Shenzhen China Bicycle Company (Holdings) Limited

2007 Semi-Annual Financial Report

(Unaudited)

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Balance Sheet

Prepared by Shenzhen China Bicycle Company (Holdings) Limited Jun.30, 2007 Unit: RMB

Items	Notes	Amount in the end of report period		Amount in the beginning of the report period	
		Consolidation	Parent company	Consolidation	Parent company
Current assets:					
Monetary funds	VIII.1	17,119,800.14	479,337.57	15,979,853.39	504,436.50
Transaction finance asset					
Notes receivable					
Accounts receivable	VIII 2, IX.1	4,198,313.34	165,168,861.29	5,947,972.00	186,150,842.92
Accounts in advance	VIII.3	3,509,185.59	1,539,602.08	2,406,516.88	1,641,102.08
Dividend receivable					
Interest receivable					
Other receivables	VIII.4, IX.2	11,235,909.50	12,175,120.34	13,814,016.03	22,917,626.27
Purchase restituted finance asset					
Inventories	VIII.5	48,995,584.08	38,032,860.24	43,709,649.82	38,635,307.97
Expenses to be apportioned					
Non-current asset due within one year					
Other current assets					
Total current assets		85,058,792.65	217,395,781.52	81,858,008.12	249,849,315.74
Non-current assets:					
Finance asset available sales					
Held-to-maturity securities					
Long-term equity investment	VIII.6, IX.3	28,140,831.02	27,960,831.02	28,563,096.50	28,563,096.50
Investment property	VIII 7	11,279,623.42	11,279,623.42	11,602,410.75	11,602,410.75
Long-term account receivable					
Fixed assets	VIII 8	103,377,674.92	102,695,098.52	109,087,921.51	108,284,137.55
Construction in progress					
Engineering material					
Disposal of fixed asset	VIII 9	35,910,102.07	35,910,102.07	35,910,102.07	35,910,102.07
Intangible assets					
Expense on Research and Development					

Goodwill					
Long-term expenses to be apportioned					
Deferred income tax asset	VIII 10	6,603,030.06	6,603,030.06	9,849,555.22	9,849,555.22
Other non-current asset					
Total non-current asset		185,311,261.49	184,448,685.09	195,013,086.05	194,209,302.09
Total assets		270,370,054.14	401,844,466.61	276,871,094.17	444,058,617.83

Items	Notes	Amount in the end of report period		Amount in the beginning of the report period	
		Consolidation	Parent company	Consolidation	Parent company
Current liabilities:					
Short-term loans	VIII. 11	430,607,026.90	363,409,913.74	438,825,765.41	369,338,359.02
Transaction financial liabilities					
Notes payable					
Accounts payable	VIII. 12	151,672,516.07	338,159,650.97	143,368,055.14	360,599,834.28
Accounts received in advance	VIII.13	16,170,418.13	1,591,292.38	1,591,292.38	1,591,292.38
Wage payable	VIII.14	511,591.97	370,210.66	533,701.97	370,210.66
Taxes payable	VIII.15	93,946,385.31	92,920,383.34	93,829,003.24	93,113,045.98
Dividend payable					
Interest payable					
Other accounts payable	VIII.16	163,262,531.99	125,682,347.06	167,611,955.93	121,880,312.28
Projected expense	VIII.17	108,048,202.30	104,653,460.82	96,568,787.23	92,885,770.17
Non-current liabilities due within 1 year	VIII.18	978,438,591.10	978,438,591.10	1,025,960,035.56	1,025,960,035.56
Other current liabilities		445,916.70	286,774.35	386,528.88	286,774.35
Total current liabilities		1,943,103,180.47	2,005,512,624.42	1,968,675,125.74	2,066,025,634.68
Non-current liabilities					
Long-term loans					
Bonds payable					
Long-term account payable					
Special accounts payable					
Projected liabilities	VIII.19	161,876,924.66	161,876,924.66	161,876,924.66	161,876,924.66
Deferred income tax liabilities					
Other non-current liabilities					
Total non-current liabilities		161,876,924.66	161,876,924.66	161,876,924.66	161,876,924.66
Total liabilities		2,104,980,105.13	2,167,389,549.08	2,130,552,050.40	2,227,902,559.34
Owner’s equity (or					

shareholders' equity):					
Paid-in capital (or share capital)	VIII.20	479,433,003.00	479,433,003.00	479,433,003.00	479,433,003.00
Capital public reserve	VIII.21	362,027,636.64	362,027,636.64	362,027,636.64	362,027,636.64
Surplus public reserve	VIII.22	32,673,227.01	32,673,227.01	32,673,227.01	32,673,227.01
Retained profit	VIII.23	-2,709,125,562.30	-2,639,678,949.12	-2,727,814,822.88	-2,657,977,808.16
Less: Inventory shares					
Balance difference of foreign currency translation					
Total owner's equity attributable to parent company				-1,853,680,956.23	-1,783,843,941.51
Minority interests					
Total owner's equity(Shareholders' equity)				-1,853,680,956.23	-1,783,843,941.51
Total liabilities and owner's equity(Shareholders' equity)				276,871,094.17	444,058,617.83

Legal representative: Shang Shijun Person in charge of accounting works: Ye Qing

Person in charge of accounting institutes: He Yili

Statement of Profit

Prepared by Shenzhen China Bicycle Company (Holdings) Limited Jan. –Jun., 2007 Unit: RMB

Items	Notes	The report period		Same period of last year	
		Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income	VIII.24, IX.4	96,531,353.91	5,454,616.86	88,872,828.84	10,488,837.55
Less: Operating cost	VIII.24, IX.4	97,719,118.80	10,560,434.11	87,766,525.96	15,214,073.85
Operating tax	VIII.25	82,963.07	880.36	135,409.38	3,819.71
Sales expense		2,669,555.68	800,409.43	2,420,458.09	2,115,763.97
Administration expense		8,128,477.11	6,868,752.97	8,715,765.83	7,499,513.08
Financial expense(Income is listed with "-")	VIII.26	28,856,028.78	28,890,339.15	-369,736.81	-296,891.86
Losses of devaluation of asset		2,062,877.79	2,062,877.79		
Add: Changing income of fair value(Net loss is listed with "-")					
Investment net income (Net loss is listed with "-")	VIII.27, IX.5	-602,265.48	-602,265.48	-570,943.73	734,934.21

Net profit of other business (Net Loss is listed with “-”)	VIII.28	185,620.21	154,983.64	1,238,457.11	4,238,427.11
III. Operating profit (Loss is listed with “-”)		-43,404,312.59	-44,176,358.79	-9,128,080.23	-9,074,079.88
Add: Non-operating income	VIII.29			34,950.58	34,950.58
Less: Non-operating expense	VIII.30			64,629.95	47,723.23
IV. Total Profit (Loss is listed with “-”)				-9,157,759.60	-9,086,852.53
Less: Income tax	VIII.31			0.00	0.00
V. Net profit (Loss is listed with “-”)				-9,157,759.60	-9,086,852.53
Net profit attributable to owner’s equity of parent company				-9,717,421.57	-9,086,852.53
Minority shareholders’ gains and losses				559,661.97	
VI. Earnings per share					
i. Basic earnings per share				-0.0203	
ii. Diluted earnings per share				-0.0203	

Legal representative: Shang Shijun Person in charge of accounting works: Ye Qing

Person in charge of accounting institutes: He Yili

Statement of Cash Flow

Prepared by Shenzhen China Bicycle Company (Holdings) Limited Jan. –Jun., 2007 Unit: RMB

Items	Notes	This period		Last Period	
		Consolidation	Parent Company	Consolidation	Parent Company
I. Cash flows arising from operating activities:					
Cash received from selling commodities and providing labor services				72,349,566.28	14,043,067.76
Write-back of tax received					
Net increase of disposal of transaction financial asset					
Net increase of disposal of financial asset available for sales					
Other cash received concerning operating activities	VIII.32			3,665,057.38	2,107,617.64
Subtotal of cash inflow				76,014,623.66	16,150,685.40
Cash paid for purchasing commodities and receiving labor service		62,579,643.60	3,295,928.62	62,683,677.51	7,689,859.05
Cash paid to/for staff and workers		10,040,034.59	1,564,901.16	8,296,881.66	2,493,684.58
Taxes paid		2,086,706.16	1,228,897.60	2,025,303.93	1,283,061.48
Other cash paid concerning operating activities	VIII.33	4,133,177.81	4,008,579.14	7,170,348.58	4,648,999.06
Subtotal of cash outflow		78,839,562.16	10,098,306.52	80,176,211.68	16,115,604.17
Net cash flows arising from operating activities				-4,161,588.02	35,081.23
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		181,507.00	181,507.00	195,080.00	195,080.00
Net cash received from disposal of subsidiaries and other units					
Other cash received concerning investing activities					
Subtotal of cash inflow		181,507.00	181,507.00	195,080.00	195,080.00
Cash paid for purchasing fixed, intangible and other long-term assets		106,921.49	104,567.49	191,481.05	176,050.00
Cash paid for investment					
Net cash received from subsidiaries and other units		180,000.00			
Other cash paid concerning investing activities					
Subtotal of cash outflow		286,921.49	104,567.49	191,481.05	176,050.00
Net cash flows arising from investing activities		-105,414.49	76,939.51	3,598.95	19,030.00

III. Cash flows arising from financing activities					
Cash received from absorbing investment					
Cash received from loans					
Cash received from issuing bonds					
Other cash received concerning financing activities					
Subtotal of cash inflow					
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					
Net cash flows arising from financing activities					
IV. Influence on cash due to fluctuation in exchange rate					
V. Net increase of cash and cash equivalents		1,139,946.75	-25,098.93	-4,157,989.07	54,111.23
Balance of cash and cash equivalents at the period -begin		15,979,853.39	504,436.50	27,692,212.12	2,821,720.51
Balance of cash and cash equivalents at the period–end		17,119,800.14	479,337.57	23,534,223.05	2,875,831.74

Legal representative: Shang Shijun Person in charge of accounting works: Ye Qing

Person in charge of accounting institutes: He Yili

Consolidated Statement on Changes of Owners' Equity

Prepared by Shenzhen China Bicycle Company (Holdings) Limited Jan. –Jun., 2007 Unit: RMB

Items	Owners' equity belonged to the parent company						
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Surplus reserves	Retained profit	Minority interest	Total owners' equity
I. Balance at the end of the last year	479,433,003.00	362,027,636.64	0.00	32,673,227.01	-2,727,814,822.88		-1,853,680,956.23
Add: Changes of accounting policy							0.00
Error correction of the last period							0.00
II. Balance at the beginning of this year	479,433,003.00	362,027,636.64	0.00	32,673,227.01	-2,727,814,822.88	0.00	-1,853,680,956.23
III. Increase/ Decrease in this year (Decrease is listed with "-")					18,689,260.58	381,644.66	19,070,905.24
(I) Net profit					18,689,260.58	381,644.66	19,070,905.24
(II) Profits and losses calculating into owners' equity							0.00
1. Net changing amount of fair value of financial assets available for sale							0.00
2. Effect of changes of other owners' equity of invested units under equity method							0.00
3.Effect of income tax related to owners' equity							0.00
4. Others							0.00
Subtotal of (I)and (II)							0.00
(III) Owners' devotion and decreased capital							0.00
1. Owners' devotion capital							0.00
2. Amount calculated into owners' equity paid in shares							0.00
3. Others							0.00
(IV) Profit distribution							0.00
1. Withdrawal of surplus reserves							0.00

2.Distribution for owners (shareholders)							0.00
3.Others							0.00
(V) Carrying forward internal owners' equity							0.00
1.Capital reserves conversed to capital (share capital)							0.00
2. Surplus reserves conversed to capital (share capital)							0.00
3.Remedying loss with profit surplus							0.00
4.Others							0.00
IV. Balance at the end of this year	479,433,003.00	362,027,636.64	0.00	32,673,227.01	-2,709,125,562.30	381,644.66	-1,834,610,050.99

Items	Owners' equity belonged to the parent company						
	Paid-up capital (Share capital)	Capital reserves	Less: Treasury Stock	Surplus reserves	Retained profit	Minority interest	Total owners' equity
I. Balance at the end of the last year	479,433,003.00	362,027,636.64	0.00	32,673,227.01	-2,716,712,069.15	713,727.53	-1,841,864,474.97
Add: Changes of accounting policy							0.00
Error correction of the last period							0.00
II. Balance at the beginning of this year	479,433,003.00	362,027,636.64	0.00	32,673,227.01	-2,716,712,069.15	713,727.53	-1,841,864,474.97
III. Increase/ Decrease in this year (Decrease is listed with "-")					-9,717,421.47	559,661.87	-9,157,759.60
(I) Net profit					-9,717,421.47	559,661.87	-9,157,759.60
(II) Profits and losses calculating into owners' equity							0.00
1. Net changing amount of fair value of financial assets available for sale							0.00
2. Effect of changes of other owners' equity of invested units under equity method							0.00
3.Effect of income tax related to owners' equity							0.00
4. Others							0.00
Subtotal of (I)and (II)							0.00
(III) Owners' devotion and decreased capital							0.00
1. Owners' devotion capital							0.00
2. Amount calculated into owners' equity paid in shares							0.00

3. Others							0.00
(IV) Profit distribution							0.00
1. Withdrawal of surplus reserves							0.00
2.Distribution for owners (shareholders)							0.00
3.Others							0.00
(V) Carrying forward internal owners' equity							0.00
1.Capital reserves conversed to capital (share capital)							0.00
2. Surplus reserves conversed to capital (share capital)							0.00
3.Remedying loss with profit surplus							0.00
4.Others							0.00
IV. Balance at the end of this year	479,433,003.00	362,027,636.64	0.00	32,673,227.01	-2,726,429,490.62	1,273,389.40	-1,851,022,234.57

Legal representative: Shang Shijun Person in charge of accounting works: Ye Qing

Person in charge of accounting institutes: He Yili

SHENZHEN CHINA BICYCLE COMPANY （HOLDING） LIMITED

Notes of Financial Statement

For Jan.-Jun., 2007

Otherwise stated, all amounts are stated in RMB Yuan.

Supplementary 1. COMPANY PROFILE

Approved by Shenzhen People’s Government—ShenFuBanFu (1991) No 888, the Company was restructured to be a stock company limited. On Dec. 28, 1991, approved by the People’s Bank of China—Shenzhen Special Economic Zone Branch (ShenRenYinFu Zi (1991) No. 119), the Company was listed with Shenzhen Stock Exchange. The corporate business license was QGYSZF Zi No. 101165, with a registered capital of RMB 479,433,003.00.

