SHENZHEN CHINA BICYCLE COMPANY （HOLDINGS） LIMITED

SUMMARY OF ANNUAL REPORT 2006

§1. Important Notice

1.1 The Board of Directors, Supervisory Committee of the Shenzhen China Bicycle Company (Holdings) Limited (hereinafter referred to as the Company) and its directors, supervisors and senior executives 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. The summary of 2005 annual report is abstracted from the full text of annual report; the investors are suggested to read the full text of annual report to understand more details.

1.2 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.

1.3 All the director attended the meetings.

1.4 Hong Kong Wong Lam Leung & Kwok C.P.A. Limited issued report with disclaimer of 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.

1.5 Principal of the Board of the Company Mr. Zhang Xiaofeng, Person in charge of accounting work Mr. Ye Qing and Person in charge of accounting organ Ms. He Yili hereby confirm that the Financial Report of 2006 Annual Report is true and complete.

§2. Company Profile

2.1 Basic information

Short form of the stock	SST ZHONGHUA -A, ST ZHONGHUA – B
Stock code	000017, 200017
Listed stock exchange	Shenzhen Stock Exchange
Registered address	No. 3008, Buxin Road, Shenzhen
Post code of registered address	518019
Office address	Zhonghua Industrial Park, Yousong Industrial Zone, Longhua, Shenzhen
Post code of office address	518131
Internet website of the Company	www.cbc.com.cn
E-mail	cbc@szcbc.com

2.2 Contact person and contact information

	Secretary of the Board of Directors
Name	Li Hai
Contact address	No. 3008, Buxin Road, Shenzhen
Telephone	25516998，28181666
Fax	25516620，28181009
E-mail	dmc@cbc.com

§3. Summary of Financial Highlights and Business Highlights

3.1 Main Accounting Highlights

Unit: RMB

	2006	2005	Increase/decrease over last year（％）	2004
Income from main operations	219,673,260.11	164,222,481.91	33.77%	138,192,485.82
Total profit	-12,024,258.74	917,998.70	-1,409.83%	-93,643,461.46
Net profit	-9,648,015.34	3,738,730.58	-358.06%	-93,608,552.12
Net profit after deducting the non-recurring losses and gains	-9,681,664.56	-40,222,418.32	-76.01%	-17,282,545.83
Net cash flow from operating activities	-9,953,587.30	22,377,763.45	-144.48%	-5,815,452.03
	At the end of 2006	At the end of 2005	Increase/decrease over last year-end（％）	At the end of 2004
Total assets	267,021,538.95	305,007,790.42	-12.45%	340,498,157.92
Shareholder’s equity (excluding minority shareholders’ equity)	-1,863,530,511.45	-1,852,427,757.72	59.94%	-1,822,380,350.14

3.2 Financial Indexes:

Unit: RMB

	2006	2005	Increase/decrease over last year（%）	2004
Earnings per share	-0.0201	0.01	-301.00%	-0.036
Earnings per share (Note)	-0.0201	--	-	-

Return on equity	0.52%	-0.20%	0.72%	0.01%
Return on equity as calculated based on net profit after deducting non-recurring gains and losses	0.00%	0.00%	0.00%	0.01%
Net cash flow per share arising from operating activities	-0.0208	0.05	-141.60%	-0.0121
	At the end of 2006	At the end of 2005	Increase/decrease over last year-end（%）	At the end of 2004
Net assets per share	-3.8869	-3.8638	0.60%	-3.5517
Net assets per share after adjustment	-3.8869	-3.8638	-3.41%	-3.9543

Note: Share capital of the Company did not change from the end of the report period to disclosure date.

Items of non-recurring gains and losses
□Applicable √ Inapplicable

3.3 Difference of the CAS and IAS
√ Applicable □Inapplicable

Unit: RMB

	CAS	IAS
Net profit	-9,648,015.34	-11,817,000
Explanation on the difference	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.	

