

# **SHENZHEN INTERNATIONAL ENTERPRISE CO., LTD.**

## **ANNUAL REPORT 2007**

**Date to disclose: 23 April 2008**

## Section I. Important Notes, Paraphrase and Contents

### I. Important Notes

The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives of Shenzhen International Enterprise Co., Ltd. (hereinafter referred to as the Company) warrant that this report does not contain any false or misleading statements or omit any material facts and all information set forth herein are true, accurate and complete.

Director Xiao Guangsheng didn't attend the Board meeting due to business trip and authorized Director Song Shengjun to vote on his behalf; Director Li Mugui was absent from the Board meeting due to business trip and authorized Director Song Shengjun to vote on his behalf; Independent Director Chen Weihuai didn't attend from the Board meeting and authorized Independent Director Zhao Lijin to vote on his behalf.

Reanda Certified Public Accountants issued a standard unqualified Auditor's Report for the Company.

Chairman of the Board of the Company Mr. Li Jinquan, General Manager Ms. Song Shengjun and Person in charge of accounting work and accounting organization Mr. Zhou Xiaoliang hereby confirm that the Financial Report of the Annual Report is true and complete.

### II. Paraphrase

The following shortened forms have the following meanings in this report unless otherwise stated:

The Company, Company: Shenzhen International Enterprise Co., Ltd.

SDG: Shenzhen Special Economic Zone Development (Group) Co., Ltd.

Foh Chong & Sons: Malaysia Foh Chong & Sons Limited

Taitian Industrial: Shenzhen Taitian Industrial Development Co., Ltd.

Rongfa Company: Shenzhen Rongfa Investment Co., Ltd.

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## Section II. Company Profile

### I. Legal Name of the Company

In Chinese: 深圳市国际企业股份有限公司

In English: SHENZHEN INTERNATIONAL ENTERPRISE CO., LTD.

### II. Legal Representative: Li Jinquan

### III. Secretary of the Board of Directors: Zhou Meng

Securities Affairs Representative: Cao Jian

Tel: (0755)-82281888, 82285565

Contact Address: Investment and Management Dept., on 23/F of Development Center Bldg., Renmin South Road, Shenzhen

Fax: (0755) 755-82285573

E-mail: [zhoumeng868@gmail.com](mailto:zhoumeng868@gmail.com)

### IV. Registered Address and Office Address: 23/F of Development Center Bldg., Renmin South Road, Shenzhen

Post Code: 518001

Company's Internet Website: <http://www.china-ia.com>

E-mail: [sgs000056@163.com](mailto:sgs000056@163.com)

### V. Newspapers Chosen for Disclosing the Information of the Company: Securities Times and Hong Kong Ta Kung Pao

Internet Website Designated by CSRC for Publishing the Annual Report:

<http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed: Investment and Management Dept. of the Company

### VI. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: SZIEC-A SZIEC-B

Stock Code: 000056 200056

### VII. Initial Registration Date: Mar. 1993; Place: Shenzhen, Guangdong

Registration Date after the Adjustment: Dec. 2002; Place: Shenzhen, Guangdong

Registration Code of Enterprise Corporate Business License: QGYSZ Zi 110114

Registration Code of Tax: SNTD Zi 440300192179083

SLT Zi 440300192179083

The Certified Public Accountants Engaged by the Company:

Reanda Certified Public Accountants

Office Address: Room 808, Sun Dong An Plaza, No. 138, Wangfujing Av., Dongcheng District, Beijing

### Section III. Summary of Financial Highlights and Business Highlights

#### I. Summary of financial highlights and business highlights (Unit: RMB Yuan)

Item	金 额
Operating profit	42,587,072.00
Total profit	52,198,977.44
Net profit attributable to shareholders of listed company	67,866,231.38
Net profit attributable to shareholders of listed company after deducting non-recurring gains and losses	-12,410,242.68
Net cash flow from the operation activities	-230,704,565.63

[Note] Items and amount of non-recurring gains and losses (Unit: RMB Yuan)

<u>Items</u>	<u>2007</u>
Items of non-recurring gains and losses	Amount
Profit or loss from disposal of non-current assets	82,130,087.16
Losses from debts restructuring	-2,881,154.21
Losses from accrued liabilities not relating to the company's main business activities	-782,925.00
Other non-operating profits	1,907,577.00
Total	80,373,584.95

#### II. Main accounting data and financial indexes of the Company over the past three years

##### 1. Major accounting data (Unit: RMB Yuan)

	2007	2006		Increase/ decrease than last year (%)	2005	
		Before adjustment	After adjustment	After adjustment	Before adjustment	After adjustment
Operating income	42,587,072.00	71,030,841.89	80,672,544.38	-47.21%	198,588,234.10	198,588,234.10
Net profit	52,198,977.44	-74,318,719.43	-76,918,719.43	-176.43%	29,806,095.24	25,756,308.35
Net profit attributable to shareholders of listed company	67,866,231.38	-11,479,898.50	-42,874,333.22	-273.66%	7,001,516.39	-34,683,774.66
Net profit attributable to shareholders of listed company after deducting non-recurring gains and losses	-12,507,353.57	-19,700,241.64	-23,174,091.58	-30.50%	-36,261,354.66	-77,946,645.71
Net cash flow from the operation activities	-230,704,565.63	27,579,780.19	27,579,780.19	-936.50%	57,088,012.80	57,088,012.80
	At the end of 2007	At the end of 2006		Increase/ decrease than last year	At the end of 2005	
		Before	After Adjustment	After Adjustment	Before	After Adjustment

		Adjustment			Adjustment	
Total assets	1,035,265,567.86	740,554,540.68	735,350,540.68	40.79%	728,664,738.16	726,060,738.16
Owners' equity (shareholders' equity)	245,418,500.78	156,345,908.84	181,473,839.16	35.24%	200,927,031.38	207,339,934.03

## 2. Major financial index

(Unit: RMB Yuan)

	2007	2006		Increase/ decrease than last year (%)	2005	
		Before adjustment	After adjustment	After adjustment	Before adjustment	After adjustment
Basic earnings per share	0.3371	-0.05	-0.19	-273.66%	0.03	-0.16
Diluted earnings per share	0.33	-0.05	-0.19	-273.66%	0.03	-0.16
Basic earnings per share after deducting non-recurring gains and losses	-0.0729	-0.09	-0.10	-30.50%	-0.16	-0.35
Fully diluted return on equity	27.65%	-7.34%	-23.63%	53.72%	3.48%	-16.73%
Weighted average return on equity	34.13%	-5.88%	-22.73%	56.86%	3.87%	-21.66%
Fully diluted return on equity after deducting non-recurring gain and loss	-5.10%	-12.60%	-12.77%	7.43%	-18.05%	-37.59%
Weighted Average return on equity after deducting non-recurring gain and losses	-7.10%	-10.09%	-27.69%	20.59%	-20.04%	-56.29%
Net cash flow per share from operating activities	-1.04	0.12	0.12	-966.67%	0.26	0.26
	At the end of 2007	At the end of 2006		Increase/ decrease than last year (%)	At the end of 2005	
		Before Adjustment	After Adjustment	After Adjustment	Before Adjustment	After Adjustment
Net assets per share attributable to shareholders of listed companies	1.11	0.71	0.82	35.37%	0.91	0.94