The Company was engaged in machine manufacturing industry. The main operations include: producing and assembling types of bicycles, the parts, fittings, mechanical products, sports instrument, fining chemicals, carbon-fibre compound materials, household electronic appliances and the fittings.

Prime products are: Emmelle bicycle, Chimo bicycle, Diamondback bicycle and electric bicycle.

Brief on production and management: The Company produces medium and top grade bicycles, mainly for exporting. Influenced by antidumping lawsuits in recent years; the sales volume slided down. The Company focuses on debts restructure as well as products research and development. The Company has developed series of electric bicycle, and has been working to exploit domestic market. Main businesses continue to make positive profit in the year.

Supplementary 2. Compiling basis of financial statement

Compilation of financial statement of the company is based on continuous business according to actual trade, items, regulations of "Enterprise Accounting Standard - Basic Standard" and other accounting standards.

Supplementary 3, Announcement to comply to enterprise accounting standard

Financial statement compiled by the company meets requirements of enterprise accounting standard. It reflects information such as financial status, business result and cash flow of the company accurately and completely.

Supplementary 4. Compilation method of main accounting policy, accounting estimate and consolidated financial statement.

1. Accounting policy

Accounting policy of the company complies to "Enterprise Accounting Standard 2006" and application guidance issued by Ministry of Finance People's Republic of China as 【2006】3 of accounting and financial.

2. Fiscal year

It shall adopt calendar year, namely, one calendar year means period from January 1th to December, 31st.

3. Recording currency

RMB is used as the recording currency.

4. Foundation to charge to an account and price-calculating principle

Foundation to charge to financial accounting is accrual basis. Price-calculating principle of every asset (except other price-calculating principles or required by "Enterprise Accounting Standard") refers to historical cost when obtaining.

5. Foreign-currency business, translation and accounting methods of foreign currency statement.

Foreign currency payment shall be translated into recording currency amount by adopting spot exchange rates issued by People's Bank of China during initial confirmation.

Treatments of foreign currency cash items and foreign currency non-cash items on balance sheet date are as follows：

1）Foreign currency cash items shall be translated by spot exchange rates on balance sheet date. Exchange differences caused by difference of spot exchange rates of balance sheet date and that during initial confirmation or that of former balance sheet date is accounted for current gains or losses.

2）Foreign currency non-cash items measured by historical cost can be translated by exchange rates of transaction date without changing recording currency amount.

3) Foreign currency non-cash items measured by fair value are translated by exchange rates on fair value confirmation date. Difference of translated recording currency amount and original carrying amount is accounted for current gains or losses as variation treatment of fair value.

4）Exchange gains or losses caused by debts with regard to construction of fixed assets shall be handled according to capitalization principle of borrowing expenses. Exchange gains or losses with regard to development of real estate shall be capitalized before completion of real estate.

6. Defined standard of cash equivalent

The company uses investment with short holding period (generally refers to three months form procurement date), strong liquidity, eligibility to convert into cash of known amount and very small value variation risk as cash equivalent during preparation of cash flow statement.

7. Translation method of financial instruments

Financial instruments of the company include financial assets and financial debts.

1）Accounting for financial assets：

--- Confirmation standard of fair value of financial assets

Confirmation standard of fair value of financial assets of the company is as follows：

A. Price of balance sheet date is used as fair value if there are financial assets in active market.

B. Fair value is confirmed by present value calculated by appropriate discount rate (current bank loan rate is generally used as discount rate) according to future cash flow if there are no financial assets in active market.

Classification of financial assets

Financial assets of the company are classified as follows：

A. Financial assets measured by fair value and whose variation is accounted for current gains or losses（including tradable financial assets and financial assets measured by fair value and whose variation is accounted for current gains or losses）；

B. Holding or due investment；

C. Receivable accounts；

D. Financial assets can be sold

Measurement of financial assets

A. Initially confirmed financial assets shall be measured by fair value. Relevant transaction expenses of financial assets which are measured by fair value and whose variation is accounted for current gains or losses shall be accounted for current gains or losses directly；Relevant transaction expenses of other kinds of financial assets shall be accounted for initial confirmation amount.

B. The company will measure financial assets consequently according to fair value without deducting possible transaction expenses during future financial assets treatment. However, following conditions are not included：

① Holding or due investment and receivable accounts shall be measured according to amortized cost by practical rate method；

② Equity instrument investment which has no active market or no quotation in active market and whose fair value can not be measured and derivative financial assets which link to equity instruments and shall be settled by delivery of equity instruments shall be measured by cost.

C. Difference of reclassified fair value of financial assets and cost of book value due to classification change of financial assets caused by business holding purpose change shall be accounted for capital reserves. It shall be accounted for current gains or losses when confirmation is terminated or value is depreciated.

Depreciation of financial assets

Carry out depreciation test of book value of financial assets except those which shall be measured by fair value and whose variation is accounted for current gains or losses on balance sheet date. Objective evidences show that when financial assets depreciate, the difference of expected cash flow present value of financial assets and book value shall be reserved and accounted for current gains or losses.

Objective evidences of depreciation of financial assets shall include following contents：

A. Issue party or debtor has serious financial difficulties；

B. Debtor has breached contract clauses, such as breach or exceeding the time limit to pay for interests or corpus；

C. The company concedes to debtor who has difficulty by considering economical or legal factors；

D. Bebtor may have bankruptcy or other financial reorganizations because of uncertainty of continuous business；

E. The company's financial assets can not continue to trade in active market because of serious financial difficulty of issue party；

F. The company can not recover investment cost because of serious disadvantageous changes of technical, market, economical and legal environment of debtor；

G. Fair value of equity instrument investment falls seriously or non-provisionally；

H. Although we can not determine whether cash flow of a certain asset of financial asset combination decreases or not, the company discover that expected future cash flow since initial confirmation of the group of financial assets has decreased and it can be measured after overall evaluation according to open data.

I. Other objective evidences which can show depreciation of financial assets.

Measurement of depreciation loss of financial assets

A. Financial assets measured by fair value and whose variation is accounted for current gains or losses need no depreciation testing；

B. Measurement of depreciation loss of holding or due investment：The difference of expected future cash flow present value and book value at the end of period shall be reserved and accounted for current gains or losses；

C. Measurement of depreciation loss of receivable accounts：The company shall adopt allowance method of bad debt loss for translation, carry out depreciation test of receivable accounts and prepare for reserve in bad debt on balance sheet date.

① Carry out depreciation test of receivable accounts with large amount individually. If objective evidences show that the value has depreciated, the company will confirm depreciation loss and prepare for reserve in bad debt according to difference of future cash flow present value and book value.

② Reserve 3‰ of sum of receivable accounts at the end of year and other receivable accounts as for receivable accounts with not large amount and un-predicated receivable accounts after individual test. Preparation of bad debt reservation is accounted for current management expenses.

③ Reserve 100% of bad debts after individual confirmation of bad debts.

Confirmation standard of bad debts of the company is as follows：① Property of debtor can not be recovered after payment due to bankruptcy or death；② Debtor can not pay for due debts with obvious evidence.

D. Depreciation judgment of financial assets that can be sold：The financial assets can be thought to depreciate if fair value of the financial asset decreases continuously and non-provisionally.

Gains or losses caused by variation of fair value of financial assets shall be handled according to following stipulations：

A. Gains or losses caused by variation of fair value of financial assets measured by fair value and whose variation is accounted for current gains or losses shall be accounted for current gains or losses.

B. Gains or losses caused by variation of fair value of saleable financial assets can be accounted for owners equity directly except exchange rate difference caused by depreciation loss and foreign currency cash financial assets. They shall be accounted for current gains or losses when financial assets are transferred confirmation termination.

C. Exchange rate difference caused by saleable foreign currency cash financial assets shall be accounted for current gains or losses. Interests of saleable financial assets calculated by actual rate method shall be accounted for current gains or losses；Cash dividends of saleable equity instrument investment shall be accounted for current gains or losses during announcement of dividends issuing of invested unit.

2） Accounting of financial debts

Financial debts are divided to following two categories：

A. Financial debts measured by fair value and whose variation is accounted for current debts include transaction financial debts and financial debts measured by fair value and whose variation is accounted for current gains or losses.

B. Other financial debts.

Relevant transaction expenses of financial debts which are measured by fair value and whose variation is accounted for current gains or losses shall be accounted for current gains or losses directly；Relevant transaction expenses of other kinds of financial debts shall be accounted for initial confirmation amount.

Consequent measurement of financial debts shall be handled according to following principle：

A. Financial debts measured by fair value and whose variation is accounted for current gains or losses shall be measured by fair value.
B. Equity instrument which has no active market or no quotation in active market and whose fair value can not be measured and derivative financial debts which link to equity instruments and shall be settled by delivery of equity instruments shall be measured by cost.
Financial debts measured by fair value and whose variation is accounted for current debts shall be accounted for current gains or losses.
Difference of book value of confirmation termination and paid consideration during complete or partial confirmation termination of financial debts shall be accounted for current gains or losses.
8, Accounting method of stock in trade
Stock in trade shall be divided into raw material, products in the process, commodity stocks, low-value consumption goods, etc.
Procurement and warehousing of every kind of stocks in trade shall be valuated according to actual cost. Cost of holding inventory includes procurement cost, processing cost and other expenses which belong to cost of holding inventory and disbursement which meets capitalization conditions of borrowing costs. Stock quantity shall be determined by perpetual inventory system. It shall be valuated by weighed average method when the stock quantity is issuing.
Low-value consumption goods shall adopt one-off amortization method.
Prepare for inventory falling price reserves of goods at the end of period whose costs are unexpected to recover for damaged stocks, completely or partially worn stocks or those whose sale prices are less than costs on basis of wall-to-wall inventory of stock-in-trade. Define inventory falling price reserves according to difference of cost of single stock item and net realizable value and it shall be accounted for current gains or losses.
9, Translation method of long-term investment on stocks
Long-term dividend investment reflects that of subsidiary company, consortium and joint venture held by the company. In the meanwhile, it includes equity investment of invested unit without control, common control or important influence, quotation in active market and measurement of fair value.
The company will calculate long-term dividend investment caused by enterprise combination and that except for enterprise combination. Calculation is divided into four phases including initial cost confirmation, consequent measurement, income and settlement.
<u>Confirmation of initial investment cost：</u>
（1）Initial investment cost of long-term dividend investment of the company caused by enterprise combination form is determined according to following methods：
A. Long-term dividend investment caused by enterprise combination under the same control
① Unify accounting policy and accounting period of combined party first under premise to adhere to significance principle.
② Obtained share of book value of owners equity of combined party on combination date shall be thought as initial investment cost of long-term dividend investment when the company adopts methods of payment in cash, conversion of non-cash capital or obligation incurred as combined consideration. Adjust capital reserves--stock premium of the company according to difference of initial investment cost and paid cash, transferred non-cash capital and book value of undertaken debts；Adjust reinvested earnings when amount of stock premium is insufficient.
③ The company will use equity securities as combined consideration. Aggregate nominal amount

of shares shall be used as capital stock. Adjust capital reserves--stock premium according to difference of initial investment cost of long-term dividend investment and aggregate nominal amount of shares；Adjust reinvested earnings when amount of stock premium is insufficient.
④ Every direct relevant expense during combination, including auditing expense paid for enterprise combination, evaluation expense, legal service expense and so on shall be accounted for current gains or losses during occurrence.
⑤ Securities issued for enterprise combination or commission charges, brokerage expenses and so on paid for other debts shall be accounted for issued securities and initial measurement amount of other debts.
⑥ Commission charges, brokerage expenses and so on caused by issuing of equity securities during enterprise combination shall offset gain on disposal of assets. Offset capital reserves, surplus reserves, undistributed profit sequentially if gain on disposal of assets is insufficient.
B. Long-term dividend investment caused by enterprise combination under different control
① Combination cost of one-off enterprise combinations of capital, occurred or undertaken debts paid for control rights of purchased party on procurement date of the company and fair value of issued equity securities. Difference of fair value and book value shall be accounted for current gains or losses.
② Combination cost of enterprise combinations by multiple transactions and step-by-step dividend obtainment is sum of every transaction cost.
③ Every direct relevant expense of the company during enterprise combination shall be accounted for enterprise combination cost.
④ If expected future items may occur on procurement date and the influence amount of combination cost can be measured under promise of future items that may influence combination cost in combination contract or agreement, it shall be accounted for combination cost.
⑤ The company will confirm difference of procurement cost and fair value of recognizable capital of combined party obtained in combination as commercial goodwill；Commercial goodwill after initial confirmation shall be measured by difference of cost and aggregate depreciation. Difference of procurement cost and fair value of recognizable net capital of combined party obtained in combination shall be accounted for current gains or losses.
Fair value of recognizable net capital of combined party refers to difference of fair value of recognizable capital of combined party obtained in combination and debts or fair value with debts.
The company will confirm every item of recognizable capital, debt of combined party which meets following conditions individually：
① The company will confirm individually and measure according to fair value if economical interests of other assets (not limited to original assets confirmed by combined party) besides intangible assets of combined party during combination may flow into the company with reliable measurement.
Intangible assets obtained in combination and whose fair value can be reliably measured can be confirmed as intangible assets and measured according to fair value.
② Other debts whose implementation of relevant obligations may lead economical interests flow out of the company with reliable measurement of fair value besides existing debts obtained by combined party during combination shall be confirmed individually and measured according to fair value.
If combined party may have debts obtained in combination with reliable measurement of fair

value, it shall be confirmed individually and measured according to fair value.

(2) Long-term dividend investment obtained out of enterprise combination shall enter in an account during obtainment according to initial investment cost. Initial investment method shall be defined according to following methods：

A. Long-term dividend investment purchased in cash shall be used as initial investment cost according to total price of actual payment (including relevant expenses such as paid taxation, commission charges).

B. Long-term dividend investment obtained by issuing equity securities shall be used as initial investment cost according to fair value of issuing of equity securities.

C. Long-term dividend investment paid by investor shall be used as initial investment cost according to value stipulated by investment contract or agreement except unfair value stipulated by contract or agreement.

D. Long-term dividend investment obtained by debtor by way of payment of debts of non-cash capital or that converted by receivable creditor's rights shall be used as initial investment cost according to fair value and receivable relevant expenses of taxation.

E. If transaction of conversion from non-cash trade to long-term dividend investment has commercial essence, converted long-term dividend investment shall be used as initial investment cost according to fair value and receivable relevant expenses of taxation；If the transaction has no commercial essence, sum of book value caused by capital conversion by invested long-term dividend investment and receivable relevant expenses of taxation shall be used as initial investment cost.

Price of actual payment includes announced but not drawn cash dividend. Difference of price of actual payment and announced but not drawn cash dividend shall be used as initial investment cost.