§4. Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share capital

Unit: Share

	Before the change		Increase / decrease in this time (+, -)					After the change	
	Amount	Proportion	New shares issued	Bonus share	Capitalization of capital	Others	Subtotal	Amount	Proportion

					public reserve				
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 share	111,607,002	23.28%						111,607,002	23.28%
Foreign legal person share	75,106,190	15.67%						75,106,190	15.67%
Other									
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 capital share									
4. Other									
III. Total shares	479,433,003	100.00%						479,433,003	100.00%

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

Unit: Share

Total number of shareholders	31,931				
Particulars about shares held by the top ten shareholders					
Name of shareholders	Nature of shareholders	Proportion of shares held	Total number of shares held	Non-circulating shares held	Pledged or frozen shares
China Huarong Assets	State-owned	13.58%	65,098,412	65,098,412	0

Management Company	shareholder				
Hong Kong Zhuorun Technology Co., Ltd.	Foreign-funded shareholder	9.20%	44,104,246	44,104,246	44,104,246
Hong Kong (Link) Bicycles Limited	Foreign-funded shareholder	5.24%	26,000,000	26,000,000	26,000,000
Guangdong Sunrise Holding Co., Ltd.	State-owned shareholder	2.50%	11,968,590	11,968,590	11,968,590
Chenhong(Hong Kong) Investment Co., Ltd.	Foreign-funded shareholder	2.45%	11,720,036	0	0
Xinliyi Investment Group Co., Ltd.	State-owned shareholder	2.34%	11,200,000	11,200,000	0
Airline Trust and Investment Co., Ltd.	State-owned shareholder	2.16%	10,340,000	10,340,000	10,340,000
Shenzhen New Land Tool Consultants PTE. LTD	State-owned shareholder	1.67%	8,000,000	0	0
Shenzhen International Trust & Investment Co., Ltd.	State-owned shareholder	1.25%	6,000,000	6,000,000	0
Jingchao Investment Co., Ltd.	Foreign-funded shareholder	1.04%	5,001,944	5,001,944	0

Particulars about shares held the top ten circulating shareholders		
Shareholders' name	Circulated shares held	Type
Chenhong(Hongkong) Investment Co., Ltd.	11,720,036	Domestically listed foreign shares
Shenzhen New Land Tool Consultants PTE. LTD	8,000,000	RMB ordinary share
GUOTAI 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

Explanation on associated relationship among the top ten shareholders or consistent action	1. 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.

	2. 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. Except that, there

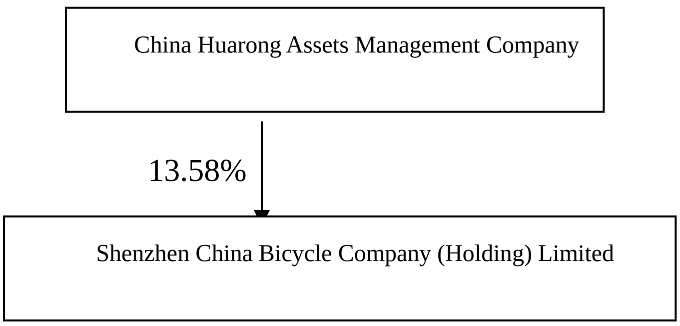
4.3 Particulars about the controlling shareholders and actual controller of the Company

4.3.1 Particulars about change in the controlling shareholders and actual controller of the Company
□Applicable √ Inapplicable

4.3.2 Detailed information on the controlling shareholder and other actual controller

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.

4.3.3 Property right and controlling relationship between the actual controller of the Company and the Company is as follows:



§5. Particulars about Directors, Supervisors and Senior Executives

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

Name	Position	Gender	Age	Start date of term office	End date of term office	Shares held at the year-begin	Shares held at the year-end	Reason for change	Total remuneration drawn from the Company in the report period (RMB'0 000)	Draw the remuneration from shareholders' units or other associated units or not
Zhang Xiaofeng	Chairman of the Board	Male	36	June 30, 2004	June 29, 2007	0	0	Naught	0.00	Yes
Ye Qing	General Manager	Male	45	June 30, 2004	June 29, 2007	0	0	Naught	37.18	No
Shi Zhanxiong	Director	Male	63	June 30, 2004	June 29, 2007	75000	75000	Naught	0.00	Yes
Liu Linfeng	Director	Male	50	June 30, 2004	June 29, 2007	0	0	Naught	0.00	Yes
Yi Xiaoming	Director	Male	46	June 30, 2004	June 29, 2007	0	0	Naught	0.00	Yes
Yang Fenbo	Director	Male	50	June 28, 2006	June 29, 2007	0	0	Naught	0.00	Yes
Deng Bo	Director	Male	32	June 28, 2006	June 29, 2007	0	0	Naught	0.00	Yes
Yang Lixun	Independent Director	Male	44	June 30, 2004	June 29, 2007	0	0	Naught	2.00	No
Wang Fuqing	Independent Director	Male	40	June 30, 2004	June 29, 2007	0	0	Naught	2.00	No
Ma Hong	Independent Director	Male	40	June 30, 2004	June 29, 2007	0	0	Naught	2.00	No
Zhuang Yuemin	Independent Director	Male	36	June 30, 2004	June 29, 2007	0	0	Naught	2.00	No
Li Hai	Deputy General Manager	Male	38	Sep.5, 2004	Sep.4, 2007	0	0	Naught	28.58	No
He Xiongsen	Supervisor	Male	48	June 28, 2005	June 27, 2008	0	0	Naught	0.00	Yes
Lan Qihua	Supervisor	Male	57	June 28, 2005	June 27, 2008	0	0	Naught	12.42	No
Peng Tiesheng	Supervisor	Male	58	June 28, 2005	June 27, 2008	0	0	Naught	5.36	No
Hu Eryi	Deputy General Manager	Female	43	Sep.5, 2004	Sep.4, 2007	0	0	Naught	26.49	No
He Yili	Chief Accountant	Female	35	Apr.20, 2005	Apr. 19, 2008	0	0	Naught	26.49	No
Total	-	-	-	-	-	75,000	75,000	-	144.52	-

§6. Report of the Board of Directors

6.1 Discussion and analysis to the whole 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.

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

√ Applicable ☐Inapplicable

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.

6.2 Statement of main operations classified according to industries or products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio of main operations (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio of main operations over the last year (%)
Bicycles and accessories and fittings	21,647.14	21,109.42	2.48%	35.05%	45.85%	-7.23%
Main operations classified according to products						
Bicycles and accessories and fittings	21,647.14	21,109.42	2.48%	35.05%	45.85%	-7.23%
Income from property management	320.19	394.43	-23.18%	-18.52%	-10.92%	1.76%

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease in income from main operations over the last year (%)
Shandong	5,890.27	2.09%
Henan	4,675.33	9.54%
Hebei	3,560.74	1.73%

Jiangsu	2,318.50	1.30%

6.4 Application of the raised proceeds

☐Applicable √ Inapplicable

Particulars about the changed projects

☐Applicable √ Inapplicable

6.5 Particulars about the proceeds not raised through shares offering

☐Applicable √ Inapplicable

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

√ Applicable ☐Inapplicable

The Board of Directors of the Company agreed the auditing report on B-share issued by Hong Kong Wong Lam Leung & Kwok CPA Co., Ltd. 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 disclaimer opinion report. 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.

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

☐Applicable √ Inapplicable

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

☐Applicable √ Inapplicable

§7. Significant Events

7.1 Purchase of assets
☐Applicable √ Inapplicable

7.2 Sales of assets
☐Applicable √ Inapplicable
Influences on the business continuity and stability of management of the Company by the matters 7.1 and 7.2 concerned

7.3 Significant guarantee
√ Applicable ☐Inapplicable

Unit: RMB’0000

Particulars about the external guarantee of the Company (Barring the guarantee for the controlling subsidiaries)						
Name of the Company guaranteed	Date of happening (Date of signing agreement)	Amount of guarantee	Guarantee type	Guarantee term	Complete Implementation or not	Guarantee for related party (Yes or no)
Guangdong Sunrise Group Co., Ltd.	June 20, 1996	614.20	Joint responsibility	6 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	July 26, 2006	2,800.00	Joint responsibility	4 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	Sep. 30, 1999	830.00	Joint responsibility	12 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	Apr. 30, 1998	260.00	Joint responsibility	11 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	July 30, 1997	250.00	Joint responsibility	7 months	No	Yes
Guangdong Sunrise Group Co., Ltd.	June 4, 1997	300.00	Joint responsibility	8 months	No	Yes
Gintian Industry (Group) Co., Ltd.	Oct. 30, 1998	5,000.00	Joint responsibility	6 months	No	No
Shenzhen Tianma Cosmetics Co., Ltd.	Sep. 30, 1994	800.00	Joint responsibility	12 months	No	No
ZORIA PTE LTD	March 25, 1996	8,300.00	Joint responsibility	12 months	No	Yes
Shandong	Sep.3, 1997	51.89	Joint responsibility	3 months	No	Yes

Huajiaming Economics and Trade Co., Ltd.						