## Section IV. Changes in Share Capital and Particulars about Shareholders

## I. Changes in share:

## 1. Statement of change in shares (Ended Dec. 31, 2007) (Unit: share)

	Before the change		Increase/ decrease in this change (+, -)					After the change	
	Number	Proportion	Issuance of new share	Bonus shares	Capitalization of public reserve	Other	Subtotal	Number	Proportion
I. Shares subject to moratorium	45,090,604	20.41%				-25,077,039	-25,077,039	20,013,565	9.06%
1. Shares held by the State									
2. Shares held by state-owned legal persons	29,338,952	13.28%				-11,045,059	-11,045,059	18,293,893	8.28%
3. Shares held by other domestic investors	15,751,652	7.13%				-14,031,980	-14,031,980	1,719,672	0.78%
Of which: Shares held by non-state-owned legal persons	15,323,972	6.94%				-13,925,060	-13,925,060	1,398,912	0.63%
Shares held by domestic natural persons	427,680	0.19%				-106,920	-106,920	320,760	0.15%
4. Shares held by foreign investors									
Of which: Shares held by overseas legal persons									
Shares held by overseas natural persons									
II. Shares not subject to moratorium	175,810,580	79.59%				25,077,039	25,077,039	200,887,619	90.94%
1. RMB ordinary shares	74,122,388	33.55%				25,077,039	25,077,039	99,199,427	44.91%
2. Domestically listed foreign shares	101,688,192	46.03%				0	0	101,688,192	46.03%
3. Overseas listed foreign shares									
4. Others									
III. Total shares	220,901,184	100.00%				0	0	220,901,184	100.00%

## Change in shares subject to moratorium (Unit: Share)

Name of shareholder	Number of share subject to moratorium at the year-begin	Number of shares terminated in this year	Number of shares subject to moratorium increased in this	Number of share subject to moratorium at the year-end	Unconditional sales	Date of terminating moratorium
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			year			
Shenzhen Special Economic Zone Development (Group) Co., Ltd.	29,338,953	11,045,060	0	18,293,893	Implementation of commitment of share merger reform	Jan. 10, 2007
Shenzhen Taitian Industrial Development Co., Ltd.	12,443,972	11,045,059	0	1,398,913	Implementation of commitment of share merger reform	Jan. 10, 2007
Dapu Foh Chong Chemical Co., Ltd.	2,880,000	2,880,000	0	0	Implementation of commitment of share merger reform	Jan. 10, 2007
Total	45,090,605	24,970,120	0	20,120,485	—	—

## 2. Issuance and listing of shares

(1) By the end of the report, the Company didn't issue new shares and derivative securities over the past three years.

(2) In the report period, the Company's structure of share capital was changed due to the implementation of share merger reform. But the total share capital remained unchanged subsequent to implementation of share merger reform.

Except for the aforesaid plan, the Company had never been involved in any events which may cause change of the total shares and the equity structure such as bonus shares, share capital converted, rationed share, additional issuance of new share, absorption and merger, transferring convertible company bonds into shares, reduction of capital, listing of inner employees' shares or company's employees' shares, etc.

(3) There existed no inner employee's shares in the Company.

## II. Particulars about shareholders

1. Ended Dec. 31, 2007, the Company has 19,274 shareholders in total.

2. Particulars about shares held by the top ten shareholders (Ended Dec. 31, 2007)

(Unit: shares)

Total number of shareholders	19,274				
Particulars about shares held by the top ten shareholders					
Name of shareholder	Type of shareholders	Proportion	Total shares held	Number of shares subject to moratorium	Number of frozen or pledged share
FOH CHONG & SONS SDN. BHD.	Overseas legal persons	13.70%	30,264,192	0	0
Shenzhen Special Economic Zone Development (Group) Co., Ltd.	State-owned legal persons	10.67%	23,560,184	18,293,893	18,293,893

Shenzhen Taitian Indus trial Development Co., Ltd.	Domestic non-state-owned legal person	3.98%	8,802,825	1,398,913	0
F.C. (ASIA) HOLDINGS SDN. BHD.	Overseas legal persons	3.93%	8,684,194	0	0
CREDIT SUISSE SINGAPORE	Overseas legal persons	1.50%	3,323,173	0	0
Dapu Foh Chong Che mical Co., Ltd.	Domestic non-state-owned legal persons	1.30%	2,880,000	0	0
BOCI SECURITIES LIMITED	Overseas legal persons	1.17%	2,581,396	0	0
Hong Kong Mengxing Industrial Co., Ltd.	Overseas legal persons	0.98%	2,170,200	0	0
LETSCON HOLDINGS SDN. BHD.	Overseas legal person	0.68%	1,497,172	0	0
Yang Jun	Domestic legal persons	0.63%	1,400,100	0	0
Particulars about shares not subject to moratorium held by the top ten shareholders					
Name of shareholders		Number of shares nor subject to moratorium		Type of shares	
FOH CHONG & SONS SDN. BHD.		30,264,192			
F.C. (ASIA) HOLDINGS SDN. BHD.		8,684,194			
Shenzhen Taitian Industrial Development Co., Ltd.		7,403,913			
Shenzhen Special Economic Zone Development (Group) Co., Ltd.		5,266,291			
CREDIT SUISSE SINGAPORE		3,323,173			
Dapu Foh Chong Chemical Co., Ltd.		2,880,000			
BOCI SECURITIES LIMITED		2,581,396			
Hong Kong Mengxing Industrial Co., Ltd.		2,170,200			
LETSCON HOLDINGS SDN. BHD.		1,497,172			
Yang Jun		1,400,100			
Explanation on associated relationship or action-in-concert among the above shareholders	The Company was unknown whether there were related relations or action-in-concert among the top ten shareholders regulated by Administrative Measures for theDisclosure of Information on Change of Shareholdings in Listed Companies.				

Note: (1) The Company was unknown whether there were related relations or action-in-concert among the top ten shareholders regulated by Administrative Measures for the Disclosure of Information on Change of Shareholdings in Listed Companies.

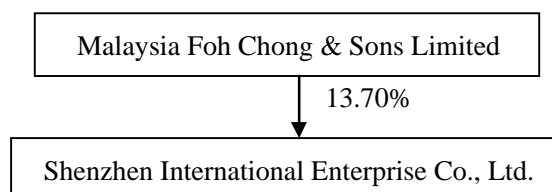
(2) Shenzhen Special Economic Zone Development (Group) Co., Ltd held the shares of the Company on behalf of the State.

### 3. The first largest shareholder of the Company



Malaysia Foh Chong & Sons Limited holds 30,264,192 shares of the Company, taking up 13.70% of the total shares capital of the Company. Malaysia Foh Chong & Sons Limited was established in 1958, registration place is Malaysia, legal representative is Xiao Guangsheng. Business scope includes: plantation of rubber, development of real estate, chemical, metal wares, import & export of raw material, financial companies and securities investment.

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



4. Other legal person's shareholder holding over 10% (including 10%) of the total share of the Company:

The second larger shareholder of the Company was Shenzhen Special Economic Zone Development (Group) Co., Ltd. ( "SDG"), who held 2,356.02 shares of the Company, taking up 10.67% of the total shares of the Company. SDG was founded on Jun. 20, 1982, with registered capital amounting to RMB 1582.82 million; legal representative is Liu Aiqun. Nature of the company belongs to company limited and it registered in Shenzhen, Guangdong. Business scope includes: development and operation of real estate, home trade, supply and marketing business of materials (excluding special operating, special control and special sales), consultation of economic information (excluding limitative items); operating import and export business; industrial transportation; tourism; financing trust and issuance of valuable securities (the said items could operate after obtaining business license).