<u>Consequent measurement of long-term dividend investment</u>

Consequent measurement of long-term dividend investment of the company shall be calculated by cost method and equity method.

The company's investment to subsidiary company and long-term dividend investment which has no common control or significant influence to invested unit, quotation in active market and reliable measurement of fair value shall be calculated by cost method. Adjust cost of long-term dividend investment calculated by cost method during super addition or recovery of investment.

The company will calculate joint venture which has common control to invested unit and consortium which has significant influence to invested unit by equity method.

<u>Confirmation method of long-term dividend investment gains</u>

Confirm gains of enterprises which are calculated by cost method when invested unit declares to issue cash dividend but the investment income is limited to obtained quota of aggregate net profit of invested unit after receiving investment. If obtained cash dividend declared by invested unit exceeds above amount, the surplus shall be used as offset of initial investment cost to offset book valve of investment.

As for enterprises which are calculated by equity method, net gains or losses after receiving stock rights of invested unit shall be thought as the foundation. It is required to confirm investment gains and adjust book value of long-term dividend investment at the end of every accounting period according to net profit or share of net loss of invested unit that the company shall share or undertake. The company shall decrease book value of long-term dividend investment correspondingly according to calculated profit or cash dividend declared by invested unit.

Disposal of long-term dividend investment

Difference of book value of investment and actually obtained price during disposal of equity investment shall be used as current investment gains.

10, Investment real estate

1) Definition of investment real estate

Investment real estate of the company refers to real estate whose purpose includes rental-earning, capital appreciation or both.

2) Scope of investment real estate

Investment real estate of the company includes leased building.

3) Investment real estate of the company shall be measured by cost mode.

Measure, calculate and deduct depreciation charge or amortize investment real estate under cost mode according to regulations of "Accounting Standard for Business Enterprises No. 4-Fixed assets" and "Accounting Standard for Business Enterprises No. 6- Intangible assets"；Handle depreciation according to regulations of "Accounting Standard for Business Enterprises No. 8-Impairment of assets".

11. Valuation and depreciation methods of fixed assets

Fixed assets refer to the tangible assets held for commodity production, labor service, lease, operation or management and with a use term of over 1 fiscal year. The related economic interest to the fixed assets is likely to flow into the company and the cost of it can be measured reliably.

1). Fixed assets of the company shall be initially measured according to the cost.

The fixed assets include purchasing price, related taxes, and other expenditures that could be directly included in this assets and is used before making fixed assets in the usable condition, such as transportation fees, loading and unloading fees, service charge of career men, estimated discarding expense and etc.

As to the fixed assets which are bought at a total price, according to the fair value proportion of every fixed asset, we distribute the total cost and fix their cost.

The cost of the self-built fixed asset is composed of the expenses needed in constructing before the expected applicable state.

The loan cost expenditure which accords with the capitalization requirements is recorded in fixed asset cost.

As to the fixed asset of which deferred payment is made under the abnormal credit condition, the fixed asset cost is measured on the basis of the present value of the purchasing price. The margin between the actual price and the present value of purchasing price, except the part which is capitalized according to *China Accounting Standard No.17—loan cost*, shall be recorded in current profit and losses.

2). If the follow-up expenditures related to fixed assets are proved to make economic interests which are going to flow to the enterprise and the cost can be measured reliably, then it should be capitalized.

3). At least, the service life, the estimated residual value and the depreciation method of the fixed asset should be checked at the end of the year, and discover: if the expected service life is discrepant to the initial, adjust the service life of the fixed asset, if the estimated residual value is discrepant to the initial, adjust it, and if the expected achieving method of the economic interest related to the fixed asset is changed greatly, the depreciation method of the fixed asset should be changed.

4). The changes to the service life, estimated residual value and the depreciation method of the fixed asset should be dealt as accounting estimate change.

5). The depreciation of fixed assets adopts the straight-line method to set the average, and according to the original value of various fixed assets and the expected service life of fixed assets minus residual value ratio (10% of the original) to set the depreciation rate, the year assorted depreciation rate as follows:

sort of the asset	service life	year depreciation ratio
houses and buildings	20 years	4.5%
machinery and equipment	10 years	9%
office equipment	5 years	18%
electronic equipment	5 years	18%
means of transportation	5 years	18%
other equipment	5 years	18%

6). If the following occur, on the date of balance sheet, the fixed asset should be measured according to the lesser one between the book value and the recoverable amount, and withdraw preparation of fixed asset measurement to the margin when the recoverable amount is less than the book value:

A. It is proved that the asset is outdated or its entity is ruined,

B. The asset has been or will be left unused, ended to use, or planed to be dealt with in advance,

C. The enterprise interior report shows that the economic performance of the asset is or will be less than expected,

D. Other evidence shows that the asset may have been under devaluating.

After the recognition to the loss of asset devaluation, adjust the depreciation expense with asset devaluation to depreciate the asset after deducting the asset devaluation in the rest service life of the asset.

7). It shouldn’t be conversed in the future accounting period after the recognition of the asset devaluation loss.

12. Measurement method of construction in progress

The construction in progress is recorded in book according to the actual expenditure of each construction. When the built asset is in the expected applicable state, transfer to the fixed assets according to the final accounts of the construction, construction budget, cost or the actual cost measurement of the construction.

Before the fixed assets achieve the expected applicable state, the loan cost which accords with the capitalization requirements and foreign currency conversion margin should be recorded in construction cost, and after that they should be recorded in current financial expense.

On the date of balance sheet, for the construction in progress which is proved to have been devaluated or stopped construction and estimated that it will not be reconstructed within three years, the recoverable value should be estimated, and withdraw devaluation preparation according to the margin when the recoverable amount is less than the book value.

13. Measurement method to loan cost

Loan costs refer to the interest, amortization of overate or discount price （including commission charge and so on）and difference of currency exchange caused by borrowing.

1). Capitalization requirements, if the following three requirements are all achieved, the loan cost before the fixed asset constructed achieving the expected applicable state should be capitalized.

(1) The capital expenditure has been materialized

(2) The loan cost has been materialized

(3) The needed purchasing and construction activities for making the asset achieve the expected applicable state have already started

2) Recognition to the capitalization amount

(1) The special loan borrowed for constructing or producing asset which accords with the capitalization requirements is recognized with the actually materialized interest expense of the special loan minus the interest income of the unused loan deposited in bank or the investing profit from application to the temporary investment.

(2) For the general loan used to construct or produce asset which accords with the capitalization requirements, the company calculate the interest amount which should be capitalized of the general loan by multiplying the weighted average of the asset expenditure which is the exceeded part of the accumulated asset expenditure comparing with the special loan to the capital ratio of the general loan used. The capital ratio is calculated according to the weighted interest rate of the general loan.

(3) If the discount or premium occurred to the loan, confirm the amortization value of every accounting period and adjust the interest amount of every period according to the actual interest rate.

(4) During the capitalization, the exchange margin of the principal and interest of the foreign currency special loan should be capitalized and recorded in the asset cost which accords with the capitalization requirement.

(5) As to The auxiliary expense of the loan, if it is materialized before the constructed asset, accordant to the capitalization requirement, achieving the expected applicable state or salable sate, it should be capitalized while materializing according to the materialized amount and recorded in the asset cost accordant to the capitalization requirements. If it is materialized before the constructed asset, accordant to the capitalization requirement, achieving the expected applicable state or salable sate, it should be recognized as expense while materializing according to the materialized amount and recorded in the current profit and losses.

(6) Capitalization of loan costs will be stopped when abnormal suspension occurrs to assets accordant to capitalization period while purchasing or construction goes on continuously for 3 months. The loan cost during suspension will be determined as expenses and recorded in current profit and losses until the constructing activity of assets restarted.

14. Valuation and amortization method of intangible assets

1) For the intangible asset purchased or obtained through legal procedures, it should be recorded according to the actual price. For the accepted intangible asset as investment, it should be recorded to the contract or recognized measurement. For the intangible asset developed by ourselves, all the expenditures during researching should be recognized as expense and recorded in current profit and losses, and the expenditures during researching shall be capitalized if it accords with the following requirements:

(1) It is technically feasible to finish the intangible asset to make it able to be used or sold

(2) There is an intention to complete the intangible asset to use or sell

(3) The intangible asset can bring about economic benefit

(4) Having enough technical, financial and other resources to support to complete the development of the intangible asset and capable of using or selling it

(5) The expenditure to the developing period of the intangible asset can be measured reliably

2) For the intangible asset of which the service life can be recognized, amortize with the straight-line method within its validity period.

3) For the intangible asset of which the service life can not be recognized, it will not be amortized within the holding period.

4) On the date of balance sheet, the intangible asset should be measured according to the lesser one between the book value and the recoverable amount, and withdraw devaluation preparation to the margin when the recoverable amount is less than the book value. Check the service life and amortization method of the intangible asset of which the service life is limited to ensure whether the service life and amortization method of the intangible asset should be changed or not. For the one need to be re-estimated, change the amortization time limit and method.

After the recognition to the devaluation losses of the intangible asset, adjust the amortization expense of the devaluated intangible asset in the future, and amortize according to the book value after deducting the asset devaluation.

It should not be conversed in the future accounting period after the recognition to the intangible asset devaluation.

15. The measurement method of long-term unamortized expenses

1) Organization costs: gather the organization costs in the long-term unamortized expenses when they occur, and recorded in the current profit and losses completely in the first monthly when the company begins to operate.

2) Long-term unamortized expenses: evaluate according to the actual materialized amount, if there is definite beneficial period, amortize according to the beneficial period, and if there is no beneficial period, amortize averagely in five years.

3) Fitment cost: amortize according to the beneficial period and the shorter fixed number of year of two fitments, usually the amortization is less than 5years.

16. Recognition principle of anticipated liabilities

If the duty related to the contingent items accords with all the following requirements, it should be recognized as liability:

1) The duty is the current duty of the company

2) The execution of the duty may cause outflow of economic interest from the company

3) The duty can be measured reliably

17. Revenue Recognition

1) The recognition principle and method of product selling income

(1) The product selling income of the company shall be recognized when it meets all the following requirements:

A. the main risk and reward of the product property have been transferred to the purchasers

B. the company has not retained the continued management authority usually related to the property or control effectively the products sold.

C. the income can be measured reliably

D. the related economic interest is likely to flow into the company

E. the related cost materialized or going to be materialized can be measured reliably

(2) The company confirms the amount of product selling income according to the contract or negotiated price received or going to be received from the purchasers except the unfair contract or negotiated price received or going to be received.

(3) The deferred method is applied to the collection of the contract or negotiated price, and the product selling amount is recognized according to the fair value of the receivable contract or negotiated price. The margin between the contract or negotiated price and their fair value should be amortized with the effective interest method during the period of contract or agreement and recorded in the current profit and losses.

(4) If the contract or agreement signed by the company with others includes both products selling and rendering of service which can be distinguished and measured separately, product selling should be dealt with as product selling, and the rendering of service should be dealt with as rendering of service.

(5) If the product selling and rendering of service cannot be distinguished or cannot be measured separately though distinguished, both of them should be dealt with as product selling.

(6) If the product recognized as product selling income is returned back, counteract the current product selling income while occurring.

2) Rental income

The rental date set in the contract or agreement signed by the company and the leaser is taken as the beginning to confirm rental income, and the amount is amortized monthly to confirm the rental income.

3) The usufruct income of the released assets will be recognized only when it meets all the following requirements: the related economic interest is likely to flow into the company and the income can be valuated reliably.

The usufruct income of the released assets is recognized according to the following operations: interest income, recognized according to the time and effective interest rate of the capital used by others, other charges income, recognized by the charging time and method of related contract and agreement.

4) Rendering of service: the construction started and finished in the same year, when the service has been provided, and the charge or the charge proof has been collected, the service income should be recognized, if the beginning and ending of the service belongs to different accounting year, and the result to the rendering of service can be valuated reliably, the related service income should be recognized according to the percentage of completion on the date of balance sheet. The detailed disposal is as follows:

(1) If the result to the rendering of service can be valuated reliably on the date of balance sheet, the service income should be recognized according to the percentage of completion. The total income of rendering of service should be recognized according to the received or to be received contract or agreement price.

(2) On the date of balance sheet, the current service income should be recognized by multiplying the total service income to the completion rate of progress and deducting the accumulated service income recognized in the former accounting period. At the same time, carry forward the current service cost by multiplying the estimated total service cost to the completion rate of progress and deducting the accumulated service cost recognized in the former accounting

period.

(3) If the result to the rendering of service cannot be valuated reliably on the date of balance sheet, deal separately according to the following conditions: for the materialized service cost which is estimated to be compensated, confirm the service cost according to the materialized service cost, and carry forward the service cost with the same value, for the materialized service cost which is estimated not to be compensated, record the materialized service cost in current profit and losses, and do not confirm the service income.

5) Property management income, when the property management service is provided, the related economic interest can flow into the company and the related cost can be measured reliably, the property management income should be recognized.

18. Measurement method to employees' payment

1) Recognition and measurement to employee's payment

All kinds of payments to the employees for the service they provided should be measured as employees' payment in the company.

For measurement to the accrued wages, if the withdraw basis and withdraw proportion have been regulated by the nation, withdraw according to the national standard. If there is no definite withdraw basis and proportion, estimate the current accrued wages rationally according to the related payment system. If the current actual amount is more than the estimated amount, compensate the accrued wages. If the current actual amount is less than the estimated amount, withdraw the exceeded accrued wages.

As to the accrued wages of which the validity is over one year after the date of balance sheet with the service provided by employees, record the discount value of the accrued wages in the related asset cost or current profit and losses by taking the corresponding bank lending rate as discounting rate.

For the non-currency welfare to which the beneficiary cannot be recognized, record it directly in the current profit and losses and accrued wages.

2) The dismissed welfare is recorded in the current management cost, and the accrued wages is recognized.

For the planed dismissing, follow the dismissing planed item, estimate and confirm rationally the accrued wages result from dismissing welfare. The quantity of the employees planned to be dismissed according to the planning item and each of their dismissing compensation is withdrawn as accrued wages and recorded in accrued wages.

For the case which the material dismissing is finished within a year and the payment time is over a year, record the discount value as the accrued wages by taking the corresponding bank lending rate as discounting rate.

3) Recognition and measurement to the retiring welfare

If there is a retiring welfare system in the company, follow the standard of the system, record the discount value as the accrued wages in the current profit and losses by taking the corresponding bank lending rate as discounting rate.

19. Measurement method of liabilities restructuring

1) Measurement method of debt restructuring

If the liabilities conditions are changed, take the fair value after the liabilities conditions are changed as the recorded value of the liabilities after restructuring. For the margin between the book value and the recorded value of the restructured liabilities, if the anticipated liabilities is involved, the margin between the recorded value of the liabilities after restructuring and the anticipated liabilities value should be recorded in current profit and losses.