Total amount of guarantee during the report period	0.00
Total balance of guarantee at the end of the report period（A）	10,854.20
Guarantee of the Company for the controlling subsidiaries	
Total amount of guarantee for controlling subsidiaries during the report period	0.00
Total balance of guarantee for controlling subsidiaries at the end of the report period（B）	8,351.89
Total amount of guarantee of the Company (including guarantee for controlling subsidiaries)	
Total amount of guarantees（A+B）	19,206.09
Ratio of total guarantee to net assets of the Company	-10.31%
Including:	
Amount of guarantee for shareholders, actual controller and its related parties（C）	5,054.20
The debts guarantee amount provided for the guarantee of which the assets-liability ratio exceeded 70% directly or indirectly（D）	0.00
Proportion of total amount of guarantee in net assets of the Company exceeded 50%（E）	0.00
Total amount of the aforesaid three guarantees *（C+D+E）	5,054.20

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

7.4 Significant related transactions

7.4.1 Related transactions related to the routine operation

☐Applicable √ Inapplicable

7.4.2 Current related credits and liabilities

√ Applicable ☐Inapplicable

Unit: RMB’ 0000

Related parties	Provided capital to related parties		Provided capital to listed companies by related parties	
	Occurred	Balance	Occurred	Balance
Hong Kong (Link) Bicycles Limited	-60,459.50	0.00	0.00	0.00
Diamond Back(HongKong)Co.Ltd	0.00	1,7421.99	0.00	0.00
Zhigao Resource International Co., Ltd.	0.00	14,088.71	0.00	2,491.75
Hong Kong Huajiaming Industry Trade Co., Ltd.	0.00	0.00	0.00	1,075.89
Shenzhen Canghai Industrial Co., Ltd.	0.00	0.00	0.00	18.94
Shenzhen Danxia Bicycle Accessory Co., Ltd.	0.00	0.00	0.00	45.66
Jiangsu Huaiyin Huayu Bicycle Accessory Factory Co., Ltd.	0.00	0.00	0.00	496.53
Shantou Economic Special Zone Dapeng Industrial Co., Ltd.	0.00	0.00	0.00	689.74
China Complex Material Products (Shenzhen) Co., Ltd.	0.00	6,054.17	0.00	0.00
Shenzhen Huajiaming Industry Trade Development Co., Ltd.	0.00	2,754.10	0.00	0.00
China Huarong Assets Management Corporation	0.00	0.00	-70,044.13	0.00
Guangdong Sunrise Group Co., Ltd.	0.00	0.00	-1,687.09	21,573.66
Shenzhen Jinhuan Printing Format Co., Ltd.	0.00	0.00	0.00	60.00
Daming International Co., Ltd.	0.00	0.00	0.00	1,083.44
Shenzhen Goodyear Industrial Co., Ltd.	0.00	0.00	0.00	1,289.69
Shenzhen Guocheng Energy Investment and Development Co., Ltd.	0.00	0.00	72,001.85	72,001.85
Total	-60,459.50	40,318.97	-1,703.97	98,847.15

Of which: in the report period, the capital amount the listed company provided to controlling shareholder and its subsidiaries was RMB 0 and the balance was RMB 0.

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

□Applicable √ Inapplicable

Occupation of newly increased fund during the year 2006

□Applicable √ Inapplicable

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

□Applicable √ Inapplicable

7.5 Entrusted assets management
☐Applicable √ Inapplicable

7.6 Implementation of commitments
7.6.1 Commitment during the Share Merger Reform made by the original non-tradable shareholders and its implementations
☐Applicable √ Inapplicable
7.6.2 Amount of tradable shares with unrestricted conditions held by original non-tradable shareholders whose holding proportion exceeded 5% at the end of report period
☐Applicable √ Inapplicable

7.7 Significant lawsuit and arbitrations
☐Applicable √ Inapplicable

§8. Report of the Supervisory Committee

√ Applicable ☐Inapplicable

The Supervisory Committee agreed that the explanations on auditor's report with disclaimer opinion issued by Hong Kong Wong Lam Leung & Kwok CPA Co., Ltd from the Board of Directors of the Company.

