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

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(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)

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
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(CONTINUED)

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.

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INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF
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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
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CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2006

	Notes	2006 RMB'000	(restated) 2005 RMB'000
TURNOVER	4	219,673	164,222
Cost of sales		(215,294)	(152,662)
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 prepayment	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

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

Director

Director

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED
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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.

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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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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).

SHENZHEN CHINA BICYCLE COMPANY (HOLDINGS) LIMITED

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

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.

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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.

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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	-

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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.

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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'000
COST						
At 1 January 2005	432,698	255,384	19,835	8,255	18,506	734,678
Prior year adjustments	(32,419)	-	-	-	-	(32,419)
Restated balance	400,279	255,384	19,835	8,255	18,506	702,259
Additions	-	-	594	723	44	1,361
Disposals	(17,205)	-	-	(1,250)	-	(18,455)
At 31 December 2005	383,074	255,384	20,429	7,728	18,550	685,165
Prior year adjustments	(4,094)	(48)	-	(1,230)	(4,042)	(9,414)
Restated balance	378,980	255,336	20,429	6,498	14,508	675,751
ACCUMULATED DEPRECIATION / PROVISION FOR IMPAIRMENT LOSS						
At 1 January 2005	213,687	238,522	17,200	6,886	15,596	491,891
Prior year adjustments	11,649	-	-	-	-	11,649
Restated balance	225,336	238,522	17,200	6,886	15,596	503,540
Charged for the year	18,622	818	5	482	135	20,062
Written back on disposals	(12,388)	-	(169)	-	-	(12,557)
At 31 December 2005	231,570	239,340	17,036	7,368	15,731	511,045
Prior year adjustments (note 26)	(839)	(43)	-	(1,121)	(2,626)	(4,629)
Restated balance	230,731	239,297	17,036	6,247	13,105	506,416
NET CARRYING AMOUNT						
At 31 December 2005	148,249	16,039	3,393	251	1,403	169,335

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)

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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 2006	Effective equity held by the Group 2005	Principal activities
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

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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.

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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 2006	Effective equity held by the Group 2005	Principal activities
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

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10. INTERESTS IN ASSOCIATES (CONTINUED)

Company	Place of establishment/ operation	Effective equity held by the Group		Principal activities
		2006	2005	
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

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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.

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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.

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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

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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.

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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 RMB000	Profit the year of 2005 RMB000	Accumulated loss at 2004 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

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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.

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SUPPLEMENTARY INFORMATION

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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

	2006 RMB'000	(restated) 2005 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)