If the liabilities restructuring is carried out by combining the method of discharging with cash, discharging with non-cash assets, forwarding the liabilities to assets, changing other liabilities conditions, counteract the book value of the restructured liabilities and the margin between the book value and recorded value of the restructured liabilities with the cash paid, the fair value of the transferred non-cash asset and the fair value taking shares in turn. If the anticipated liabilities are involved, the margin between the recorded value of the liabilities after restructuring and the anticipated liabilities value should be recorded in current profit and losses.

2) Measurement method of credit restructuring

If the credit of the company is discharged with cash, record the margin between the book balance of the restructured credit and the cash received in the current profit and losses. If the credit has been withdrawn devaluation preparation, first counteract the devaluation preparation with the margin, for the part of the devaluation preparation which is deficient in counteracting; record it in the current profit and losses.

For the discharging with non-cash assets, record the fair value of the received non-cash assets in book, and record the margin between the book balance of the restructured credit and the fair value of the received non-cash asset in current profit and losses after deducting the withdrawn devaluation preparation.

For the credit forwarded to assets, confirm the fair value taking shares as the investment to debtors. For the margin between the book balance of the restructured credit and the air value of the share, if the devaluation preparation to the credit has been already withdrawn, first counteract the devaluation preparation with the margin, for the part of the devaluation preparation which is deficient in counteracting; record it in the current profit and losses.

If the credit is discharged by combining the method of discharging with cash, discharging with non-cash assets, forwarding the liabilities to assets, changing other liabilities conditions, counteract the book balance of the restructured credit and the margin between the book balance and the fair value of the share with the cash paid, the fair value of the received non-cash asset and the fair value taking shares in turn. If the devaluation preparation to the credit has been already withdrawn, first counteract the devaluation preparation with the margin, for the part of the devaluation preparation which is deficient in counteracting; record it in the current profit and losses.

20. Accounting method to income tax

The balance sheet liability method is applied to the accounting of the income tax expense

1) On the date of balance sheet, according to the discrepancy between tax law and accounting, it should be divided to taxable temporary discrepancy and counteractable temporary discrepancy and recognized as deferred income tax asset and deferred income tax liabilities separately, and measured with anticipated taxable (or given back) income tax value according to the tax law.

If the effective tax rate is changed, reevaluate the recognized deferred income tax asset and deferred income tax liabilities with the new tax rate, and record the influenced value in the income tax expense corresponding to the tax rate changes. Record the income tax caused by enterprise combination and the exchanges occurs directly in owner’s equity in current income.

On the date of balance sheet, check the book value of the deferred income tax asset. If it is proved that in the future there may be no sufficient taxable income to counteract the deferred income tax asset, deduct the book value of the deferred income tax asset according to the discrepancy between them.

2) Recognition to the deferred income tax asset

(1) The company recognizes the deferred income tax asset result from the counteractable temporary discrepancy in the limit of the taxable income which is likely to be obtained to counteract the counteractable temporary discrepancy. However, the deferred income tax asset which own the following features and result from the initial recognition to assets and liabilities in exchanging should not be recognized.

A. the exchange is not enterprise combination

B. while exchanging, neither the accounting profit nor the taxable income is influenced (or the loss can be counteracted)

(2) For the counteractable temporary discrepancy related to investment to subsidiary companies, affiliated companies and joint ventures, if it meets all the following requirements, the company recognizes the corresponding deferred income tax asset:

A. the temporary discrepancy is likely to be conversed in the foreseeable feature

B. the taxable income is likely to be obtained to counteract the temporary discrepancy in the future

3) Recognition to deferred income tax liabilities

The company recognizes all the deferred income tax liabilities result from taxable temporary discrepancy except the deferred income tax liabilities result from the following conditions:

(1) Initial recognition to goodwill

(2) The initial recognition of asset or liability caused by exchanges owning all the following features:

A. the exchange is not enterprise combination

B. while exchanging, neither the accounting profit nor the taxable income is influenced (or the loss can be counteracted)

(3) For the counteractable temporary discrepancy related to investment to subsidiary companies, affiliated companies and joint ventures, if it meets all the following requirements, the company recognizes the corresponding deferred income tax liabilities:

A. the investing company has the ability to control the conversing time of the temporary discrepancy

B. it is likely that the temporary discrepancy in the foreseeable will not be conversed

4) Measurement to income tax expenses

The company records the current income tax and deferred income tax in the current profit and losses as income tax expenses income, except the income tax result from the following cases:

(1) Enterprise combination

(2) The exchanges or items directly recognized in the owner’s equity

21. Preparation method for consolidated accounting statements

The principle to consolidate accounting statements: consolidate the accounting statements of the invested companies of which more than 50% of its voting capital are belong to parent company or the subsidiary companies to which parent company has the actual control power though no more than 50% of its voting capital are belongs to parent company.

The method is to take the accounting statements of the parent company and the included subsidiary companies as basis, prepare according to other related data after adjusting the long-term investment on shares from the parent company to the subsidiary companies according to the equity law. While consolidating, counteracting the interior exchanges between the parent company and the subsidiary companies or among the subsidiary companies such as important investment, exchange, stock, purchase and sell and unfulfilled profit, and calculate the minority shareholders' equity.

The parent company is to prepare the consolidated accounting statement.

Supplementary 5: accounting policies, accounting estimation changes, accounting error rectification and the influence of exchanges to the range of the consolidated accounting statement

1. Accounting policy changing

From Jan. 1st 2007, the company began to execute the China Accounting Standard issued in 2006 by the ministry of finance, and prepare the beginning balance sheet in 2007 and the income statement in the same period of last year according to *China Accounting Standard No.38--First time adoption of Accounting Standards* (hereafter referred as "new accounting standard" for short) and *Questions and Answers to the Information Disclosure to Companies Which Issuing Stocks in Public No. 17—Preparation and Disclosure to the Compared Accounting Information in the Transition Period of the New and Old Accounting Standard.*

As follows:

Since the new accounting standard is adopted, the discrepancy between the undistributed profit at the end of 2006 and the undistributed profit at the beginning of 2007 are as follows:

item	amount
undistributed profit at the end of 2006	-2,667,827,363.38
Less: unrecognized investment loss	69,837,014.72
Plus: deferred income tax assets adjustment	9,849,555.22
Undistributed profit at the beginning of 2007	-2,727,814,822.88

1) Adjustment to the unrecognized investment loss

According to the regulations of China Accounting Standard No.33-consolidation to accounting statement, abolishing the investment loss in the balance sheet and profit statement causes reducing of RMB69, 837,014.72 to the undistributed profit belongs to the parent company at the beginning.

2) Adjustment to the deferred income tax asset

According to the new accounting standard, the company has added the income tax influential value of RMB 9,849,555.22 result from the liability of RMB 65,663,701.43 exempted from through Pacification Agreement signed with international financial company on March 29th 2007 to the subsistence income on Jan. 1st 2007. The adjustments all belong to the increased value of the equity of parent company.

2. No accounting estimation changing and accounting error rectification occurred in this period, and the range of the consolidated accounting statement did not change.

Supplementary 6. TAX

Taxes the Company applied included: value added tax, sales tax, urban maintenance and construction tax, additional education fee and enterprise income tax, etc..
Rates of turnover tax: value added tax, 17%; sales tax, 5%; urban maintenance and construction tax, 1% of the turnover tax and additional education fee, 3% of the turnover tax.
Rate of the enterprise income tax was 15%.

Supplementary 7. Controlling subsidiaries and affiliated companies
1. Controlling subsidiaries:

Name of controlling subsidiary	Registered capital	Business scope	Investment amount	Proportion of shares held	Consolidated or not
China Bicycle (H.K) Co., Ltd.	HK$5 million	Sales of bicycle and its components	5,350,000.00	99%	Yes
Shenzhen Anjule Property Management Co., Ltd.	RMB 2 million	Self-owned property management	2,000,000.00	100%	Yes
Shenzhen EMMELLE Industry Co., Ltd.	RMB 2 million	Sales of bicycle and its components	1,400,000.00	70%	Yes
Shenzhen China Bicycle (Group) Harbin Sales Co., Ltd.	RMB 1.2 million	Sales of bicycle and its components	720,000.00	60%	No(1)
Shenzhen China Bicycle (Group) Shanxi Sales Co., Ltd.	RMB 1.72 million	Sales of bicycle and its components	1,204,000.00	70%	No (2)
Shenzhen China Bicycle (Group) Gansu Sales Co., Ltd.	RMB 0.6 million	Sales of bicycle and its components	480,000.00	80%	No (3)
Jiujiang Huatian Real Estate Co., Ltd.	US$1.4 million	Development and operation of real estate	3,621,631.00	100%	No (4)
Hangzhou Zhongjiang Industry Co., Ltd.	RMB 32.8 million	Development and operation of real estate	5,045,700.00	51%	No (5)
Shenzhen Huajiaming Industry &Trade Development Co., Ltd.	RMB 2 million	Domestic business and materials supply & sales	1,960,000.00	98%	No (6)
Shenzhen China Bicycle (Group) Jiangxi Sales Co., Ltd.	RMB 2 million	Sales of bicycle and its components	551,668.30	55%	No (7)
Shenzhen China Bicycle (Group) Guangzhou Sales	RMB 2 millio	Sales of bicycle and	2,000,000.00	100%	No (8)

Name of controlling subsidiary	Registered capital	Business scope	Investment amount	Proportion of shares held	Consolidated or not
Co., Ltd.	n	its components			
Shenzhen China Bicycle (Group) Hainan Sales Co., Ltd.	RMB 2 million	Sales of bicycle and its components	350,000.00	70%	No (9)
Jiangxi Hongji Real Estate Development Co., Ltd.		Development and operation of real estate	4,716,670.00	51%	No (10)
Zoria Pte Ltd	SD0.1 million	Sales of bicycle and its components	497,000.00	100%	No (11)

(1), (2), (3), (4), (5), (6), (7), (8), (9), (10) these ten controlling subsidiaries had suspended operation so as not to consolidate into statement scope. Among which, (1), (2), (3), (4), (5), (6), (7), (8), (9), (10) the Company has drawn its depreciation reserve for their full investment so their book value were zero; (11) this company is inability to offset debts with assets and is clearing nowadays, so its long-term investment has calculated and adjusted to zero according to equity method.

2. Affiliated companies:

Name of affiliated enterprise	Registered capital	Business scope	Investment amount	Proportion of shares held
Hunan Guangnan Motor Co., Ltd.	US$29.5 million	Production of auto and motor components	5,679,300.00	5.5%
Shenzhen Junbao Industry Co., Ltd	RMB 28 million	Commercial and industrial services	3,535,000.00	12.5%
Shenzhen Danxia Bicycle Components Co., Ltd.	US$2 million	Production of bicycle components	941,600.00	20%
Jiangsu Huaiyin Huayu Bicycle Components Plant Co.	US$2.87 million	Production and sales of bicycle gear change mechanism	6,138,559.00	25%
Shenzhen Canghai Industry Co., Ltd.	RMB 4.2 million	Mechinary manufacture	178,000.00	30%
Yangzhou Xinghua Auto Materials Co. Ltd.	US$0.9103 million	Production and sales of bicycle components, motor and components	1,821,606.00	30%
Shantou Economic Special Zone Dapeng Industry Co., Ltd.	US$5.2 million	Production of various avional bicycle components	5,425,150.30	30%

Name of affiliated enterprise	Registered capital	Business scope	Investment amount	Proportion of shares held
Jiangxi Lihua Industry Co., Ltd.	RMB 130 million	Trade and services	35,315,474.40	39.83%
Shenzhen Jinhuan Printing Co., Ltd.	US$3.7 million	Production of auto and motor components	14,883,560.00	38%
Chengdu EMMELLE Science & Technology Co., Ltd.	RMB 0.6 million	Computer software & hardware development; process, assembling, selling, technique consultation of electric bicycle, and other lawful items	180,000.00	30%

Supplement 8. Notes to main financial statement items (except for special explanations, the following data are consolidated amounts)

Note1. Monetary fund

Kind	Currency type	Jun.30, 2007			Dec.31, 2006
		Original amount	Converted exchange rate	Balance	
Cash	RMB	76,112.88	1.00	76,112.88	72,240.22
	HKD	408.62	0.9744	398.16	68,715.72
	USD	1.28	7.6155	9.76	267.45
Subtotal				76,520.80	141,223.39
Bank deposit	RMB	16,618,840.58		16,618,840.58	15,412,300.31
	HKD	21,774.26	0.9744	21,216.44	21,216.84
	USD	52,947.53	7.6155	403,222.32	405,112.85
Subtotal				17,043,279.34	15,838,630.00
Other monetary	RMB			---	---

fund		
Total	17,119,800.14	15,979,853.39

Note2. Account receivables

Account age	Jun.30, 2007			
	Amount	Proportion	Provision for bad debt	Net amount
Within 1 year	2,789,565.92	0.27%	1,274.31	2,788,291.61
1 year to 2 years	1,261,901.11	0.12%	1,606.96	1,260,294.15
2 years to 3 years	169,232.91	0.02%	19,505.33	149,727.58
Over 3 years	1,041,761,409.07	99.60%	1,041,761,409.07	---
Total	1,045,982,109.01	100.00%	1,041,783,795.67	4,198,313.34

	Dec.31, 2006			
Account age	Amount	Proportion	Provision for bad debt	Net amount
Within 1 year	3,333,512.93	0.32%	1,274.31	3,332,238.62
1 year to 2 years	2,497,751.35	0.24%	1,606.96	2,496,144.39
2 years to 3 years	139,094.32	0.01%	19,505.33	119,588.99
Over 3 years	1,041,761,409.07	99.43%	1,041,761,409.07	---
Total	1,047,731,767.67	100.00%	1,041,783,795.67	5,947,972.00

i. On Jun.30, 2007, there’s not any receivable account of shareholders taking up over 5% voting right shares of the Company in the balance.

ii. The top five of account receivables totaled RMB 492,884,806.45 whose proportion to total amount is 47.12%.

iii. Main details of bad debt reserve for account receivable whose proportion is relatively large (40% or above) that accumulatively drawn by the Company at the end of the period are as follows:

Name of the unit	Balance at the end of the period	Bad debt reserve withdrawal	Account age	Reason for withdrawal
DB(HK)	174,219,907.69	174,219,907.69	Above 3 years	Draw according to individual

					method
REGAL (Zhigao Resources International Co., Ltd.)	140,887,132.85	140,887,132.85	Above years	3	Draw according to individual method
STARWAY	63,993,299.14	63,993,299.14	Above years	3	Draw according to individual method
DIAMOND BACK	61,378,147.08	61,378,147.08	Above years	3	Draw according to individual method
Shenzhen Jinfeng Industrial Development Company	52,406,319.69	52,406,319.69	Above years	3	Draw according to individual method
Shenzhen Shuangli Industrial Development Company	39,225,011.29	39,225,011.29	Above years	3	Draw according to individual method
PROFIT PROOF	37,162,850.00	37,162,850.00	Above years	3	Draw according to individual method
Shenzhen Qianfeng Investment Co., Ltd.	36,094,697.98	36,094,697.98	Above years	3	Draw according to individual method
STARWAY	33,937,272.02	33,937,272.02	Above years	3	Draw according to individual method
Shenzhen Jiatianli Industrial Development Co., Ltd.	29,276,556.29	29,276,556.29	Above years	3	Draw according to individual method
Total	668,581,194.03	668,581,194.03			

Note3. Advance to suppliers

Account age	Jun.30, 2007		Dec.31, 2006	
	Amount	Proportion to total amount	Amount	Proportion to total amount
	RMB	%	RMB	%
Within 1 year	1,558,104.37	44.40%	765,414.80	31.81%
1 year to 2 years	1,951,081.22	55.60%	1,641,102.08	68.19%
2 years to 3 years	---	---	---	---

Total	3,509,185.59	100.00%	2,406,516.88	100.00%

On Jun.30, 2007, there's not any receivable account of shareholders taking up over 5% voting right shares of the Company in the balance.