§ 9. Financial Report

9.1 Auditor's opinions

9.2 Financial statement
9.2.1 Balance Sheet

Prepared by Shenzhen China Bicycle Company (Holdings) Limited December 31, 2006 Unit: RMB

Items	Amount at year-end		Amount at year-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Monetary funds	15,979,853.39	504,436.50	27,149,491.74	2,279,000.13
Short-term investment				
Notes receivable			5,121,273.75	85,330.00
Dividend receivable				

Interest receivable				
Accounts receivable	5,947,972.00	186,150,842.92	6,430,044.80	181,283,633.38
Other receivables	13,814,016.03	22,917,626.27	19,959,368.95	29,157,042.51
Accounts in advance	2,406,516.88	1,641,102.08	5,802,594.18	5,428,044.18
Subsidy receivable				
Inventories	43,709,649.82	38,635,307.97	37,611,682.54	36,595,198.73
Expenses to be apportioned			155,287.20	152,225.00
Long-term bonds investment due within one year				
Other current assets				
Total current assets	81,858,008.12	249,849,315.74	102,229,743.16	254,980,473.93
Long-term investment:				
Long-term equity investment	28,563,096.50	28,563,096.50	33,442,675.99	34,039,812.91
Long-term credit investment				
Total long-term investment	28,563,096.50	28,563,096.50	33,442,675.99	34,039,812.91
consolidation variance				
Fixed assets:				
Fixed assets-original value	305,660,958.63	303,614,757.08	306,272,398.37	304,133,657.87
Less: accumulative depreciation	182,885,752.14	181,643,334.55	170,955,595.94	169,989,676.43
Fixed assets-net value	122,775,206.49	121,971,422.53	135,316,802.43	134,143,981.44
Less: provision for devaluation of fixed assets	2,084,874.23	2,084,874.23	2,084,874.23	2,084,874.23
Fixed assets-net amount	120,690,332.26	119,886,548.30	133,231,928.20	132,059,107.21
Engineering material				
Construction in progress				
Disposal of fixed assets	35,910,102.07	35,910,102.07	36,103,443.07	36,103,443.07
Total fixed assets	156,600,434.33	155,796,650.37	169,335,371.27	168,162,550.28
Intangible and other assets:				
Intangible assets				
Long-term expenses to be apportioned				
Other long-term assets				
Total intangible and other assets				
Deferred tax				
Deferred tax-debit				

Total assets	267,021,538.95	434,209,062.61	305,007,790.42	457,182,837.12
Current liabilities:				
Short-term loans	438,825,765.41	369,338,359.02	461,055,464.21	389,103,729.94
Notes payable			235,680.00	235,680.00
Accounts payable	143,368,055.14	360,599,834.28	130,900,102.12	352,013,916.12
Accounts received in advance	1,591,292.38	1,591,292.38	16,566,630.40	1,609,745.04
Wage payable	533,701.97	370,210.66	1,623,361.70	1,262,217.83
Welfare funds payable	386,528.88	286,774.35	409,697.38	287,750.23
Dividends payable				
Taxes payable	93,824,519.83	93,092,076.06	93,840,816.20	93,777,541.73
Other duties payable	4,483.41	20,969.92	-7,618.08	19,044.80
Other accounts payable	167,611,955.93	121,880,312.28	180,552,467.50	131,440,978.64
Accrued expenses	96,568,787.23	92,885,770.17	58,459,660.63	58,392,155.63
Projected liabilities	161,876,924.66	161,876,924.66	166,789,924.66	166,789,924.66
Long-term liabilities due within 1 year	1,025,960,035.56	1,025,960,035.56	1,046,295,633.89	1,046,295,633.89
Other current liabilities				
Total current liabilities	2,130,552,050.40	2,227,902,559.34	2,156,721,820.61	2,241,228,318.51
Long-term liabilities				
Long-term loans				
Bonds payable				
Long-term accounts payable				
Special accounts payable				
Other long-term liabilities				
Total long-term liabilities				
Deferred tax				
Deferred tax-credit item				
Total liabilities	2,130,552,050.40	2,227,902,559.34	2,156,721,820.61	2,241,228,318.51
Minority interests			713,727.53	
Owner’s equity (or shareholders’ equity):				
Paid-in capital (or share capital)	479,433,003.00	479,433,003.00	479,433,003.00	479,433,003.00
Less: Restituted investment				
Net amount of paid-in capital (share capital)	479,433,003.00	479,433,003.00	479,433,003.00	479,433,003.00

