group will keep on tracking the progress of liquidation of 香港大環 in order to reduce the loss of the Group. Any recovery of the debts in the future may result in adjustment to the amount of provision of doubtful debt being accounted for. The shareholder passed this resolution on 30 June 2006.

29. POST BALANCE SHEET EVENT

(a) According to the resolution passed in the Annual General Meeting on 1 February 2007 for additional share allotment scheme and share reform scheme, the Company will allot additional 3,951.98 million shares to the shareholders of circulating A share and converted the non-circulating share to circulating share. The Company also will allot 1.5 shares as per 10 shares to all the shareholder of B share, totaling 3,239.52 million shares. In the additional allotment to the shareholders of circulating A share, the Company will allot 1,151.28 million shares for additional capital and allots bonus issue of 2,800.70 million shares to the shareholders of circulating A share for conversion of the non-circulating shares to circulating shares. After the completion of the schemes, the total share capital of the Company will be increased to 55,134.80 million shares and circulating A share will be increased from 7,675.20 million shares to 11,627.18 million shares. According to "股權分置改革備忘錄第 2 號–信息披露(1)", the shareholders of circulating A share will receive 3.173 [2,800.70 / (7,675.2+1,151.28)] share as per 10 shares in the conversion of non-circulating share to circulating share.

(b) The Group owed to 國際金融公司 a debt amounting to US3,870,000 approximately and related interest amounted to RMB42,780,000 approximately as at 31 December 2006. The Group signed an agreement with 國際金融公司 on 29

March 2007 and agreed to settle all debts with RMB2,000,000 equivalent. The Group transferred the money directly to the specified bank account of 國際金融公司 on 4 April 2007. The completion of the agreement brought a profit of approximately RMB65,660,000 to the Group.

30. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

(b) Fair value

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

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

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

31. LANGUAGE

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

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

深 圳 中 華 自 行 車 (集 團) 股 份 有 限 公 司

(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

SUPPLEMENTARY INFORMATION

31 DECEMBER 2006

These financial statements are prepared in accordance with International Financial Reporting Standards, which differ in certain significant aspects from those in the PRC Accounting Regulations. The significant differences relate principally to the following items and the adjustments considered necessary to restate net profit attributable to shareholders and net assets in accordance with PRC Accounting Regulations are shown in the tables set out below.

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

	2006 RMB'000	(restated) 2005 RMB'000
As reported by PRC Certified Public Accountants	(9,648)	3,738
Adjustments to conform to IFRS		
License fee income	-	3,318
Impairment of investment in subsidiary	(1,455)	(699)
Absorption of (loss)/profit from minority interests	-	3,596
Derecognised of absorption of profit from minority interests in respect non-consolidated subsidiaries	(714)	-
As restated in conformity with IFRS	(11,817)	9,953

IMPACT OF IFRS ADJUSTMENTS ON NET LIABILITIES

	(restated)	
	2006	2005
	RMB'000	RMB'000
As reported by PRC Certified Public Accountants	(1,863,530)	(1,852,427)
Adjustments to conform to IFRS		
Absorption of profit/(loss) from minority interests	-	714
As restated in conformity with IFRS	(1,863,530)	(1,851,713)