Note4. Other receivables

	Jun.30, 2007			
Account age	Amount	Proportion	Provision for bad debt	Net amount
Within 1 year	5,210,665.47	0.95%	4,756.59	5,205,908.88
1 year to 2 years	1,827,713.60	0.33%	393,491.59	1,434,222.01
2 years to 3 years	4,609,383.04	0.84%	13,604.43	4,595,778.61
Over 3 years	536,233,476.45	97.87%	536,233,476.45	---
Total	547,881,238.56	100.00%	536,645,329.06	11,235,909.50

	Dec.31, 2006			
Account age	Amount	Proportion	Provision for bad debt	Net amount
Within 1 year	7,289,777.92	1.32%	4,756.59	7,285,021.33
1 year to 2 years	1,896,853.52	0.34%	393,491.59	1,503,361.93
2 years to 3 years	5,039,237.20	0.92%	13,604.43	5,025,632.77
Over 3 years	536,233,476.45	97.42%	536,233,476.45	---
Total	550,459,345.09	100.00%	536,645,329.06	13,814,016.03

i. On Jun.30, 2007, there's not any receivable account of shareholders taking up over 5% voting right shares of the Company in the balance.

ii. The top five of other receivables totaled RMB 356,863,402.04 whose proportion to total amount of other receivables is 65.11%.

iii. Main details of bad debt reserve for other receivables whose proportion are relatively large (40% or above) that accumulatively drawn by the Company at the end of current period are as follows:

Name of the unit	Balance at the end of the period	Bad debt reserve withdrawal	Account age	Reason for withdrawal
STARWAY	220,038,935.10	220,038,935.10	Above 3 years	Draw according to individual method
China Complex Material Product (Shenzhen)	60,541,700.96	60,541,700.96	Above 3 years	Draw according to individual method

Company				
MORE-LARGE	27,816,228.23	27,816,228.23	Above 3 years	Draw according to individual method
Shenzhen Huajiaming Industry & Trade Development Co., Ltd.	27,541,041.11	27,541,041.11	Above 3 years	Draw according to individual method
ZORIA	20,925,496.62	20,925,496.62	Above 3 years	Draw according to individual method
Total	356,863,402.02	356,863,402.02		

Note5. Inventory and depreciation provision for inventory

	Jun.30, 2007		Dec.31, 2006	
Kind	Book balance	Book value	Book balance	Book value
Raw material	254,776,799.28	24,709,637.41	255,751,614.77	26,084,452.90
Low-value consumption goods	1,554,806.13	161,674.21	2,060,544.83	267,412.88
Product in process	5,411,799.64	5,411,799.64	4,492,881.54	4,492,881.54
Inventory merchandise	36,336,985.38	18,712,472.82	29,539,647.61	12,864,902.50
Total	298,080,390.43	48,995,584.08	291,844,688.75	43,709,649.82

Schedule of depreciation provision for inventory:

			Decrease amount in current year			
Item	Dec.31, 2006	Increase amount in current year	Switch back amount due to rising asset value	Transfer-out amount due to other reasons	Total	Jun.30, 2007
Raw material	229,667,161.87	---	---	---	---	229,667,161.87
Low-value consumption goods	1,793,131.95	---	---	---	---	1,793,131.95
Inventory merchandise	16,674,745.11	2,062,877.79	---	1,113,110.37	---	17,624,512.53

Total	248,135,038.93	2,062,877.79	---	1,113,110.37	---	249,084,806.35

The realizable net value of aforesaid inventory is confirmed according as: raw material according as average unit price of this material purchased recently; the material that exceeded quality guaranteed period, out of date, transformation and not suit to wait to be discarded according to reclaimable amount; finished product according to the product's unit price of recent sales minus direct expenses and tax that probably needed while realizing.

Note6. Long-term equity investment

i. Long-term equity investment is listed as follows:

Item	Dec.31, 2006	Increase in current period	Decrease in current period	Jun.30, 2007
Long-term equity investment	70,221,674.48	180,000.00	602,265.48	69,799,409.00
Minus: depreciation reserve	41,658,577.98	---	---	41,658,577.98
Net amount of long-term equity investment	28,563,096.50	180,000.00	602,265.48	28,140,831.02

ii. Long-term equity investments

a. Other equity investments that calculated with cost method

Name of invested units	Investment period	Proportion to registered capital of invested units	Initial investment cost	Dec.31, 2006	Increase in current period	Decrease in current period	Jun.30, 2007
Shenzhen Xinlian Consultant Co., Ltd			50,000.00	50,000.00	---	---	50,000.00
Hunan Guangnan Motor Co., Ltd	50 years	5.5%	5,679,300.00	5,679,300.00	---	---	5,679,300.00
Shenzhen Junbao Industry Co., Ltd	50 years	12.5%	3,535,000.00	3,535,000.00	---	---	3,535,000.00
Subtotal			9,264,300.00	9,264,300.00	---	---	9,264,300.00

b. Other equity investments that calculated with equity method

Name of invested units	Investment period	Proportion to registered capital of invested units	Initial investment cost	Dec.31, 2006	Equity adjustment in current period	Other increase/decrease in current period	Accumulative equity adjustment	Jun.30, 2007
Shenzhen Danxia		20%	941,600.00	---	---	---	(941,600.00	---

Name of invested units	Investment period	Proportion to registered capital of invested units	Initial investment cost	Dec.31, 2006	Equity adjustment in current period	Other increase/decrease in current period	Accumulative equity adjustment	Jun.30, 2007
Bicycle Components Co., Ltd.							)	
Jiangsu Huaiyin Huayu Bicycle Components Plant Co., Ltd.	30 years	25%	6,138,559.00	---	---	---	(6,138,559.00)	---
Shantou Economic Special Zone Dapeng Industry Co., Ltd.	20 years	30%	5,425,150.30	4,285,165.03	---	---	(1,139,985.27)	4,285,165.03
Shenzhen Canghai Industry Co., Ltd.	10 years	30%	178,000.00	---	---	---	(178,000.00)	---
Yangzhou Xinghua Auto Materials Co., Ltd.	30 years	30%	1,821,606.00	1,359,361.25	---	---	(462,244.75)	1,359,361.25
Jiangxi Huali Industry Co., Ltd.	30 years	39.83%	35,314,474.40	26,879,903.07	-602,265.48	---	(9,036,836.81)	26,277,637.59
Shenzhen Jinhuan Printing Co., Ltd	20 years	38%	14,883,560.00	14,883,560.00	---	---	---	14,883,560.00
Jiangxi Hongji Property Dvelopment Co., Ltd.	39 years	51%	4,716,670.00	---	---	---	(4,716,670.00)	---
Hangzhou Zhongjiang Industry Co., Ltd.	---	51%	5,045,700.00	5,045,700.00	---	---	---	5,045,700.00
Harbin China Bicycle Sales Co., Ltd.		60%	720,000.00	---	---	---	-720,000.00	---
Shenzhen China Bicycle Shanxi Sales Co., Ltd.		70%	1,204,000.00	---	---	---	-1,204,000.00	---
Gansu Shenzhen China Bicycle Sales		80%	480,000.00	---	---	---	-480,000.00	---

Name of invested units	Investment period	Proportion to registered capital of invested units	Initial investment cost	Dec.31, 2006	Equity adjustment in current period	Other increase/decrease in current period	Accumulative equity adjustment	Jun.30, 2007
Co., Ltd.								
Shenzhen China Bicycle (Group) Jiangxi Sales Co.	---	55%	551,668.30	551,668.30	---	---	---	551,668.30
Shenzhen China Bicycle (Group) Hainan Sales Co.	---	70%	350,000.00	370,385.83	---	---	20,385.83	370,385.83
Shenzhen China Bicycle (Group) Guangzhou Sales Co.	---	100%	2,000,000.00	2,000,000.00	---	---	---	2,000,000.00
Shenzhen Huajiaming Industry & Trade Development Co., Ltd.	20 years	98%	1,960,000.00	1,960,000.00	---	---	---	1,960,000.00
Jiujiang Huatian Real Estate Co., Ltd.	40 years	100%	3,621,631.00	3,621,631.00	---	---	---	3,621,631.00
Zoria Pte Ltd	---	100%	497,000.00	---	---	---	(497,000.00)	---
Chengdu EMMELLE Science & Technology Co., Ltd.	Forever	30%	180,000.00			180,000.00		180,000.00
Total			86,029,619.00	60,957,374.48	-602,265.48	180,000.00	-25,494,510.00	60,535,109.00

c. Changes of depreciation reserve

Name of invested companies	Dec.31, 2006	Increase in current period	Decrease in current period	Jun.30, 2007
Shenzhen Xinlian Consultant Co., Ltd.	50,000.00	---	---	50,000.00
Hunan Guangnan Motor Co., Ltd.	4,719,777.37	---	---	4,719,777.37

Shenzhen Junbao Industry Co., Ltd.	3,535,000.00	---	---	3,535,000.00
Shantou Economic Special Zone Dapeng Industry Co., Ltd.	4,285,165.03	---	---	4,285,165.03
Yangzhou Xinghua Auto Materials Co., Ltd.	1,359,361.25	---	---	1,359,361.25
Jiangxi Huali Industry Co., Ltd.	3,209,889.20	---	---	3,209,889.20
Shenzhen Jinhuan Printing Co., Ltd.	10,950,000.00	---	---	10,950,000.00
Hangzhou Zhongjiang Industry Co., Ltd.	5,045,700.00	---	---	5,045,700.00
Shenzhen China Bicycle (Group) Jiangxi Sales Co.	551,668.30	---	---	551,668.30
Shenzhen China Bicycle (Group) Hainan Sales Co.	370,385.83	---	---	370,385.83
Shenzhen China Bicycle (Group) Guangzhou Sales Co.	2,000,000.00	---	---	2,000,000.00
Shenzhen Huajiaming Industry & Trade Development Co., Ltd.	1,960,000.00	---	---	1,960,000.00
Jiujiang Huatian Real Estate Co., Ltd.	3,621,631.00	---	---	3,621,631.00
Total	41,658,577.98	---	---	41,658,577.98

Note7. Investment real estate

Item	Book balance at the beginning of the year	Increased amount in current period	Decreased amount in current period	Book balance at the end of the period
I. Total original price	14,346,102.94			14,346,102.94
1. Houses, constructions	14,346,102.94			14,346,102.94
2. Land use right				
II. Total accumulative depreciation and accumulative amortization	2,743,692.19	322,787.33		3,066,479.52
1. Houses, constructions	2,743,692.19	322,787.33		3,066,479.52
2. Land use right				
III. Total accumulative depreciation reserve of investment real estate				
1. Houses, constructions				

2. Land use right

IV. Total book value of investment real estate	11,602,410.75		322,787.33	11,279,623.42
1. Houses, constructions	11,602,410.75		322,787.33	11,279,623.42
2. Land use right				

Note8. Fixed assets and accumulative depreciation

Kind	Dec.31, 2006	Increase in current period	Decrease in current period	Jun.30, 2007
Original value of fixed assets				
Housing constructions	286,914,125.91		410,112.00	286,504,013.91
Machinery equipments	772,300.00	145,000.00		917,300.00
Office equipment	868,454.23	72,734.49		941,188.72
Transportation equipment	2,123,777.00	22,954.00	345,750.00	1,800,981.00
Other equipments	636,198.55			636,198.55
Total	291,314,855.69	240,688.49	755,862.00	290,799,682.18
Accumulative depreciation				
Housing constructions	176,847,838.90	5,493,217.88	369,100.80	181,971,955.98
Machinery equipments	695,070.00	117,467.85		812,537.85
Office equipment	708,206.45	103,399.37		811,605.82
Transportation equipment	1,374,496.96	134,497.95	311,175.00	1,197,819.91
Other equipments	516,447.64	26,765.83		543,213.47
Total	180,142,059.95	5,875,348.88	680,275.80	185,337,133.03

Depreciation reserve	Jun.30, 2007	Increase in current period	Decrease in current period	Dec.31, 2006
Housing constructions	2,084,874.23	---	---	2,084,874.23
Total	2,084,874.23	---	---	2,084,874.23
Net amount	109,087,921.51			103,377,674.92

The decrease amount of current year mainly resulted from the assets disposal of filiale and the changes in consolidation scope, the mortgage or guarantee of fixed assets refer to Supplement 9.

Note9. Disposal of fixed assets

Item	Jun.30, 2007	Dec.31, 2006
Building＊	19,334,138.97	19,334,138.97

Machinery equipment∗	16,044,270.02	16,044,270.02
Transportation equipment∗∗	32,488.29	32,488.29
Office equipment∗∗∗	359,297.63	359,297.63
Other equipments∗∗∗	139,907.16	139,907.16
Total	35,910,102.07	35,910,102.07

∗Disposal of buildings and machinery equipment refer to note 18 (1).

∗∗transportation equipment belongs to auto reform vehicle.

∗∗∗office equipment and other equipments belong to used equipment.