Capital public reserve	362,027,636.64	362,027,636.64	362,027,636.64	362,027,636.64
Surplus public reserve	32,673,227.01	32,673,227.01	32,673,227.01	32,673,227.01
Including: Statutory public welfare fund				
Retained profit	-2,667,827,363.38	-2,667,827,363.38	-2,658,179,348.04	-2,658,179,348.04
Including: Cash dividend				
Unconfirmed investment	-69,837,014.72		-68,382,276.33	
Balance difference of foreign currency translation				
Total owner's equity (shareholders' equity)	-1,863,530,511.45	-1,793,693,496.73	-1,852,427,757.72	-1,784,045,481.39
Total liabilities and owner's equity (shareholder's equity)	267,021,538.95	434,209,062.61	305,007,790.42	457,182,837.12

9.2.2 Profit and profit distribution statement

Prepared by Shenzhen China Bicycle Company (Holdings) Limited January-December, 2006 Unit: RMB

Items	This period		Same period of last year	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Income from core business	219,673,260.11	19,210,025.98	164,222,481.91	122,808,115.66
Less: Cost of core business	215,038,482.09	26,514,397.10	149,157,835.71	113,099,876.03
Taxes and extras of core business	255,622.71	5,510.77	206,947.13	616.42
II. Profit of core business	4,379,155.31	-7,309,881.89	14,857,699.07	9,707,623.21
Add: Profit of other business	2,951,082.67	7,234,466.70	10,145,951.77	10,145,951.77
Less: Operating expense	6,742,974.66	1,768,339.08	12,056,850.43	12,046,563.88
Administrative expense	22,230,735.06	16,661,348.22	33,037,027.21	28,021,872.98
Financial expense	-14,465,143.27	-14,292,785.12	-8,113,732.19	-7,998,039.61
III. Operating profit (Loss is listed with "-")	-7,178,328.47	-4,212,317.37	-11,976,494.61	-12,216,822.27
Add: Investment earnings	-4,879,579.49	-5,476,716.41	-364,474.10	-157,457.79
Subsidy income				
Non- operating income	135,901.58	126,164.08	16,971,920.51	16,964,920.51
Less: non-operating expenditure	102,252.36	85,145.64	3,712,953.10	850,144.72
IV. Total profits (Total loss is listed with "-")	-12,024,258.74	-9,648,015.34	917,998.70	3,740,495.73

Less: Income tax			3,926.74	1,765.15
Minority interests			411,967.59	
Add: Occurring amount of unconfirmed investment loss	2,376,243.40		3,236,626.21	
V. Net profit (Net loss is listed with "-")	-9,648,015.34	-9,648,015.34	3,738,730.58	3,738,730.58
Add: Undistributed profits at the year-begin	-2,658,179,348.04	-2,658,179,348.04	-2,661,918,078.62	-2,661,918,078.62
Other transfer-in				
VI. Profit available for distribution	-2,667,827,363.38	-2,667,827,363.38	-2,658,179,348.04	-2,658,179,348.04
Less: Appropriation of statutory surplus public reserve				
Appropriation of statutory public welfare funds				
Appropriation of employees' encouragement and welfare funds				
Appropriation of reserve funds				
Appropriation of enterprise development funds				
Profits' restoring to investments				
VII. Profits available for distribution to investors	-2,667,827,363.38	-2,667,827,363.38	-2,658,179,348.04	-2,658,179,348.04
Less: Dividends of preference share payable				
Appropriation of arbitrary surplus public reserve				
Dividends of ordinary share payable				
Dividends of ordinary share converting into capital (share capital)				
VIII. Retained profit	-2,667,827,363.38	-2,667,827,363.38	-2,658,179,348.04	-2,658,179,348.04
Supplemental information:				
1. Income from selling or disposal branch and investee enterprise				

2. Losses due from natural disaster				
3. Increase (or decrease) of total profit due to the change of accounting policies				
4. Increase (or decrease) of total profit due to the change of accounting estimation				
5. Loss on debts reorganization				
6. Others				

9.2.3 Cash Flow Statement

Prepared by Shenzhen China Bicycle Company (Holdings) Limited January-December, 2006 Unit: RMB