## Section V. Particulars about Directors, Supervisors, Senior Executives and Staffs

### (I) Directors, Supervisors and Senior Executives

#### 1. Basic information

Name	Title	Sex	Age	Starting date of office term	Ending date of office term	Number of share held at the year-begin	Number of share held at the year-end	Reason for change
Li Jinquan	Chairman of the Board	Male	62	Mar. 6, 2007	Mar. 6, 2010	194,400	194,400	0
Song Shengjun	General Manager	Female	53	Mar. 6, 2007	Mar. 6, 2010	233,280	233,280	0
Zhang Jianmin	Director	Male	49	Mar. 6, 2007	Mar. 6, 2010			
Xiao Guangsheng	Director	Male	60	Mar. 6, 2007	Mar. 6, 2010			
Li Mugui	Director	Male	63	Mar. 6, 2007	Mar. 6, 2010	119,900	119,900	0
Zhao Lijin	Independent Director	Male	69	Mar. 6, 2007	Mar. 6, 2010			
Zhi Guozhen	Independent Director	Male	66	Mar. 6, 2007	Mar. 6, 2010			
Chen Weihuai	Independent Director	Male	41	Mar. 6, 2007	Mar. 6, 2010			
Zhou Xiaoxing	Supervisor	Female	51	Mar. 6, 2007	Mar. 6, 2010			
Guo Jian	Supervisor	Male	43	Mar. 6, 2007	Mar. 6, 2010			
Cui Xiaoli	Supervisor	Female	43	Mar. 6, 2007	Mar. 6, 2010			
Zhou Meng	Deputy General Manager	Male	36	Mar. 6, 2007	Mar. 6, 2010			
Zhou Meng	Secretary of the Board	Male	36	Mar. 6, 2007	Mar. 6, 2010			
Cai Yanhong	CFO	Female	34	Mar. 6, 2007	Dec. 30, 2007			
Zhou Xiaoliang	CFO	Male	38	Jan. 14, 2008	Mar. 6, 2010			

Note: Particulars about directors or supervisors holding the position in Shareholding Company

Director Mr. Zhang Jianmin took the posts of Deputy General Manager and member of CPC of Shenzhen Special Economic Zone Development (Group) Co., Ltd.; Director Mr.

Xiao Guangsheng took the post of Director of Malaysia Foh Chong & Sons Limited; and Supervisor Mr. Li Mugui took the post of Chairman of the Board of Hong Kong Foh Chong Chemical Co., Ltd.; Supervisor Mr. Guo Jian took the post of Manager of Enterprise Management Department in Shenzhen Special Economic Zone Development (Group) Co., Ltd.

2. Main work experiences and other part-time job excluding the shareholder's company of present directors, supervisors and senior executives:

Mr. Li Jinquan: ever took the posts of Deputy General Manager in Shenzhen Special Economic Zone Development Co., President in Shenzhen Commercial & Trading Holding Co.. He took the post of Manager of Shenzhen International Marketplace in 1983, and now is in charge of Chairman of the Board of the Company. He was engaged in leading work of trade and commerce over 20 years and has so rich experiences in commerce management.

Ms. Song Shengjun: entered into the Company from 1984 to now, from engaging marketplace to promoting trade, from engaging commerce, estates to disparate operation, accumulated very rich extraordinarily abundant experiences of trade major management and enterprise leading, and now is in charge of Director and General Manager of the Company.

Mr. Zhang Jianmin: ever took the post of deputy secretary of Commission for Disciplinary Inspection, deputy secretary of CDI, manager of auditing and supervision department and manager of law affairs department of SDG, and now is in charge of Deputy General Manager of SDG and concurrently Chairman of the Board of Shenzhen Communications Industry Co., Ltd., and Director of the Company.

Mr. Xiao Guangsheng: now is in charge of Director, General Manager of Malaysia Foh Chong & Sons Limited and Director of the Company.

Mr. Li Mujia: now is in charge of director and general manager of Hong Kong Foh Chong Chemical Co., Ltd. and commissar of the 10th Commission of Dapu County, Guangdong Province of CPPCC, and Supervisor of the Company.

Zhi Guozhen, male, was born on Dec. 7, 1942 in Xian, ancestral home was Xinji, Hebei. He was member of CPC, graduated from Tsinghua University with civil engineering major, Senior Engineer, Primary Registered Structural Engineer. He ever took the posts of Deputy Chief Engineer of Railway Construction Engineering, Chief Engineer of Shenzhen Construction Bureau, Chief Engineer of Qinghua Yuan Design Company. He served as Independent Director of the Company.

Chen Weihuai, male, was born on Jan. 20, 1967, from Xingning, Guangdong., graduated from Zhongnan University of Law ( now Zhongnan University of Economics and Law as Economics Law. He took the post in Shenzhen Special Economic Zone Development

(Group) Co., Ltd; partier and layer in Guangdong China Commercial Law Co. He took post of Independent Director of the Company.

Zhao Lijin, male, was born in Zhang Jiakou, Hebei on Nov. 24, 1939, graduated from BJ University of Finance & Economics with major of Economics Law; Certified Public Accountant. He took the posts of Deputy Director of Guangxi Geology and Mineral Resources Bureau of Ministry of Geology and Mineral Resources; Deputy Director of Special Commissioners' Office in Shenzhen of National Audit Office; Director of Case Investigation Department; Chief Economist of Shenzhen Energy Group Co., Ltd; CFO of Shenzhen Nanshan Power Co., Ltd.; CFO of Shenzhen Huishen Power Investment Co., Ltd., Deputy Superintendent of Tin Wha CPAS, Shenzhen; Independent Director of Shenzhen International High-tech Property Exchange Co., Ltd.; as Independent Director of the Company from Mar. 2007.

Guo Jian, male, was born in Apr. 1965, from Sichuan, Master, and graduated from Harbin Institute of Technology with major of Communication and Electric, he served as Associate Researcher in Harbin Institute of Technology in 1989, worked in Shenzhen Changhong Communication Equipment Co., Ltd, and took the successively Software Engineer, person in charge of the project; participated in Shenzhen Special Economic Zone Development (Group) Co., Ltd., now acts as Director of Enterprise Management Department.

Ms. Zhou Xiaoxing, female, born in May 1956, from Shanghang, Fujian, graduated from three-year college, began to work from 1974, ever took the post of section chief of Shenzhen Foreign Trade Chemical Machinery Import & Export Company; and now is in charge of Manager of Personnel Department, and Supervisor of the Company.

Mr. Zhou Meng, graduated from Rinmin University of China with major of Investment major, began to work in 1993, took the posts successively Deputy Manager of Planning & Financing Dept., Manager of Investment Management Dept., Secretary of the Board and Deputy General Manager of Chain Commerce Company. Now he acts as Deputy General Manager and Secretary of the Board of the Company.

Mr. Cai Yanhong: ever took the posts of Auditor and Project Director of Shenzhen Huapeng CPAs and Project Manager of Shenzhen South Minhe CPAs, and served s CFO of the Company till Dec. 2007.

Mr. Zhou Xiaoliang, male, Han nationality, born in 1969, 38 years old, Master of finance management of University of Liverpool, Finance management of Shanghai Huahong Group Co., Ltd.; CFO in Sweden New Wave Group, CFO of Aohua Medical Company, served as CFO of the Company from Jan. 2008.

3. Particulars about the annual remuneration received by directors, supervisors and senior executives

Name	Title	Drawing payment from the Company in the report	Note
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period (Unit: RMB '0000)			
Li Jinquan	Chairman of the Board	25.37	Whole year
Song Shengjun	General Manager	25.41	Whole year
Zhang Jianmin	Director	3.00	Whole year
Xiao Guangsheng	Director	3.00	Whole year
Li Mugui	Director	3.00	Whole year
Zhao Lijin	Independent Director	3.00	Whole year
Zhi Guozhen	Independent Director	3.00	Whole year
Chen Weihuai	Independent Director	3.00	Whole year
Zhou Xiaoxing	Supervisor	9.26	Whole year
Guo Jian	Supervisor	1	Whole year
Cui Xiaoli	Supervisor	9.33	Whole year
Zhou Meng	Deputy General Manager, Secretary of the Board	16.51	Whole year
Cai Yanhong	CFO	11.4	Whole year

The Shareholders' General Meeting determined the remuneration of directors and supervisors, and the Board of Directors determined the compensation of senior executives. During the report period, all senior executives of the Company drew their remuneration from the Company.

(1) In the report period, the allowances received by directors, independent directors and supervisors were paid according to a standard determined in the Resolution on Adjusting Allowance Standard of Directors, Independent Directors and Senior Executives examined and passed at the 1<sup>st</sup> temporary shareholders' general meeting 2003 and other regulation of the Company. Directors and independent directors taking no position in the Company received allowance of RMB 30,000 (tax excluded) per year from the Company, directors taking position in the Company received allowance of RMB 15,000 (tax excluded) from the Company; supervisors received allowance of RMB 10,000 (tax excluded) from the Company. The Company bore such fees as traffic fee, residence fee, investigation fee and meeting fee occurred which Independent directors performed their duties.