Note10. Deferred income tax asset

Item	Jun.30, 2007	Dec.31, 2006
Deductible temporary differences resulted from bad debt reserve	6,603,030.06	9,849,555.22
Total	6,603,030.06	9,849,555.22

Note11. Short-term borrowings

	Jun.30, 2007		Dec.31, 2006
Kind of borrowing	Original currency	RMB	
Credit loan			
RMB	---	---	---
USD	16,235,272.77	123,639,719.78	126,777,094.52
HKD	---	---	---
Subtotal		123,639,719.78	126,777,094.52
Mortgage loan			
RMB	620,000.00	620,000.00	620,000.00
USD	7,330,334.84	55,824,164.97	57,240,385.65
Subtotal		56,444,164.97	57,860,385.65
Guaranteed loan			
RMB	---	123,057,930.00	123,057,930.00
HKD	77,164,408.60	75,185,913.16	77,524,766.39
USD	6,864,854.44	52,279,298.99	53,605,588.85
Subtotal		250,523,142.15	254,188,285.24

Total	430,607,026.90	438,825,765.41

The aforesaid borrowings all exceeded time limit, and the details are as follows:

Unit of loans	Amount of loan	Usage	Reason for overdue	Estimated time for paying
Orient Asset Management Corporation	106,390,464.97	Production turn over	Short of capital	It could not be estimated yet
Cinda Asset Management Corporation	65,028,754.50	Production turn over	Short of capital	It could not be estimated yet
Shenzhen Development Bank Luohu Branch	40,967,540.04	Production turn over	Short of capital	It could not be estimated yet
The Export-Import Bank of China	114,557,930.00	Production turn over	Short of capital	It could not be estimated yet
China Merchants Bank Luohu Branch	20,533,465.28	Production turn over	Short of capital	It could not be estimated yet
China Everbright Bank	15,311,758.95	Production turn over	Short of capital	It could not be estimated yet
China Merchants Bank Head Office	67,197,113.16	Production turn over	Short of capital	It could not be estimated yet
Sichuan Mianyang China Construction Bank	620,000.00	Production turn over	Short of capital	It could not be estimated yet
Total	430,607,026.90			

Note12. Account payable

The balance at the end of the period amount to RMB 151,672,516.07, the Company hasn’t any fund of shareholders taking up over 5% (including 5%) voting right shares of the Company.

Note13. Account received in advance

The balance at the end of the period amount to RMB 16,170,418.23, the Company hasn’t any fund of shareholders taking up over 5% (including 5%) voting right shares of the Company.

Note14. Wage payable

Balance at period-end amounting to RMB 511,591.97, belongs to wage and bonus payable but not paid.

Note15. Tax payable

Tax	Jun.30, 2007	Dec.31, 2006
Value-added tax	52,890,252.04	52,730,954.90

Urban maintenance and construction tax	-28,183.76	-29,548.62
Enterprise income tax	33,753,125.02	33,753,125.02
Operation tax	172,820.25	233,627.95
Property tax	7,154,079.46	7,154,079.46
Personal income tax	-30.96	-206.24
Others	4,323.26	-13,029.23
Total	93,946,385.31	93,829,003.24

Note16. Other payables

The balance at the end of the period amount to RMB 163,262,531.99, the Company hasn't any fund of shareholders taking up over 5% (including 5%) voting right shares of the Company.

Note17. Drawing expenses in advance

Items	Jun.30, 2007	Dec.31, 2006	Reason for balance
Loan and note interest	103,955,909.13	92,188,218.48	Unpaid
Auditing fees	12,314.00	12,314.00	Unpaid
Leasing fees	116,388.25	116,388.25	Unpaid
Labor insurance fees	182,896.75	182,896.75	Unpaid
Maintenance fees	---	---	Unpaid
Water and electricity fees	4,519.60	4,519.60	Unpaid
Other	3,776,174.57	4,064,450.15	Unpaid
Total	108,048,202.30	96,568,787.23	

Note18. Long-term liabilities within 1 year

Unit of loans	Jun.30, 2007				Dec.31, 2006
	Kind of currency	Original currency	Converted RMB	Condition for loans	Amount
China Everbright Bank	USD	2,157,395.94	16,429,648.77	Guaranteed loan	16,846,457.67
World Bank*1	USD	4,627,558.43	37,397,929.52	Mortgage loan	67,636,664.01
Shenzhen Guosheng Energy Resources Investment Development Co., Ltd. *2	USD	84,797,624.57	645,776,309.91		662,159,210.98
Shenzhen Guosheng Energy Resources Investment Development	RMB	---	19,300,058.59		38,059,320.00

Co., Ltd. *2				
China Huarong Asset Management Corporation *2	USD	---	0	0
China Huarong Asset Management Corporation *2	RMB	---	0	0
Guangdong Shengrun Group Co., Ltd. *3	RMB	---	234,495,894.31	215,736,632.90
Orient Asset Management Corporation	RMB	---	3,000,000.00	3,000,000.00
Great Wall Asset Management Corporation	USD	2,500,000.00	19,038,750.00	19,521,750.00
Great Wall Asset Management Corporation	RMB	---	3,000,000.00	3,000,000.00
Total			978,438,591.10	1,025,960,035.56

*1. The mortgaged house property and equipments of this loan have been auctioned; please refer to Supplement IX (1) for details.

*2. On Nov.13, 2006, China Huarong Asset Management Corporation signed Agreement with Shenzhen Julongsheng Industrial Development Co., Ltd., Shenzhen Guosheng Energy Resources Investment Development Co., Ltd., transferred the aforesaid liabilities.

*3. In 2002, according to the Notice of China Huarong Asset Management Corporation Shenzhen Office and the Agreement on Dismissing Lander Guarantee Liability and Shenzhen CBC Reorganization signed by China Huarong Asset Management Corporation; and Shenzhen Lander Group Co., Ltd. (subsequently change name into Guangdong Sunrise Group Co., Ltd.) on August 30, 2001.

Note19. Estimated liabilities

Item	Jun.30, 2007	Dec.31, 2006	Reason for drawing
Loan guarantee for Zoria Pte Ltd.	78,087,000.00	78,087,000.00	Seriously inability to offset debts with assets
Loan guarantee for Jintian Industry (Group) Co., Ltd.	50,000,000.00	50,000,000.00	Seriously inability to offset debts with assets
Loan guarantee for Guangdong Sunrise Co., Ltd	25,271,000.00	25,271,000.00	Seriously inability to offset debts with assets
Loan guarantee for Shenzhen	8,000,000.00	8,000,000.00	Went bankrupt

Tianma Makeup Co., Ltd			
Loan guarantee for Shandong Huajiaming Trade & Co., Ltd.	518,924.66	518,924.66	Seriously inability to offset debts with assets
Total	161,876,924.66	161,876,924.66	

Reason for drawing refers to note11.

Note20. Share capital

Item	Amount at period-begin	Increase/decrease in the report period						Amount at period-end
		Allotted	Bonus	Capitalization of public reserve	Additional issued	Other	Subtotal	
I. Untradable shares								
1. Sponsor's shares	204,612,836.00	---	---	---	---	---	---	204,612,836.00
Including: state-hold shares	---	---	---	---	---	---	---	---
State-owned legal person shares	111,607,002.00	---	---	---	---	---	---	111,607,002.00
Domestic legal person shares	93,005,834.00	---	---	---	---	---	---	93,005,834.00
Overseas legal person shares	---	---	---	---	---	---	---	---
2. Non-sponsor's shares	135,000.00	---	---	---	---	---	---	135,000.00
Including: state-hold shares	---	---	---	---	---	---	---	---
State-owned legal person shares	---	---	---	---	---	---	---	---

Domestic legal person shares	---	---	---	---	---	---	---	---
Overseas legal person shares	---	---	---	---	---	---	---	---
Senior executive shares	135,000.00	---	---	---	---	---	---	135,000.00
3. Preferred shares	---	---	---	---	---	---	---	---
Total untradable shares	204,747,836.00	---	---	---	---	---	---	204,747,836.00
II. Tradable shares								
1. Domestic listed RMB Common shares	76,617,000.00	---	---	---	---	---	---	76,617,000.00
2. Domestic listed foreign shares	198,068,167.00	---	---	---	---	---	---	198,068,167.00
3.Overseas listed foreign shares	---	---	---	---	---	---	---	---
Total tradable shares	274,685,167.00	---	---	---	---	---	---	274,685,167.00
III. Total shares	479,433,003.00	---	---	---	---	---	---	479,433,003.00

Share capital of the Company has been verified through (96) YZ Zi No. 076 assets verification report by Shenzhen Accountants' Office.

Note21. Capital public reserve

Item	Dec.31, 2006	Increase in current period	Decrease in current period	Jun.30, 2007
Income from debts reorganization	358,019,011.67	---	---	358,019,011.67
Amount needn't to be paid	690,624.97	---	---	690,624.97
Balance of associated transaction	3,318,000.00	---	---	3,318,000.00
Total	362,027,636.64	---	---	362,027,636.64

Note22. Surplus public reserve

Item	Dec.31, 2006	Increase in current period	Decrease in current period	Jun.30, 2007
Statuary surplus reserve	32,673,227.01	---	---	32,673,227.01

Note23. Undistributed profit

Dec.31, 2006	Increase in current period	Decrease in current period	Jun.30, 2007
-2,727,814,822.88	18,689,260.58	---	-2,709,125,562.30

The decrease in current period is mainly resulted from net profit of current year.

Note24. Operating revenue and cost

	Amount in this period		Amount in last period	
Operating item classification	Operating revenue	Operating cost	Operating revenue	Operating cost
Sales of bicycle and its components	95,474,062.70	95,564,302.74	87,203,644.47	85,570,548.16
Income from property management	1,057,291.21	2,154,816.06	1,649,873.26	2,125,952.56
Outsourcing process			19,311.11	70,025.24
Total	96,531,353.91	97,719,118.80	88,872,828.84	87,766,525.96

Note25. Operating taxes

Tax	Amount in current period	Amount in last period	Standards for paying
Operation tax	52,932.88	83,220.50	Rent income*5%
Urban maintenance and construction tax	8,167.82	15,912.01	Turnover tax *1%
Education added	21,862.37	36,276.87	Turnover tax *3%
Total	82,963.07	135,409.38	

Note26. Financial expenses

Sort	Amount in current period	Amount in last period
Interest payout	52,097,657.59	9,223,574.94
Minus：interest revenue	43,005.61	72,023.57
Minus：exchange income	23,211,851.24	9,525,582.35
Others	13,228.04	4,294.17
Total	28,856,028.78	-369,736.81

Note27. Investment yield

Item	Amount in current period	Amount in last period
Net increase/decrease of owner's equity of investee adjusted at the end of the year	-602,265.48	-570,943.74
Total	-602,265.48	-570,943.74

Note28. Net income from other business

Sort of other business	Amount in current period	Amount in last period
Rental for fixed assets	185,620.21	1,292,090.69
Trademark fees received	---	
Others	---	(53,633.58)
Total	185,620.21	1,238,457.11

Note29. Non-operating revenue

Item	Amount in current period	Amount in last period
Income from liability restructuring	65,663,701.43	
Others	91,891.80	34,950.58
Total	65,755,593.23	34,950.58

Note30. Non-operating expenses

Item	Amount in current period	Amount in last period
Donation expenses	33,850.24	43,291.00
Penalty expenses	-----	927.46
Others	-----	20,411.49
Total	33,850.24	64,629.95

Note31. Income tax

Item	Amount in current period	Amount in last period
Income tax expenses in current period	3,246,525.16	---
Total	3,246,525.16	---

Note32. The cash related with other operation activities received amounting to RMB 4,403,907.95 are all occurred out of consolidation scope of the Company.

Note33. The other cash related with operation activities the Company paid amounting to RMB 4,133,177.81 are cost expenses.

Note34. Report of subsections

1）Business subsection

Item	Bicycle sales		Revenue from property management		Total	
	Current period	Last period	Current period	Last period	Current period	Last period
I. Operating revenue	95,474,062.70	87,222,955.58	1,057,291.21	1,649,873.26	96,531,353.91	88,872,828.84
Including ： revenue from external	95,474,062.70	87,222,955.58	1,057,291.21	1,649,873.26	96,531,353.91	88,872,828.84

transaction						
Transaction revenue among subsections						
II. Operating cost and expenses	95,592,215.62	85,775,982.78	2,209,866.25	2,125,952.56	97,802,081.87	87,901,935.34
III. Operating profit	-118,152.92	1,446,972.80	-1,152,575.04	-476,079.30	-1,270,727.96	970,893.50
IV. Operating expense	42,050,306.92	9,944,483.99	83,277.71	154,489.74	42,133,584.63	10,098,973.73
V. Operating profit(loss)	-42,168,459.84	-8,497,511.19	-1,235,852.75	-630,569.04	-43,404,312.59	-9,128,080.23
VI. Total assets	265,666,823.69	300,730,841.48	4,703,230.45	19,529,428.59	270,370,054.14	320,260,270.07
VII. Total liabilities	2,093,520,237.40	2,108,787,901.72	11,459,867.73	23,682,244.43	2,104,980,105.13	2,132,470,146.15

2）The Company sells products and provides labor service in mainland China, whose subsection data are not to be listed.

Note35. Complementary data of cash flow statement

Item	Current period		Last period	
	Consolidation	Parent company	Consolidation of current period	Parent company
1．Adjust net profit to cash flow of operating activities				
Net profit	18,689,260.58	18,298,859.04	-9,157,759.60	-9,086,852.53
Add：profit and loss of minority shareholders	381,644.66			
Withdrawal provision for asset depreciation	949,767.42	949,767.42		
Fixed asset depreciation	5,875,348.88	5,731,187.32	7,405,368.27	7,248,984.62
Intangible asset amortization				
Amortization of long-term amortized expenses				
Decreased in amortized expense（minus: increase）			5,762.20	5,100.00
Increase in expenses drawn in advance（minus：decrease	5,070.00		-3,095.00	
Loss from disposal of fixed			-1,739.00	-1,739.00

assets, intangible assets, and other long-term assets（minus: income）				
Rejection loss of fixed assets				
Financial expenses	28,885,806.35	28,885,806.35	-301,996.96	-301,996.96
Investment loss（minus：income）	602,265.48	602,265.48	570,943.73	-734,934.21
Deferred tax loan（minus：debit）	3,246,525.16	3,246,525.16		
Decrease in inventory（minus：increase）	-4,336,166.84	1,552,215.15	-6,951,106.87	-1,607,121.87
Decrease in operational receivable items（minus：increase）	6,526,162.98	4,044,957.63	2,133,814.24	-1,185,104.57
Increase in operational payable items（minus：decrease）	6,083,378.00	2,250,079.44	2,138,220.97	5,698,745.75
Others (non-operating revenue)	-65,663,701.43	-65,663,701.43		
Net amount of cash flow resulted from operation activities	1,245,361.24	-102,038.44	-4,161,588.02	35,081.23
2．Investing and financing activities not concerning cash income and expenses：				
Liability transferring into capital				
Convertible debenture within one year				
Fixed asset leased by financing				
3．Net increase in cash and cash equivalent：				
Balance of cash at the period-end	17,119,800.14	479,337.57	23,534,223.05	2,875,831.74
Minus：balance of cash at the period-begin	15,979,853.39	504,436.50	27,692,212.12	2,821,720.51
Add：balance of cash equivalent at the period-end				
Minus：balance of cash equivalent at the period-begin				
Net increase of cash and cash equivalent	1,139,946.75	-25,098.93	-4,157,989.07	54,111.23

Supplementary 9. Notes to main items in financial statements of parent company

1. Accounts receivable

Account age	Jun.30, 2007			
	Amount	Proportion	Provision for bad debts	Net amount
Within 1 year	2,090,399.16	0.17%	1,274.31	2,089,124.85
1-2 years	1,092.60	0.00%	21	1,071.60
2-3 years	108,444.07	0.01%	325.33	108,118.74
3 years above	1,200,880,944.43	99.82%	1,037,910,398.33	162,970,546.10
Total	1,203,080,880.26	100.00%	1,037,912,018.97	165,168,861.29

Account age	Dec.31, 2006			
	Amount	Proportion	Provision for bad debts	Net amount
Within 1 year	23,072,380.79	1.88%	1,274.31	23,071,106.48
1-2 years	1,092.60	0.00%	21.00	1,071.60
2-3 years	108,444.07	0.01%	325.33	108,118.74
3 years above	1,200,880,944.43	98.11%	1,037,910,398.33	162,970,546.10
Total	1,224,062,861.89	100.00%	1,037,912,018.97	186,150,842.92

(1) There are no account receivables from the shareholders holding the voting right shares of the Company exceeding 5% (including 5%) in the balance on Jun.30, 2007.
(2) The total amount of the top five in accounts receivable is RMB 492,884,806.45, accounting for 40.97% of the total accounts receivable.