Items	This period	
	Consolidation	Parent Company
Ⅰ. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	162,495,413.66	15,173,429.00
Write-back of tax received		
Other cash received concerning operating activities	7,009,777.82	31,549,664.93
Subtotal of cash inflow arising from operating activities	169,505,191.48	46,723,093.93
Cash paid for purchasing commodities and receiving labor service	149,346,224.98	9,751,762.65
Cash paid to/for staff and workers	15,945,592.40	3,063,397.94
Taxes paid	3,206,915.85	1,124,532.09
Other cash paid concerning operating activities	10,960,045.55	33,364,129.92
Subtotal of cash outflow arising from operating activities	179,458,778.78	47,303,822.60
Net cash flows arising from operating activities	-9,953,587.30	-580,728.67
II. Cash flows arising from investing		

activities:		
Cash received from recovering investment		
Cash received from investment income		
Net cash received from disposal of fixed, intangible and other long-term assets	195,080.00	195,080.00
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	195,080.00	195,080.00
Cash paid for purchasing fixed, intangible and other long-term assets	253,025.05	231,064.00
Cash paid for investment		
Other cash paid concerning investing activities		
Subtotal of cash outflow from investing activities	253,025.05	231,064.00
Net cash flows arising from investing activities	-57,945.05	-35,984.00
Ⅲ. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans		
Other cash received concerning financing activities		
Subtotal of cash inflow from financing activities		
Cash paid for settling debts		
Cash paid for dividend and profit distributing or interest paying		
Other cash paid concerning financing activities		
Subtotal of cash outflow from financing activities		
Net cash flows arising from financing activities		

IV. Influence on cash due to fluctuation in exchange rate	-255.04	
V. Net increase of cash and cash equivalents	-10,011,787.39	-616,712.67
Supplement information:		
1. Adjusting net profit to cash flows for operating activities:		
Net profit	-9,648,015.34	-9,648,015.34
Unconfirmed investment loss	-2,376,243.40	
Add: Withdrawal of provision for devaluation of assets	9,141,276.54	7,732,679.98
Depreciation of fixed assets	12,396,831.07	12,035,249.49
Amortization of intangible assets	0.00	0.00
Amortization of long-term expenses to be apportioned	0.00	0.00
Decrease of expenses to be apportioned (Less: increase)	154,625.00	152,225.00
Increase of accrued expenses (Less: decrease)	32,883,485.89	34,493,614.54
Loss on disposal of fixed, intangible and other long-term assets (Less: income)	0.00	0.00
Loss on rejection of fixed assets	0.00	0.00
Financial expenses	-14,465,143.27	-14,292,785.12
Investment loss (less: income)	4,879,579.49	5,476,716.41
Deferred tax- credit item (Less: debit)	0.00	0.00
Decrease of inventories (Less: increase)	2,014,914.10	-2,040,109.24
Decrease of receivables in operating (less: increase)	-10,169,692.22	-21,402,309.17
Increase of payables in operating (Less: decrease)	-33,904,862.32	-12,039,277.73
Other	-860,342.84	-1,048,717.49
Income of minority shareholders in this period	0.00	0.00
Net cash flows arising from operating activities	-9,953,587.30	-580,728.67

2. Investment and financing activities with no cash incomings/outgoings involved		
Capital transferred from debts		
Convertible company bonds due within one year		
Fixed assets leasing for financing		
3. Net increase of cash and cash equivalents:		
Balance of cash at the period-end	15,979,853.39	504,436.50
Less: Balance of cash at the period -begin	27,149,491.74	2,279,000.13
Add: Balance of cash equivalents at the period -end	1,157,850.96	1,157,850.96
Less: Balance of cash equivalents at the period -begin		
Net increase of cash and cash equivalents	-10,011,787.39	-616,712.67