Director Xiao Guangsheng, Director Zhang Jianmin, Director Li Mugui, Director Zhao Lijin, Director Chen Weihuai, Director Zhi Guozhen received allowance of RMB 30,000 per year respectively, Supervisor Guo Jian received allowance of RMB 10,000, apart from this, other persons received no any remuneration from the Company. Of them, Director Zhang Jianmin, Director Xiao Guangsheng and Supervisor Li Mugui drew their remuneration from the Shareholding Company.

(2) All senior executives holding position in the Company drew their remuneration from the Company. The remuneration of senior executives was composed of wage (including basic wage and benefit wage), allowance and year-end bounty.

(3) According to the Resolution of Adjusting the Remuneration for Some Directors, Supervisors through the 2<sup>nd</sup> Temporary Shareholders' General Meeting 2007, because the price increased largely, the Company adjusted the remuneration correspondingly, the remuneration adjusted: Chairman of the Board Li Jinqun received RMB 30,000 per month; General Manager Song Shengjun received RMB 30,000 per month; Chairman of the Supervisory Committee Zhou Xiaoxing received RMB 9,000 per month, Deputy General Manager, Secretary of the Board Zhou Meng received RMB 18,000 per month, CFO Cai Yanhong received RMB 15,000 per month.

(4) Total annual remuneration paid by the Company to directors, supervisors and senior executives totaled up RMB 1,327,900.

4. Particulars about disengagement and leaving of directors, supervisors and senior executives in the report period.

The 4<sup>th</sup> Directors, Supervisors and Senior Executives expired at the end of 2006, in Mar. 2007, the 1<sup>st</sup> Temporary Shareholders' General Meeting 2007 elected the 5<sup>th</sup> Board of Directors and new member of the Supervisory Committee, and the Board of Directors engaged the new senior executives of the Company. The meeting elected the Li Jinqun, Song Shengjun, Xiao Guangsheng, Li Mujia, Zhang Jianmin were elected as Directors of the Company, elected Zhao Lijin, Chen Weihuai, Zhi Guozhen as Independent Directors of the Company, meanwhile, engaged the Song Shengjun as General Manager of the Company; Zhou Meng as Deputy General Manager and Secretary of the Board of Directors of the Company.

CFO Ms. Cai Yanhong resigned the position due to the personal affairs in Dec. 2007, the 1<sup>st</sup> Temporary Meeting of the 5<sup>th</sup> Board of Directors 2008 engaged Zhou Xiaoliang as CFO of the Company.

The information of all above change disclosed in Securities Times and <http://www.cninfo.com.cn>

## II. About employees

Ended Dec. 31, 2007, the Company had totally 301 employees in office. The composing of professional and background of education and the retiree are as follows:

Composing of professional: management personnel: 8 persons; technicians: 73 persons; financial personnel: 15 persons; administrative personnel: 21 persons

Background of education: postgraduate: 2 persons; bachelor degree: 40 persons; 3-years regular college: 57 persons; technical secondary school: 22 person; senior high school: 97 persons.

Numbers of Retirees: 7 persons.

## Section VI. Corporate Governance

### I. Actual situation of corporate governance

In accordance with the requirements of Company Law, Securities Law and relevant laws and regulations, the Company carried out the spirit of special campaign of corporate governance seriously issued by CSRC and Shenzhen Stock Exchange, further perfected the system of corporate governance, and improved the awareness of regulated operation and level of corporate governance to regulate the operation of the Company. In line with the requirement of corporate governance and Guidelines of Articles of Association of Listed Companies, the Company revised and perfected the Articles of Association, Rules of Procedure of the Board of Directors, and Working Instruction for General Manager. The Shareholders' General Meeting, the Board of Directors, the Supervisory Committee performed their duty independently in conformity with related laws and regulation.

At the same time, in order to perfect the structure of corporate governance, the Company revised the Management Rules on Information Disclosure of Shenzhen International Enterprise Co., Ltd. etc. In order to step up corporate governance, the Company refreshed Internal Audit Department and all special committee of the Board.

The situation of corporate governance was in line with the requirement of concerning normative documents on corporate governance of listed companies issued by CSRC.

## II. Special Campaign of corporate governance in 2007

In accordance with the spirit of Circular on Concerning Matters on Special Campaign to Strengthen Corporate Governance with ZJGS Zi (2007) Document No. 28 from CSRC (Hereinafter refer to as Document No. 28) and unified layout by Shenzhen Securities Regulatory Bureau, the Company established the team for special campaign of corporate governance, set down the working plan, produced the self-appraisal report of special campaign of corporate governance and rectification plan, received comments from the public and on-site inspection from Shenzhen Stock Exchange etc. and reformed against with problems existing in order. In Aug. 20, 2007, the Company finished the Self-appraisal Report of Shenzhen International Enterprise Co., Ltd. and Self-appraisal Report and Rectification Plan of Shenzhen International Enterprise Co., Ltd which was examined and approved by the 7<sup>th</sup> Temporary Meeting of the 5<sup>th</sup> Board of the Company, published in Securities Times, Ta Kung Pao and [www.cninfo.com.cn](http://www.cninfo.com.cn)

In Sep. 2008, Shenzhen Securities Regulatory Bureau made the on-site inspection to the Company. On Oct. 10, 2007, the Company received the Supervision Opinions of Corporate Governance of Shenzhen International Enterprise Co., Ltd.(SZBGS Zi[2007] Document No. 28) which brought forwards some suggestion on corporate governance: I. the contents of Articles of Association needed to be further revised; II. There was non-normative operation of the Three Meeting sometimes; III. The Company didn't perform the obligation of information disclosure on some significant events.

Against with problems pointed in Supervision Opinions, the Company began to reform seriously and disclosed the Rectification Report of Corporate Governance of Shenzhen International Enterprise Co., Ltd. on Feb. 1, 2008, which was examined and approved by

the 2<sup>nd</sup> Meeting of the 5<sup>th</sup> Board of Directors 2008, published in Securities Times, Ta Kong Po and [www.cninfo.com.cn](http://www.cninfo.com.cn).

Through this special campaign of corporate governance, the Company realized the problems and disadvantage in past work, strengthened the awareness of legal person governance of shareholders, management officers following with the implementation of all rectification measures, the structure of corporate governance and all rules was improved which was good for the Company to improve the level of corporate governance, regulated the operation of the Company, safeguard the benefits of the Company and all shareholders.

## (II) Problems existed in corporate governance, rectification measures and its situation

	Problems existing	Rectification measure	Time of rectification	Results of rectification
I. Problems found in self-inspection and rectification measures				
1	The Board approved the working instruction for all special committees under the board, but there was no special committee under the Board.	The Board established the special committees, which organized related persons to discuss some special matters, submitted the formed suggestions and advices to the Board for approval.	Before Dec. 31, 2007	Finished
2	The Company didn't establish the internal audit department	Perfectd the rules on internal control and established the internal audit department.	Before Dec. 31, 2007	Finished
3	Because the special environment and situation faced by the Company, the matter of the staff incentive plan implemented in 2004 and borrowings from individual in 2006 didn't submit to the Board and shareholders' general meeting for approval in time, it was necessary to strengthened the operation of three meeting in the	Perfectd and put the function of three meeting in corporate governance into practice, abiding by the requirement of Stock Listing Rules of Shenzhen Stock Exchange, the Company held the three meeting in line with the legal procedure, put the function of three meeting in decision-making on significant matter. Besides, the Company would repay the borrowings from individual when the fund of the Company was enough.	Perfectd in daily work continuously	Expected to examine and approve in next shareholders' general meeting