2. Other accounts receivable

Account age	Jun.30, 2007			
	Amount	Proportion	Provision for bad debts	Net amount
Within 1 year	7,346,838.58	1.38%	2,874.96	7,343,963.62
1-2 years	862,639.53	0.16%	2,495.72	860,143.81
2-3 years	3,888,787.70	0.73%	11,582.48	3,877,205.22
3 years above	521,860,689.98	97.73%	521,766,882.29	93,807.69
Total	533,958,955.79	100.00%	521,783,835.45	12,175,120.34

Account age	Dec.31, 2006			
	Amount	Proportion	Provision for bad debts	Net amount
Within 1 year	18,089,344.51	3.32%	2,874.96	18,086,469.55
1-2 years	862,639.53	0.16%	2,495.72	860,143.81

2-3 years	3,888,787.70	0.71%	11,582.48	3,877,205.22
3 years above	521,860,689.98	95.81%	521,766,882.29	93,807.69
Total	544,701,461.72	100.00%	521,783,835.45	22,917,626.27

(1) There are no account receivables from the shareholders holding the voting right shares of the Company exceeding 5% (including 5%) in the balance on Jun.30, 2007.
(2) The total amount of the top five in other accounts receivable is RMB 356,863,402.04, accounting for 66.83% of the total other accounts receivable.

3. Long-term investment
(1) Long-term investment is listed as follows:

Items	Dec.31, 2006	Increase in this period	Decrease in this period	Jun.30, 2007
Long-term equity investment	70,221,674.48	---	602,265.48	69,619,409.00
Less: Provision for depreciation	41,658,577.98	---	---	41,658,577.98
Net amount of long-term equity investment	28,563,096.50	---	602,265.48	27,960,831.02

(2) Long-term equity investment
a. Other equity investment calculated in the cost method

Name of invested companies	Investment term	Proportion in the registered capital of invested companies	Initial investment cost	Dec.31, 2006	Increase in this period	Decrease in this period	Jun.30, 2007
Shenzhen Xinlian Consulting Co., Ltd.	---	---	50,000.00	50,000.00	---	---	50,000.00
Hunan Guangnan Motorcycle Co., Ltd.	50 years	11%	5,679,300.00	5,679,300.00	---	---	5,679,300.00
shenzhen Junbao industrial Co., Ltd.	50 years	12.5%	3,535,000.00	3,535,000.00	---	---	3,535,000.00
Total			9,264,300.00	9,264,300.00	---	---	9,264,300.00

b. Other equity investment calculated in the equity method

Name of invested companies	Investment term	Proportion in the registered capital of invested companies	Initial investment cost	Dec.31, 2006	Equity adjustment in this period	Other increase/decrease in this period	Accumulated equity adjustment	Jun.30, 2007
Shenzhen Danxia Bicycle Components Co., Ltd.	---	20%	941,600.00	---	---	---	(941,600.00)	---

Name of invested companies	Investment term	Proportion in the registered capital of invested companies	Initial investment cost	Dec.31, 2006	Equity adjustment in this period	Other increase/decrease in this period	Accumulated equity adjustment	Jun.30, 2007
Jiangsu Huaiyin Huayu Bicycle Components Plant	30 years	25%	6,138,559.00	---	---	---	(6,138,559.00)	---
Shantou Economic Special Zone Dapeng Industry Co., Ltd.	20 years	30%	5,425,150.30	4,285,165.03	---	---	(1,139,985.27)	4,285,165.03
Shenzhen Canghai Industry Co., Ltd.	10 years	30%	178,000.00	---	---	---	(178,000.00)	---
Yangzhou Xinghua Auto Materials Co., Ltd.	30 years	30%	1,821,606.00	1,359,361.25	---	---	(462,244.75)	1,359,361.25
Jiangxi Huali Industry Co., Ltd.	30 years	39.83%	35,314,474.40	26,879,903.07	-602,265.48	---	(9,036,836.81)	26,277,637.59
Shenzhen Jinhuan Printing Co., Ltd.	20 years	38%	14,883,560.00	14,883,560.00	---	---	---	14,883,560.00
Jiangxi Hongji Property Dvelopment Co., Ltd.	39 years	51%	4,716,670.00	---	---	---	(4,716,670.00)	---
Hangzhou Zhongjiang Industry Co., Ltd.	---	51%	5,045,700.00	5,045,700.00	---	---	---	5,045,700.00
Harbin China Bicycle Sales Co., Ltd.		60%	720,000.00	---	---	---	-720,000.00	---
Shenzhen China Bicycle Shanxi Sales Co., Ltd.		70%	1,204,000.00	---	---	---	-1,204,000.00	---
Gansu Shenzhen China Bicycle Sales Co., Ltd.		80%	480,000.00	---	---	---	-480,000.00	---
Shenzhen China Bicycle (Group) Jiangxi Sale Co., Ltd.	---	55%	551,668.30	551,668.30	---	---	---	551,668.30
Shenzhen China Bicycle (Group) Hainan Sales Co., Ltd.	---	70%	350,000.00	370,385.83	---	---	20,385.83	370,385.83
Shenzhen China Bicycle (Group) Guangzhou Sales Co., Ltd.	---	100%	2,000,000.00	2,000,000.00	---	---	---	2,000,000.00
Shenzhen Huajiaming Industry & Trade Development Co., Ltd.	20 years	98%	1,960,000.00	1,960,000.00	---	---	---	1,960,000.00
Jiujiang Huatian Property Co., Ltd.	40 years	100%	3,621,631.00	3,621,631.00	---	---	---	3,621,631.00
Zoria Pte Ltd.	---	100%	497,000.00	---	---	---	(497,000.00)	---

Name of invested companies	Investment term	Proportion in the registered capital of invested companies	Initial investment cost	Dec.31, 2006	Equity adjustment in this period	Other increase/decrease in this period	Accumulated equity adjustment	Jun.30, 2007
China Bicycle (Hongkong) Co., Ltd.	---	100%	5,350,000.00	---	---	---	(5,350,000.00)	---
Shenzhen Anjule Property Management Co., Ltd.	---	100%	2,000,000.00	---	---	---	(2,000,000.00)	---
Shenzhen EMMELLE Industry Co., Ltd.		70%	1,400,000.00	---	---	---	(1,400,000.00)	---
Total			94,599,619.00	60,957,374.48	(602,265.48)	---	-34,244,510.00	60,355,109.00

c. change in impairment reserve

Name of invested companies	Dec.31, 2006	Increase in this period	Decrease in this period	Jun.30, 2007
Shenzhen Xinlian Consulting Co., Ltd.	50,000.00	---	---	50,000.00
Hunan Guangnan Motorcycle Co., Ltd.	4,719,777.37		---	4,719,777.37
shenzhen Junbao industrial Co., Ltd.	3,535,000.00		---	3,535,000.00
Shantou Economic Special Zone Dapeng Industry Co., Ltd.	4,285,165.03		---	4,285,165.03
Yangzhou Xinghua Auto Materials Co., Ltd.	1,359,361.25		---	1,359,361.25
Jiangxi Huali Industry Co., Ltd.	3,209,889.20		---	3,209,889.20
Shenzhen Jinhuan Printing Co., Ltd.	10,950,000.00		---	10,950,000.00
Hangzhou Zhongjiang Industry Co., Ltd.	5,045,700.00		---	5,045,700.00
Shenzhen China Bicycle (Group) Jiangxi Sales Co., Ltd.	551,668.30		---	551,668.30
Shenzhen China Bicycle (Group) Hainan Sales Co., Ltd.	370,385.83		---	370,385.83
Shenzhen China Bicycle (Group) Guangzhou Sales Co., Ltd.	2,000,000.00		---	2,000,000.00
Shenzhen Huajiaming Industry & Trade Development Co., Ltd.	1,960,000.00		---	1,960,000.00
Jiujiang Huatian Property Co., Ltd.	3,621,631.00		---	3,621,631.00
Total	41,658,577.98		---	41,658,577.98

4. Operating income and cost

Classification of operating items	Amount in this period		Amount in last period	
	Income from main operation	Cost of main operation	Income from main operation	Cost of main operation
Sale of bicycle and spare parts	5,454,616.86	10,560,434.11	10,469,526.44	15,144,048.61

Outside processing			19,311.11	70,025.24
Total	5,454,616.86	10,560,434.11	10,488,837.55	15,214,073.85

5. Gains from investment

Items	Amount in this period	Amount in last period
Net increase (decrease) of owner's equity of the Company calculated in the equity method	(602,265.48)	734,934.21
Total	(602,265.48)	734,934.21

Supplementary 10. Relations and transactions among the related parties

(1) The related companies with controlling relations

Name of related companies	Type of enterprises	Statutory representative	Registered capital	Scope of business	Shares of equity held	Relation with the Company
Shenzhen Guosheng Energy Sources Investment & Development Co., Ltd.	Limited liability company (solely invested by legal person)	Shang Shijun	RMB 70,000,000	Setting up industries, domestic commerce, supply and sale of materials (barring the commodities under special operation, control and sale)	13.58%	Controlling shareholder

(2) The related companies without controlling relations

Name of related companies	Relation with the Company
Shenzhen Huajiaming Industry & Trade Development Co., Ltd.	Subsidiary company
Shenzhen Danxia Bicycle Components Co., Ltd.	Affiliated company
Shenzhen Canghai Industry Co., Ltd.	Affiliated company
Jiangsu Huaiyin Huayu Bicycle Components Plant	Affiliated company
Yangzhou Xinghua Auto Materials Co., Ltd.	Affiliated company
Shantou Economic Special Zone Dapeng Industry Co., Ltd.	Affiliated company
Shenzhen Jinhuan Printing Co., Ltd.	Affiliated company
Hong Kong (Link) Bicycle Co., Ltd.	Shareholder holding 5% shares
Daming International Co., Ltd.	Director of the Company is General Manager of the said company
Diamond Back (Hong Kong) Co., Ltd.	Director of the Company is General Manager of the said company
Zhigao International Machinery Co., Ltd.	Director of the Company is General Manager of the said company
Zhigao Resources International Co., Ltd.	Director of the Company is General Manager of the said company
China Composite Products (Shenzhen) Co., Ltd.	Director of the Company is Chairman of the said company
Hong Kong Huajiaming Industry & Trade Industrial Co., Ltd.	Director of the Company is Chairman of the said company

(3) Current of related companies

Current items	Name of related companies	Financial contents	Amount at period-end	Amount at period-begin
Account receivable	Diamond Back (Hong Kong) Co. Ltd.	Payment for goods	174,219,907.69	174,219,907.69
	Zhigao Resources Internaitonal Co., Ltd.	Payment for goods	140,887,132.85	140,887,132.85
	Subtotal		315,107,040.54	315,107,040.54
Account payable	Hongkong Huajiaming Industry & Trade Industrial Co., Ltd.	Payment for goods	8,961,977.50	8,961,977.50
	Shenzhen Canghai Industry Co., Ltd.	Payment for goods	100,385.48	100,385.48
	Shenzhen Danxia Bicycle Components Co., Ltd.	Payment for goods	456,593.30	456,593.30
	Jiangsu Huaiyin Huayu Bicycle Components Plant	Payment for goods	4,965,269.13	4,965,269.13
	Shantou Economic Special Zone Dapeng Industry Co., Ltd.	Payment for goods	6,897,436.89	6,897,436.89
	Subtotal		21,381,662.30	21,381,662.30
Other account receivable	China Composite Products (Shenzhen) Co., Ltd.	Current account	60,541,700.96	60,541,700.96
	Shenzhen Huajiaming Industry & Trade Development Co., Ltd.	Current account	27,541,041.11	27,541,041.11
	Subtotal		87,332,742.07	87,332,742.07
Other account payable	Shenzhen Canghai Industry Co., Ltd.	Current account	89,000.00	89,000.00
	Shenzhen Jinhuan Printing Co., Ltd.	Temporary account	600,000.00	600,000.00
	Zhigao International Machinery Co., Ltd.	Current account	24,917,519.01	24,917,519.01
	Daming International Co., Ltd.	Commission expenses	10,834,362.33	10,834,362.33
	Hong Kong Huajiaming Industry & Trade Industrial Co., Ltd.	Current account	1,796,922.26	1,796,922.26
	Subtotal		38,237,803.60	38,237,803.60
Long-term liabilities expiring within 1 year	Shenzhen Guosheng Energy Sources Investment & Development Co., Ltd.	Principal of loans	700,218,530.98	700,218,530.98
	Subtotal		700,218,530.98	700,218,530.98

*1. On Nov.13, 2006, China Huarong Asset Management Company, Shenzhen Julongsheng Industrial Development Co., Ltd. and Shenzhen Guosheng Energy Sources Investment & Development Co., Ltd. signed the Agreement, transferred the aforesaid debts.