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

□Applicable √ Inapplicable

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

√ Applicable □Inapplicable

1. During the report period, the undealt asset losses in previous years of the filiale amounting to RMB 34,608,575.93 was discovered, and relevant accounting errors correct as followings: i. The filiale bought the operation rights wholly during year 2000 to year 2001, and the relevant assets did not belong to the Company, but still collected in the financial statement of the Company. Now with the checking, found that excessive calculation on the asset amounting to RMB 23,869,465.49, including monetary fund amounting to RMB 542,720.38, net amount of account receivable amounting to RMB 6,357,164.58, net amount of inventories amounting to RMB 11,985,422.74, expenses to be apportioned amounting to RMB 199,710.74, and net amount of fixed asset amounting to RMB 4,784,447.05. The Company made the accounting errors correction were as followings: adjusted and decreased the undistributed profit at the year-begin of 2006 amounting to RMB 23,869,465.49; at the same time, adjusted and decreased the monetary fund amounting to RMB 542,720.38, inventories amounting to RMB 11,985,422.74, expenses to be apportioned amounting to RMB 199,710.74, net amount of fixed asset amounting to RMB 4,784,447.05; and adjusted withdrawal of provision for account receivable amounting to RMB 6,357,164.58.

ii. The differences of debit amounting to RMB 10,739,110.44 on checking accounts between the headquarter of the Company and original distribution companies, which was resulted by not checking clearly on current accounts in prior years. The Company made the accounting errors corrections as followings: adjusted and decreased the undistributed profit at year-begin of 2006 amounting to RMB 10,739,110.44; at the same time, adjusted and decreased the provision for bad debts of account receivable amounting to RMB 10,739,110.44. 2. During the report period, while finding the differences on checking accounts between China Huarong Asset Management Co., Ltd., reconstructing consultant expenses amounting to RMB 1,182,500.00 missed to be calculated which was paid by Huarong Asset Management Co., Ltd in stead. While compiling the comparable accounting statements in last year and this year, the errors were corrected. Due to the influences of correction on accounting errors, the retained profit at the year-begin of 2006 decreased amounting to RMB 1,182,500.00. 3. During the report period, while finding the differences on checking accounts between China Huarong Asset Management Co., Ltd., RMB 613,132.42 was the difference on auction of property in year 2002 when entered the item in an account by the related parties. While compiling the comparable accounting statements in last year and this year, the errors were corrected. Due to the influences of correction on accounting errors, the retained profit at the year-begin of 2006 decreased amounting to RMB 613,132.42. The aforesaid accounting errors have adjusted comparative financial statement and related items in 2005 financial statement of the Company, meanwhile, deducted the undistributed profit in year 2006 and year-begin of 2005 amounting to RMB 36,404,208.35.

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

√ Applicable ☐Inapplicable

1. The 60% equity of the shutout controlling subsidiary Haerbin China Bicycle Distribution Co., Ltd.: Because the company stopped business and could not pay off the debts with asset at the end of year 2005, the Company did not bring it into the consolidated scope since Jan. 1, 2006. 2. The 70% equity of the shutout controlling subsidiary Shenzhen China Bicycle Shanxi Distribution Co., Ltd.: Because the company stopped business and could not pay off the debts with asset at the end of year 2005, the Company did not bring it into the consolidated scope since Jan. 1, 2006. 3. The 80% equity of the shutout controlling subsidiary Gansu Shenzhen China Bicycle Distribution Co., Ltd.: Because the company stopped business and could not pay off the debts with asset at the end of year 2005, the Company did not bring it into the consolidated scope since Jan. 1, 2006.

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

Unit: RMB

Items	Amount
Shareholders' equity as December 31 2006 (Existing Accounting Standards)	-1,863,530,511.45

Balance of long-term equity Investment	
Including: Long-term equity investment balance formed by merger of enterprises under the same control	
Other credit balance of long-term equity investment calculated based on equity method	
Investment property measured with fair value	
Prior year depreciation withdrawal due to dismantling cost of asset	
Termination indemnity conformed to the acknowledgement of estimated liabilities	
Share-based payment	
Reconstructuring duties conformed to the acknowledgement of estimated liabilities	
Enterprises merger	
Including: Book value of enterprises merger goodwill under the same control	
Provision for impairment of goodwill withdrawn based on New Accounting Standards	
Financial asset and credit asset available for sales attributable to current losses and gains with fair value measurement and changes	
Financial liabilities attributable to current losses and gains with fair value measurement and changes	
Increased equity due to demerger of financial instrument	
Derived financial instrument	
Income tax	9,849,555.22
Minority shareholders' equity	
Other	
Shareholders' equity as January 1 2007 (New Accounting Standards)	-1,853,680,956.23

Auditor's opinions

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..

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.

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

Board of Directors of

Shenzhen China Bicycle Company (Holdings) Limited.

April 27, 2007