	future.			
4	It was necessary to strengthen the awareness of information disclosure, carried out the Management Measure on Information Disclosure in the Company.	Enhanced the Management Rules on Information Disclosure, ordered related person to disclose information timely and accurately in line with relevant laws and regulations, and disclosed certain matters.	Set down the Management Measure on Information Disclosure	Carried out strictly
5	Put the function of independent directors into practice, Shen Jinghua Independent Director of the 4 <sup>th</sup> Board of the Company can't implement his duty for a long time due to personal reason.	The Company elected the Independent Directors of the 5 <sup>th</sup> Board of Directors in 2007, all Independent Directors performed their duty diligently and seriously. The Company would produce the convenient condition for all independent directors to run their duty.		Insisted on daily work
II. Problems and rectification measure found in Supervision Opinions and Rectification Notice				
1	Some contents of relevant rules were needed to be perfected.	Revised the Articles of Association, Rules of Procedure of the Board of Directors, Working Instruction for General Manager.		Finished
2	The operation of three meeting was non-normative because of using the communication way to hold the meeting more often, there was no present meeting records.	Perfected and put the function of three meeting in corporate governance into practice, abiding by the requirement of Stock Listing Rules of Shenzhen Stock Exchange, the Company held the three meeting in line with the legal procedure, put the function of three meeting in decision-making on significant matter. The Company will hold the present Board meeting and insist on making the meeting record.		Insisted on daily work
3	The Company didn't implement the duty of information disclosure on some significant events or the information disclosed was not accurate.	The Company published the supplementary public notice on certain matter which was not disclosed before, checked and examined the information and data which was not accurate, and ordered the related person to enhance the study of relevant regulation on information		Finished

		disclosure and its implementation.	
4	Certain of organization of the Company was not sound and perfect	Established the special committee and internal audit department.	Finished
5	The Company didn't implement the relevant decision-making procedure on some significant events or confused the decision-making procedure.	The Board of Directors would make the decision in line with relevant decision-making procedure from regulations.	Insist on in work
6	There was some problems existed in finance management and accounting settlement.	The Company would adjust the certain data in annual report 2007 abiding by the new accounting standards.	Finished in annual report and insisted on the related regulations of finance management

### (III) Non-normative operation existed in corporate governance

There was no non-normative operation existed in corporate governance or submitted the non-public information to the principal shareholder of the Company.

### III. Duty performance of Independent Directors

The Board of Director consists of three independent directors, of them, one was construction professional personnel, one was auditing expert, and another was layer. In the report period, independent directors attended the Board meetings and Shareholders General Meetings actively, fulfilled the duties of Independent Directors seriously and expressed independent opinions on the significant matters of the Company. Independent directors played an important role in strengthening the independence of the Board, reinforcing strategic management function of the Board of the Company, balancing the rights of the Board and concerning the legal rights and interests of the medium-sized and small investors. The independent directors propelled the scientific making-decision of the Board and normative operation of the Company and promoted the normative operation of the Company in further step.

In the period of auditing the annual report, Independent director reviewed the work arrangement of annual auditing and financial statement compiling by the Company submitted by person in charge of finance department, before the certified public accountant began to audit; heard the production and management situation and implement of significant events reported by the management officers; Independent Directors did the on-site investigation; discussed the problem found with certified public accountant for annual audit before submitting the primary audit opinions.

Independent Directors' attendance of the Boarding meeting:

Name	Times of meetings should attend	Attended personally (Times)	Attended by proxy (Times)	Absent form meeting (Times)	Notes
Chen Weihuai	11	10	1	0	Business trip for work
Zhao Lijin	11	10	1	0	Business trip for work
Zhi Guozhen	11	9	2	0	Business trip for work

IV. The Company was separated from the principal shareholder in personnel, assets and financing, the organization and business were independent. Both companies independently settled and undertook liabilities and risk respectively.

1. In respect of personnel, the Company is absolutely independent management of labor, human affairs and salaries; The Company's senior executives including the chairman of the Board, general manager, deputy general manager, financial principal and the secretary of the Board haven't been taking actual managerial positions and receiving salaries in shareholders' companies concurrently
2. In respect of assets, the Company has clear property right of assets, and there exists no occupation of assets by the large shareholder or related parties.
3. In respect of finance, the Company has established the independent finance department, and established independent business accounting system and financial management system, and opened independent bank account and paid taxes independently.
4. In respect of organization, the Board of Directors, the Supervisory Committee and other internal organizations have been functioning independently. The large shareholder and its subsidiary organizations have neither assigned management plan and order to the Company and the Company's subsidiaries, nor impacted the independency of the Company's management and administration through other ways.
5. In respect of business, the Company has independent purchase and sales system as well as independent and complete business and management capabilities.

V. Performance Appraisal and Incentive Mechanism for Senior Executives

The Company was actively implementing tried and true performance appraisal and incentive mechanism for senior executives.

## VI. Establishment and improvement of internal control

### (I) Self-appraisal report on rules of internal control

For detail information, please referred to the Self-appraisal report of Internal Control 2007 of Shenzhen International Enterprise Co., Ltd. in <http://www.coinfo.com.cn> on Apr. 23, 2008.

### (II) Appraisal opinions

#### 1. Opinions on self-appraisal on internal control expressed by the Supervisors

The Supervisors believed that after examination and approval: the internal control of the Company was in line with the requirement of Guidelines of Internal Control from Shenzhen Stock Exchange, the format of self-appraisal on internal control was in conformity with the requirement of Circular on Fulfilling the Annual Report 2007 in Listed Companies, the true, objective and complete content reflected the implementation and effects of the rules on internal control.

#### 2. Opinions on self-appraisal on internal control expressed by the Independent Director

The Independent Directors Zhao Lijin, Zhi Guozhen, Chen Weihuai believed that after examination and approval: the internal control of the Company was in line with the requirement of Guidelines of Internal Control from Shenzhen Stock Exchange, the appraisal and evaluation of internal control was in conformity with the requirement of Guidelines of Internal Control from Shenzhen Stock Exchange, the true, objective and complete content reflected the implementation and effects of the rules on internal control.

## Section VII. Introduction to Shareholders' General Meeting

In the report period, the Company totally held three Shareholders' General Meetings with details as follows:

### I. The 1<sup>st</sup> Extraordinary Shareholders' General Meeting 2007

On 6 Feb. 2007, the 1<sup>st</sup> Meeting of 5<sup>th</sup> Board of Directors for the year 2007 of the Company made resolutions to hold the 1<sup>st</sup> Extraordinary Shareholders' General Meeting 2007. The meeting was held at the meeting room of the Company on 23/F, Development Center Building, Renmin South Road, Luohu District, Shenzhen at 10:00 am on 6 Mar. 2007. Mr. Li Jinquan, Chairman of the Board, presided over the said meeting. Totally 11 shareholders and shareholder's representatives attended the Meeting, representing 86,596,763 shares, taking up 39.2% of total share capital of the Company. The Company's directors, supervisors, senior executives and lawyers engaged by the Company attended the Meeting. The following resolutions were examined and approved at this meeting:

#### (I) Resolutions on election the directors of the 5<sup>th</sup> Board of Directors

1. Election Mr. Zhang Jianmin as the director of the 5<sup>th</sup> Board of Directors;
2. Election Mr. Xiao Guangsheng as the director of the 5<sup>th</sup> Board of Directors;
3. Election Ms. Song Shengjun as the director of the 5<sup>th</sup> Board of Directors;
4. Election Mr. Li Mugui as the director of the 5<sup>th</sup> Board of Directors;
5. Election Mr. Zhi Guozhen as the director of the 5<sup>th</sup> Board of Directors;
6. Election Mr. Chen Weihuai as the director of the 5<sup>th</sup> Board of Directors;
7. Election Mr. Zhao Lijin as the director of the 5<sup>th</sup> Board of Directors;

#### (II) Resolutions on election the supervisors of the 5<sup>th</sup> Supervisory Committee

1. Election Mr. Guo Jian as the supervisors of the 5<sup>th</sup> Supervisory Committee;
2. Election Ms. Zhou Xiaoxing as the supervisors of the 5<sup>th</sup> Supervisory Committee;

The public notice on resolutions of the meeting was published in Securities Times and Hong Kong Ta Kung Pao and <http://www.cninfo.com.cn> dated 7 Mar. 2007.