Supplementary 11. Contingent events

Items	Amount invloved	Impact on financial situation, operation result and cash flow in and after this period	Nature
Loans guarantee for Guangdong Sunrise Group Co., Ltd.	RMB 36,100,000.00 USD 1,740,000.00	*	Guarantee
Loans guarantee for Jintian Industry (Group) Co., Ltd.	RMB 50,000,000.00	**	Guarantee
Loans guarantee for Shenzhen Tianma Makeup Co., Ltd.	RMB 8,000,000.00	***	Guarantee
Zoria Pte Ltdc	USD 10,000,000.00	****	Guarantee
Shandong Huajiaming Trading Co., Ltd.	RMB 518,924.66	*****	Guarantee
Total	RMB 94,618,924.66 USD 11,740,000.00		

*This company estimate loss according to 50% of guarantee amount, which converted into RMB amounting to RMB 25,270,000.00.

*The company is a shareholder of the Company, pre-estimated losses based on 50% of guarantee amount, converted into RMB 25,271,000.00.

**The company is listed company, and it has been seriously unable to offset debts with assets so as to be pre-estimated losses based on full guarantee amount.

***The company has gone bankrupt so as to be pre-estimated losses based on full guarantee amount.

****The company is a controlling subsidiary of the Company (unconsolidated); it has been seriously unable to offset debts with assets and is in liquidation, so as to be pre-estimated losses based on full guarantee amount.

*****The company is a subsidiary of Shenzhen Jiahuaming Industry & Trade Development Co., Ltd., subsidiary of the Company; it has been seriously unable to offset debts with assets so as to be pre-estimated losses based on full guarantee amount.

Supplementary 12. Matters on mortgage of assets

1. The Company obtained long-term loan with the term of eight years of USD 8.5 million from CICC by taking the mortgages of No.2 Assembly Building, No.3 Big Workshop, No.5 Storage Building (with the total construction areas of 35,133.60 square meters) and all the machinery

equipments of the Plant in Dushu Village of Shuibei Industrial Zone. The aforesaid mortgaged equipments, property were respectively auctioned by Shenzhen Yichui International Auction Co., Ltd and Shenzhen Assets and Equity Exchange in 2001 with the entrustment of Shenzhen Intermediate People's Court. On Dec.23, 2002, Shenzhen Intermediate People's Court judged that China Huarong Assets Management Company won the auction and owned the aforesaid assets in the auction price. Due to that the assets were not transferred the ownership, they would be transferred into clearance of fixed assets, and the aforesaid assets were USD 4.63 million.

2. The Company obtained RMB 125.7 million and USD 40.8 million from Shenzhen Branch of China Industrial and Commercial Bank by taking the mortgages of land amounting to 127,333 square kilometers in Yousong Village of Shenzhen Longhua Town, and No.1 Office Building in Plant of Dushu Village (with the construction area of 4,823.40 square kilometers), and the guarantees from Guangdong Sunrise Group Co., Ltd. In 2000, Shenzhen Branch of China Industrial and Commercial Bank transferred its liabilities and guarantee rights on the Company into China Huarong Assets Management Company. In 2001, frame agreement was signed between Sunrise Company and Huarong Company, Huarong Company rescinded all the liabilities and guarantee responsibilities of Sunrise Company on owning to Huarong Company by the Company after Sunrise Company paid some cash and transferred some equity of Shenzhen China Bicycle Company (Holdings) Limited to Huarong Company. No.1 Office Building in Dushu Village Plant and No.A822-5 Land in Yousong Village of Longhua Town with the areas of 19,090.8 square kilometers and ground construction were entrusted Shenzhen Assets and Equity Exchange to auction in public by Court and to compensate partial debts in the year of 2002.

Supplementary 13. Lawsuits

1. Ended Jun.30, 2007, for the Company did not repay the overdue loans, altogether 16 financial institutes sued to the court; the principal of loans involved amounted to USD 408.555 million, USD 99,160,100 and HKD 8,261,600. Most of the lawsuits were judged that the Company lost the case or got intermediation. In the year of 2000, all or part of liabilities of Bank of China, Agricultural Bank of China, Industrial and Commercial Bank of China were transferred to relevant Assets Management Company; the main bodies involved in the lawsuits were changed accordingly.

2. Ended Jun.30, 2007, the Company was sued by 29 suppliers; the amount involved amounted to RMB 30,580,800, HKD 17,650,800 and USD 1,668,500. The Company was judged to lose in most of the aforesaid cases.

Supplementary 14. Explanations on significant matters

1. Financial liability reorganization

Pursuant to YJBT No.[2004]6 of China Banking Regulatory Commission on January 7, 2004, Bank of China and other total 11 financial institutes stopped calculating the principal of the Company for three year since Jan.1, 2002, and exempted all the principal (including penalty interest and compound interest) owed by the Company before Dec.31, 2001; the Company would transfer all the loan interest payable (including penalty interest and compound interest) owed before Dec.31, 2001 amounting to RMB 357,993,665.24 into capital reserve, and interest withdrawn was stopped from Jan.1, 2002 to Dec.31, 2004. The exemption period would be expired on Dec.31, 2004.

In 2005, Shenzhen Office of Huarong Assets Management Company, Shenzhen Office of China

Orient Asset Management Corporation, Shenzhen Office of Cinda Assets Management Company, and Shenzhen Office of China Great Wall Asset Management Corporation continued to stop calculating the interest of 2005 of the Company. In 2007, the Company has drawn the interests according to the bank's normal lending rate of one year.

Due to the different meanings on stopping calculating the interest, it was not explained in General Rules of Loan, so Shenzhen Office of Huarong Assets Management Company, Shenzhen Office of China Orient Asset Management Corporation, Shenzhen Office of Cinda Assets Management Company, and Shenzhen Office of China Great Wall Asset Management Corporation did not need the Company to repay the interest which was stopped calculating; however, Shenzhen Development Band needed the Company to repay the interest and compound interest which was stopped calculating from Jan.1, 2002 to Dec.31, 2004. The Company thought it did not need to repay the interest which was stopped calculating, thus with the expiration of interest, for the interest payable, it would begin to withdraw the interest as per normal loan, and not withdraw the interest and compound interest which was stopped calculating from Jan.1, 2002 to Dec.31, 2004. Negotiations were conducted on whether this part of interests should be returned or not.

2. The liability reorganization with International Finance Corporation

The Company owed International Finance Corporation the principal about USD 3,870,000 and the liability about RMB 42,780,000 pre-estimated to be withdrawn interests (Refer to the 2005 Annual Report of the Company for details). Through amicable negotiations between the two parties, the Company and International Finance Corporation signed a Reconciliation Agreement on Mar.29, 2007, agreed to settle all the creditor's rights and liabilities of the two parties with the USD equal to RMB 2,000,000. The Company has paid the aforesaid accounts in lump sum to the designated account of International Finance Corporation on Apr.4, 2007. In accordance with the provisions of new Enterprise Accounting Standards No.12---Liability Reorganization, the coming to the aforesaid liability reconciliation agreement brought a benefit of RMB 65,660,000 from liability reorganization.

3. Shenzhen Guosheng Energy Sources Investment & Development Co., Ltd. becomes the first largest shareholder of the Company.

The Company received the Notifying Letter of Share Transfer Confirmation of Shenzhen Guosheng Energy Sources Investment & Development Co., Ltd. on May 8, 2007: the transfer procedures of the equity of 65,098,412 A-share corporation shares of the Company held by Huarong Company accepted by Guosheng Energy Sources has been settled on Apr.30, 2007, and Shenzhen Guosheng Energy Sources Investment & Development Co., Ltd. becomes the first largest shareholder of the Company, with its holding shares accounting for 13.58% of the total shares of the Company.

Supplementary 15. The non-adjustment matters after the balance sheet day

1. Directionally converting capital public reserves into capital stocks and the Share Merger Reform

In accordance with the Plan on directionally converting capital public reserves into capital stocks and the Share Merger Reform Plan approved by the voting of Shareholders' General Meeting of the Company on Feb.1, 2007, the Company directionally converts capital public reserves into capital stocks of 39,519,800 shares for the tradable A-share shareholders, and the non-tradable shares acquired the tradable right by this; the Company converts capital public reserves into capital stocks for all the B-share shareholders based on 1.5 shares for every 10 shares, totaling 32,395,200 converted shares. After deducting the deserved 11,512,800 shares of the tradable A-share shareholders for the Company's capital stock dilation in the acquired converted shares, the rest 28,007,000 shares are the pricing shares for the tradable A-share shareholders directionally arranged by non-tradable shareholders. After the directional converting, the Company's total capital stocks increased up to 551,348,000 shares; the capital stocks of tradable A-share shareholders increased from 76,752,000 shares to 116,271,800 shares, including the 28,007,000 pricing shares; therefore, as per the calculation requirements of Share Merger Reform Memo No.2---Information Disclosure (1), based on the tradable A-share capital stocks after converting (88,264,800 shares) and pricing arrangement level of 2,800.70÷8,826.48=0.3173, this directional converting is equal to the tradable A-share shareholders acquiring the pricing capital with 3.173 shares stocks every 10 shares.

Supplementary 16. Explanations on continuous operations

Ended as June 30, 2006, the total asset of the Company was RMB 270,370,000, the total liabilities were RMB 2,104,980,000, and the net asset was RMB -1,834,610,000, unable to offset debts with assets; the Company could not possibly realize asset or settle the debts in normal operation of the Company if it did not pay the debts with assets. In view of that, the Company and its original largest creditor took the following measures:

1. The liability reorganization work achieved breakthrough progress; Shen Zhonghua Reorganization Plan has been approved by China Banking Regulatory Commission and other relevant department, and is in the stepwise implementation.

2. China Huarong Asset Management Company applied for the Company's bankruptcy to Shenzhen Intermediate People's Court on Aug.1, 2005 intending to achieve the liability reorganization of the Company through bankruptcy and reconciliation procedures so that the liability problem of the Company could be solved ultimately. At present, the bankruptcy and reconciliation procedures have not been completed yet.

3. On Nov.13, 2006, China Huarong Asset Management Company, Shenzhen Julongsheng Industrial Development Co., Ltd. and Shenzhen Guosheng Energy Sources Investment & Development Co., Ltd. signed the Agreement; Guosheng Energy Sources accepted 65,098,412 shares of A-share corporation shares of the Company held by Huarong Company, and the equity transfer procedures has been accomplished on Apr.30, 2007; Shenzhen Guosheng Energy Sources Investment & Development Co., Ltd. becomes the largest shareholder, and is advancing relevant liability reorganization work.

4. Achieving liability reorganization progress, the company has also obtained great increase in the main operation.

Therefore, the Board of Directors of the Company believes that, the short-time payment pressure of the Company has been greatly decreased; continuous operation ability has been improved to a certain extent; with the unceasing progress of liability and asset reorganization of the Company, and the incessant increase in its performance, the operation circumstances and situation of the Company will gain a further improvement.

Supplementary 17. List of the provision for assets depreciation:

Items	Dec.31, 2006	Increase in this period	Switch back in this period	Jun.30, 2007
I. Provision for bad bebts	1,578,429,124.74	---	---	1,578,429,124.74
Including: Accounts receivable	1,041,783,795.67	---	---	1,041,783,795.67
Other accounts receivable	536,645,329.07	---	---	536,645,329.07
II. Provision for inventory impairment	248,135,038.93	2,062,877.79	1,113,110.37	249,084,806.35
Including: Raw materials	229,667,161.87	---	---	229,667,161.87
Low-value and easily worn-out articles	1,793,131.95	---	---	1,793,131.95
Inventory goods	16,674,745.11	2,062,877.79	1,113,110.37	17,424,512.53
III. Provision for long-term investment depreciation	41,658,577.98	---	---	41,658,577.98
Including: Long-term equity investment	41,658,577.98	---	---	41,658,577.98
IV. Provision for fixed assets depreciation	2,084,874.23	---	---	2,084,874.23
Total	1,870,307,615.88	2,062,877.79	1,113,110.37	1,871,257,383.30

Increase in this period is from the adjustment on assets depreciation, and is calculated into the losses and gains in this period.

Supplementary 18. Adjustments on differences of financial statement made according to CAS and IAS

For the Company is issuing B share, while formulating the financial report pursuant to Accounting System for Business Enterprises, it was also pursuant to IAS.

	Net asset	Net profit
Pursuant to IAS		
1. Switch back of losses of minority shareholders' equity		
2. Adjustment on account unneeded to pay		
3. Adjustment on exchange gains and losses		
4. Adjustment on loss by not making up the subsidiary		
Pursuant to Accounting System for Business Enterprises		

Supplementary 19. Calculation statement of relevant indexes

1. The relevant indexes in return on equity and earnings per share in 2007 are as follows:

Profit in the report period	Return on equity		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Operating profit	---	---		
Net profit	---	---		
Net profit after deducting non-operating income	---	---		

2. Details about the amount of non-operating losses and gains

Nature or content	Amount before deducting the influence of income tax	Amount after deducting the influence of income tax
Non-operating income	65,755,593.23	65,755,593.23
Non-operating expense	-33,850.24	-33,850.24
Total	65,721,742.99	65,721,742.99

3. Calculation method

(1) The calculation formula of fully diluted return on net asset and earnings per share was as follows:

Fully diluted return on net asset=Profit in the report period÷Net asset at the end of report period

Fully diluted earnings per share=Profit in the report period÷Total shares at the end of report period

(2) The calculation formula of ROE was as follows:

$$\mathrm{ROE}=\frac{P}{E_0+NP\div 2+E_i\times M_i\div M_0-E_j\times M_j\div M_0}$$

Including: P stands for profit in the report period; NP stands for net profit in the report period; E_0 stands for net asset at the report-begin; E_i stands for new-increased net asset such as new- issuing share or creditor's right to share rights in the current period; E_j stands for the decrease net asset such as repurchase or cash dividend in the current period; M_0 stands for months in the report period; M_i stands for months of January to end of report period for newly increased net asset; and M_j stands for months of January to end of report period since the decrease of net assets.

(3) The calculation formula of EPS was as follows:

$$\mathrm{EPS}=\frac{P}{S_0+S_1+S_i\times M_i\div M_0-S_j\times M_j\div M_0}$$

Including: P stands for profit in the report period; S_0 stands for total shares in the beginning of report period; S_1 stands for new-increased shares for capitalization of capital public reserve or shares' equity distribution; S_i stands for the increased shares for new-issuing shares or creditor's right to share rights current period; S_j stands for the decrease net asset such as repurchase or lessening of shares in the current period; M_0 stands for months in the report period; M_i stands for months of January to end of report period since the newly-increased shares; and M_j stands for months of January to end of report period since the decrease of shares.

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In charge of the accounting work:
The legal representative of the Company:_______________ Date:_______________
The principal of the Company:_______________ Date:_______________
The principal of the accounting institution: _______________ Date:_______________