### II. The Annual Shareholders' General Meeting 2006

On 5 Jun. 2007, the 5<sup>th</sup> Meeting of 5<sup>th</sup> Board of Directors for the year 2007 of the Company made resolutions to hold the 2<sup>nd</sup> Extraordinary Shareholders' General Meeting 2007. The meeting was held at the meeting room of the Company on 23/F, Development Center Building, Renmin South Road, Luohu District, Shenzhen at 10:00 am on 26 Jun. 2007. Mr. Li Jinquan, Chairman of the Board, presided over the said meeting. Totally 13 shareholders and shareholder's representatives attended the Meeting, representing 68,375,608 shares, taking up 30.32% of total share capital of the Company. The Company's directors, supervisors, senior executives and lawyers engaged by the Company attended the Meeting. The following resolutions were examined and approved at this meeting:

1. Annual Report 2006 and its Summary;
2. Work Report 2006 of the Board of Directors;
3. Work Report 2006 of the Supervisory Committee;
4. Financial Final Report 2006;
5. Profit Distribution Plan of 2006;
6. Resolution on Reengagement of domestic and overseas Certified Public

Accountants;

7. Resolution on Accounting Policy of Withdrawal of bad debit reserves of credit. The public notice on resolutions of the meeting was published in Securities Times and Hong Kong Ta Kung Pao and <http://www.cninfo.com.cn> dated 27 Jun. 2007.

### III. The 2<sup>nd</sup> Extraordinary Shareholders' General Meeting 2007

On 19 Oct. 2007, the 11<sup>th</sup> Meeting of 5<sup>th</sup> Board of Directors for the year 2007 of the Company made resolutions to hold the Shareholders' General Meeting 2006. The meeting was held at the meeting room of the Company on 23/F, Development Center Building, Renmin South Road, Luohu District, Shenzhen at 10:00 am on 12 Nov. 2007. Mr. Li Jinqun, Chairman of the Board, presided over the said meeting. Totally 7 shareholders and shareholder's representatives attended the Meeting, representing 77,614,363 shares, taking up 35.13% of total share capital of the Company. The Company's directors, supervisors, senior executives and lawyers engaged by the Company attended the Meeting. The following resolutions were examined and approved at this meeting:

1. Resolution on revising the Articles of Association of the Company ;
2. Resolution on revising Rules of Procedure for the Board of Directors;
3. Resolution on selling the property in Shenzhen International Shopping Mall;

The public notice on resolutions of the meeting was published in Securities Times and Hong Kong Ta Kung Pao and <http://www.cninfo.com.cn> dated 13 Nov. 2007.

## Section VIII. Report of the Board of Directors

### I. Operation status in the report period

#### 1. Overall operation

In 2007, the Boards and operation managements of the Company in accordance with trunk line of development strategy --- “Combination of Commercial Real Estate and Forest Industry” provided by the Company. The Company, taking “Expediting Jingdao & developing forestry ” as operation core and depending on the spirits of struggling & innovation, made great progress in all-around. During the report period, the Company realized main operation revenue of RMB 42,587,072.00, operating profit of RMB 51,283,491.40, and net profit for RMB 51,760,574.47, net profit attributable to listed company of RMB 67,866,231.38.

In the year of 2007, with economy development of our country and improvement of consumption level of residents, retail industry got a rapidly dilation and increase. Part retail industries of most cities are in the state of higher saturation, provided both domestic & overseas’ retail industries in middle or larger cities are brought to furious competition. Facing the austere state, the Company stably transferred to new commercial operation engaged in shopping center, from the traditional retail general merchandise industry, grasped high-ended orientation and differentia operation, and speeded up construction of project of Jingdao.

In the face of macro-control on real estate market by the state, the Company actively introduced the work pf strategic cooperation partner of Jindao Project, paid attention to details of design, construction and invited merchants etc, and molded large-scale commercial real estate project ---- Jingdao International Shopping Center.

The Company considered the forestry as new project for profit, and stably advanced overall items of the forestry. Forestry base the Company successfully finished the planting tasks of the year 2007. At the same time, the Company expanded to Jiangxi Province and reinforced the ground expropriation on forest ground. The Company strengthened the communication with scientific research institute and forestry department, and perfected modern forestry planting management system and mold, which laid a good basic for intensivism and large-size planting. Due to the periodicity of forest growth being 4-5 years, forestry project of the Company was still in the stage of primary investment. Up to the end of 2007, the Company exploited four bases and planned to annually increase planting area 50000 mu. Eucalypt, as main resources of raw materials of paper making and medium-high density fiberboard factories, was in status of demand exceeding supply and price was rising.

#### 2. Main operation and operation status in the report period

Statement of income from main operations classified according to industries:

Unit: RMB

Industry or products	Operating Revenue	Operating Cost	Operating profit Rate	Increase/decrease proportion of operation revenue compared with the last year (%)	Increase/decrease proportion of operation cost compared with the last year (%)	Increase/decrease proportion of operating profit rate compared with the last year (%)

Sales of commodity	1,528.59	1,368.47	10.48%	-15.38%	-12.87%	-13.60%
Sales of real estate	183.11	108.24	40.89%	-94.40%	97.75%	116.41%
Property rental	1,300.42	1,160.08	10.79%	-25.78%	20.72%	4.38%
Service	565.83	161.70	71.42%	106.47%	66.63%	185.32%

## Statement of income from main operations classified according to areas:

Region	Operating revenue	Increase/ decrease of operating revenue than last year (%)
Shenzhen	4,258.70	-47.20%

**3. Major suppliers and customers**

In the report period, the total amount of sales of the top five customers was approximately RMB 10,465,752.00, taking up 24.57% of the total annual amount of sales.

**4. Financial status of the Company**

Items	2007 (RMB)	2006 (RMB)	Proportion of increase or decrease (%)	Reason
Total assets	1,035,265,567.86	740,554,540.68	39.79%	Increase of profit
Shareholders' equity	199,541,690.83	151,141,908.84	32.02%	Ditto
Income from main operations	42,587,072.00	71,030,841.89	-40.04%	Transfer of shopping mall, decrease of revenue
Profit from main operations	51,283,491.40	-85,148,442.88	160.22%	Transfer of equity, increase of income
Net profit	51,760,574.47	-77,022,029.37	167.20%	Ditto
Accounts receivable	1,328,901.67	1,938,638.07	-31.45%	Returning payment
Other receivable	34,582,967.95	43,303,488.03	-20.13%	Returning payment for assets transfer
Accounts in advance	46,068,971.75	36,116,433.14	27.55%	Receiving subsidies for
Taxes payable	394,064.95	533,179.38	-26.09%	Normal
Operating expense	21,298,572.87	34,268,527.71	-37.84%	Transfer of shopping mall, decrease of expense
Administrative expense	20,822,122.49	38,074,766.49	-45.31%	Decrease and decrease of housing property tax
Financial expense	-3,077,474.27	9,243,038.01	-133.29%	Decrease of payment for goods
Investment income	86,047,999.77	-95,478.50	90222.90%	Transfer of equity of shopping mall
Non-operating income	10,908,241.29	13,883,875.90	-21.43%	Normal
Net increase of cash and	35,296,721.39	10,460,756.77	237.42%	Equity transfer



cash equivalent

## 5. Operation and achievements of main holding companies and share-holding companies

(1) Shenzhen International Arcade, whose 99.94% equity is held by the Company, is mainly engaged in the retail and wholesale business of chain stores with registered capital of RMB 10 million and total assets of RMB 4,379,965.64. In the report period, this company realized an income from main operations of RMB 19,472,384.30, profit from main operations of RMB 1,630,185.16.

(2) Shenzhen Rongfa Investment Co., Ltd, whose 60% equity is held by the Company, is mainly engaged in the development of real estate with registered capital of USD 5 million and total assets of RMB 983,210,276.73. In the report period, this company realized an income from main operations of RMB 7,228,787.70, profit from main operations of RMB -33,424,973.08.

(3) Shenzhen SIEC Property Management Co., Ltd., whose 61% equity is held by the Company, is mainly engaged in property management with registered capital of RMB 7 million and total assets of RMB 23,558,613.70. In the report period, this company realized an income from main operations of RMB 15,136,750.00, profit from main operations of RMB 1,292,443.09.

## II. Operation Plan of 2008

In 2008, the Company would stick to the goal of benefit, grasp the opportunity and “King-top”, “Forestry” and “Bantian Modern Logistics ” three core events and realize steady and fine new development leap.

1. Oriented around the market, introduced international brand, speeded up the preparation work of opening of King-top Shopping Center. At present, faced with strategy transfer from the traditional retail industry to large shopping center, the Company gasped the opportunity of the King-top being about to accomplishment and commencing the operation, and actively realized transfer of the profit model. Actively pushed introduction commercial industry with top and globalization orientation of the King-top project, introduced the international first-class brand, innovated the model of business, and strived for King-top project being the shopping center guided fashion.
2. Expanded the forestry manufacture and perfected forestry industry chain. With development of several years, the Company accumulated certain experience. In 2008, the Company amain pushed the development of forestry and expanded planting area. At the same time, introduced international large forestry factories and cooperated with them, perfected industrial chain, and made full use of advantageous resources of forestry and enlarged the development in an intensive and dedicate mode and make forestry supporting industry of the Company after the strategic transition in the next ten years.
3. The Company cooperated with international large scale company to exploit Bantian Modern Logistics City, whose area was more than 300000 m<sup>2</sup>. The project was a modern and scientific district integrated with logistics and commercial accessories, which would be the most famous logistics city with the best economical benefits.

4. Perfected corporate governance and seized management of the Company. The Company further perfected internal competitive mechanism and elevated some backbones of staff in clear way; adopt training of new manners and forms so as to elevate the cultivation of the team. Make clear the responsibilities and rights, set up scientific and orderly rules of management model; established scientific management system and flow; strengthen intellect construction, establish steady team.
5. Actively and stably pushed the introduction of strategic partner of King-top. The Company would further emancipate the mind, innovated the thoughts, insist on path combined with capital operation and industry development, gasped opportunity of strategic transformation, and realized leap-forward development.

### **III. Investment in the report period**

#### **1. Usage of raised proceeds in the report period**

In the report period, the Company didn't raise proceeds for use. The raised proceeds of last time were used up in the previous years.

#### **2. Investment of non-raised proceeds in the report period**

In the report period, the non-raised proceeds of the Company mainly invested and constructed the project, JingDao Shopping Mall in the Shenzhen Central District. The Company formally obtained the land use right of the said project in 2002, based on that the Company engaged RTKL International Co., Ltd. of America to design in architecture, while a design company of Japan to design in landscape. The said project was formally laid a foundation on 17 Jan. 2005, and basically completed the soil engineering of foundation pit at the end of 2005. The aforesaid project was capped on 18 Dec. 2006, and estimated it would be accomplished and tested in Jun. 2008, and would start trial operation in 2008. At present, the Company conducted consultation with the international strategic investors, to strive set up strategic cooperation relationship and fully launched working to attract domestic and foreign investors in the global.

### **IV. Changes in accounting policy and estimate and correction of accounting errors.**

#### **Changes in accounting policies**

Since January 1, 2007, the company carried out the new enterprise accounting standards systems and guidelines promulgated by the People's Republic of China. In accordance with the No 38 Enterprise Accounting Standard – First implementation of Enterprise Accounting, Article 5 to 19, and No 1 Interpretation of Enterprise Accounting Standard, the company has adjusted the financial statement retroactively.

#### **① Long-term equity investment in subsidiaries**

According to the document of No 1 Interpretation of Enterprise Accounting Standard and the expert group's opinion (III) on in implementing Enterprise accounting standards, on the first implementation date, the Company should adjust the long-term equity investment in subsidiary retroactively by cost method, and subsidiary are deemed as complying new accounting standard as when it was acquired; the investment cost shall be apply retroactive adjustment accordingly after adjustment on profit or loss by equity method. The Company adjusted investment income for -86,399,357.48, long-term equity investment for a increase of 79,035,455.01, capital reserve for a decrease of 7,363,902.47, impairment loss provision

for long-term equity investment for a increase of 13,999,737.16, retained earning at the beginning of the year for a increase of 63,080,143.63, and surplus reserve for increase of 9,319,476.69.

②Income tax

According to new Enterprise Accounting Standards, deferred tax assets are calculated on the difference when the carrying amount of assets and liabilities in the financial statements is lower than the corresponding tax basis used in the computation of taxable profit; and deferred tax liabilities when the carrying amount of assets and liabilities in the financial statements is higher than the corresponding tax basis used in the computation of taxable profit. Since the Group predicts that they will not have sufficient taxable income in a foreseeable future to deduct the temporary difference, the Group does not recognize any deferred income tax assets for current period.

(2) Changes in accounting estimates

The company has no change in accounting estimates for current period.

(3) Correction of accounting errors

Shenzhen Security Regulatory Commission inspected the Company on field in 2007.

According to the report regarding to Shenzhen Security Regulatory Commission inspection results, the Group corrected the following accounting errors:

① In the debt restructuring with the Company's main shareholder Shenzhen SDG Co., Ltd. in 2005, according to the agreement, the Company recognized 1,445,786.89 as interest incomes which among of the difference between actual payment and book value of accounts payable to Shenzhen SDG Co., Ltd. for 5,627,500. Accordingly, to correct the error, the Company reduced the beginning balance of retained earnings for 1,445,786.89, and increased capital reserves for 1,445,786.89.

② The subsidiary Shenzhen Rongfa has accounted for administration expenses as development cost for amount of 2,604,000.00 and 2,600,000.00 respectively in 2005 and 2006. Accordingly, to correct the error, Shenzhen Rongfa adjusted net profits in 2005 for a decrease of 2,604,000.00 and net profits in 2006 for a decrease of 2,600,000.00.

Referring to the event mentioned above, the Company has restated on the comparable financial statements of year 2006. It reduced the beginning balance of retained earnings for 3,008,186.89, and reduced its beginning balance of minority interests for 1,041,600.00; the impact on profit and loss for the year of 2006 included increase of administration expenses for 2,600,000.00 in the consolidation income statement, decrease of 1,560,000.00 net profits which attributed to the parent company, and also decrease of 1,040,000.00 net profits which attributable to minority interests.

V. Routine work of the Board of Directors

(I) In the report period, meetings and resolutions of the Board

In the report period, the Company totally held 13 meetings of the Board with details as follows:

1. The 1<sup>st</sup> Meeting of the 4<sup>th</sup> Board of Directors for the year 2007 was held by means of communication on 6 Feb. 2007. The Company has 7 directors and actually 6 directors exercised the voting right. The following resolutions were examined and approved:

(1) Resolution on Election of Mr. Zhang Jianmin as director candidate of the 5<sup>th</sup> Board of

- Directors.
- (2) Resolution on Election of Mr. Luotao as director candidate of the 5<sup>th</sup> Board of Directors.
  - (3) Resolution on Election of Mr. Xiao Guangsheng as director candidate of the 5<sup>th</sup> Board of Directors.
  - (4) Resolution on Election of Mr. Li Mogui as director candidate of the 5<sup>th</sup> Board of Directors.
  - (5) Resolution on Election of Mr. Zhi Guozhen as independent director candidate of the 5<sup>th</sup> Board of Directors.
  - (6) Resolution on Election of Mr. Chen Weihuai as independent director candidate of the 5<sup>th</sup> Board of Directors.
  - (7) Resolution on Election of Mr. Zhao Lijin as independent director candidate of the 5<sup>th</sup> Board of Directors.
  - (8) Resolution on Holding the 1<sup>st</sup> Extraordinary Shareholders' Meeting 2007.

Thereinto, resolutions (1), (3)-(7) were reviewed and approved by fax at the meeting, and resolution (2) was not passed.

The public notice on resolutions of the meeting was published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 7 Feb. 2007.

2. The 1<sup>st</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held at meeting room on 23/F, Development Center Building, Renmin South Road, Shenzhen at 11:00 am on 6 Mar. 2007. The Company has 8 directors and actually 8 directors exercised voting right.

The following resolutions were considered and passed at the Meeting:

- (1) Resolution on Election of Chairman of the 5<sup>th</sup> Board of Directors;
  - (2) Resolution on Engagement on Ms. Song Shengjun as General Manager of the Company;
  - (3) Resolution on Engagement on Zhou Meng as Vice General Manager and Secretary of the Board of the Company;
  - (4) Resolution on Engagement on Ms. Cai Yanhong as Finance Director of the Company;
- The public notice on resolutions of the meeting was published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 7 Mar. 2007.

3. The 2<sup>nd</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held by means of communication on 10 Apr. 2007. The Company has 8 directors and actually 8 directors exercised voting right. The Resolution on Agreement on Loan from China Construction Bank of Shenzhen Rongfa Investment Co., Ltd were considered and passed at the Meeting.

- (1) Work Report of the Board of Directors 2006;
- (2) Work Report of the General Manager 2006;
- (3) Annual Report 2006 and its summary;
- (4) Report on Financial Budget 2006;
- (5) Preplan on Profit Distribution 2006;
- (6) Resolution on Engagement of Domestics and oversea Certified Public Accountants Firms;
- (7) Resolution on Guarantee for Loan of Shenzhen Rongfa Investment Co., Ltd, subsidiary of the Company;

(8) Resolution on Loan of Shenzhen International Commercial Mall, controlling subsidiary of the Company, with RMB being 100 million;  
(9) Resolution on Employees' Subscription of shop of Jindao;  
(10) Resolution on Loan from Individual for Supplementary investment of Jingdao;  
(11) Resolution on Accounting Policy of Withdrawal of Bad Debt Reserve of Credit.  
The public notice on resolutions of the meeting was published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 11 Apr. 2007.

4. The 3<sup>rd</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held by means of communication on 13 Apr. 2007. The Company has 8 directors and actually 8 directors exercised voting right. The Resolution on Agreement on Loan from China Construction Bank of Shenzhen Rongfa Investment Co., Ltd were considered and passed at the Meeting. The following resolutions were considered and passed at the Meeting:

The public notice on resolutions of the meeting was published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 26 Apr. 2007.

5. The 4<sup>th</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held by means of communication on 26 Apr. 2007. The Company has 8 directors and actually 8 directors exercised voting right. The following resolutions were considered and passed at the Meeting:

(1) The 1<sup>st</sup> Quarterly Report of 2007 and of its summary.

(2) Resolution on Implementation of New Accounting Standard for Enterprise;

The public notice on resolutions of the meeting was published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 27 Apr. 2007.

6. The 5<sup>th</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held by means of communication on 5 Jun. 2007. The Company has 8 directors and actually 6 directors exercised voting right. Resolution on Holding Shareholders' General Meeting 2006 was considered and passed at the Meeting.

The public notice on resolutions of the meeting was published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 6 Jun. 2007.

7. The 6<sup>th</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held by means of communication on 5 Jul. 2007. The Company has 8 directors and actually 8 directors exercised voting right. The following resolutions were considered and passed at the Meeting:

(1) Resolution on Agreement on establishment Luoyang Project of Shenzhen Rongfa Investment Co., Ltd, controlling subsidiary of the Company.

(2) Resolution on Transfer of Parts of Real Estate of Guoqi Building;

(3) Approval of Management of Information Disclosure of Shenzhen International Enterprise Co., Ltd.

The public notices on resolutions of the meeting were published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 26 Jul. 2007.

8. The 7<sup>th</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held by means of communication on 17 Aug. 2007. The Company has 8 directors and actually 8 directors exercised voting right. Approval of Self-check Report and Rectification Planning of Shenzhen International Enterprise Co., Ltd were considered and passed at the Meeting. The public notice on resolutions of the meeting was published in Securities Times and Ta

Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 18 Aug. 2007.

9. The 8<sup>th</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held by means of communication on 27 Aug. 2007. The Company has 8 directors and actually 8 directors exercised voting right. The following resolutions were considered and passed at the Meeting:

- (1) Interim Report of Shenzhen International Enterprise Co., Ltd 2007 and its summary;
- (2) Resolution on Share Transfer of Shenzhen Rongfa Investment Co., Ltd held by Foh Chong & Sons Sdn. Bhd to its subsidiary company.

The public notice on resolutions of the meeting was published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 28 Aug. 2007.

10. The 10<sup>th</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held at meeting room on 23/F, Development Center Building, Renmin South Road, Shenzhen at 9:30 am on 28 Sep. 2007. The Company has 8 directors and actually 8 directors exercised voting right. The following resolutions were considered and passed at the Meeting:

- (1) Resolution on Agreeing Sales of Shares of Longgang
- (2) Resolution on Agreement on Responsibility Confirmation of Both Parties of Jindao Project;

Thereinto, resolution (2) was reviewed and approved by fax at the meeting, and resolution (1) was not passed.

The public notice on resolutions of the meeting was published in Securities Times and Ta Kung Pao and [http:// www.cninfo.com.cn](http://www.cninfo.com.cn) dated 29 Sep. 2007.

11. The 11<sup>th</sup> Meeting of the 5<sup>th</sup> Board of Directors for the year 2007 was held at meeting room on 23/F, Development Center Building, Renmin South Road, Shenzhen at 10:00 am on 19 Oct. 2007. The Company has 8 directors and actually 8 directors exercised voting right. The following resolutions were considered and passed at the Meeting:

- (1) Resolution on Examination and Approval of Selling Shares of Shenzhen International Shopping Mall of Shenzhen Rongfa Investment Co., Ltd and the Company;
- (2) Resolution on Revising Articles of Association.
- (3) Proposal on Amending Rules and Procedures of the Board of Directors
- (4) Proposal on Amending Work Regulation of General Manager
- (5) Proposal on Adjusting Remuneration of the Company
- (6) Proposal on Examining and Approving the 3<sup>rd</sup> Quarterly Report
- (7) Proposal on Submitting the Convening of Extraordinary Shareholders' General Meeting by the Board of Directors
- (8) Proposal on Resuming Internal Audit Department

The public notices of the resolutions at this meeting were published in Securities Times, Hong Kong Ta Kung Pao and [http://: www.cninfo.com.cn](http://www.cninfo.com.cn) on Oct. 20.

12. On Oct. 30, the 12<sup>th</sup> meeting of the 5<sup>th</sup> Board Meeting of the Company in 2007 was held through telecommunication, 8 directors voting actually, the same as the number of the directors of the Company. The Rectification Report on Corporate Governance of Shenzhen International Enterprise Co., Ltd. was examined and approved at the meeting.

The public notices of the resolutions at this meeting were published in Securities Times, Hong Kong Ta Kung Pao and [http://: www.cninfo.com.cn](http://www.cninfo.com.cn) on Oct. 31.

(II) Execution of resolutions at Shareholders' General Meeting by the Board of Directors  
In the report period, according to the resolutions at the Shareholders' General Meeting, the Board of Directors arranged related persons to execute the content of the resolutions with positive attitude, which maintained the shareholders' interest quite well.

(III) Summary of performance of the Audit Committee

The Audit Committee subordinated to the Board of Directors of the Company was consisted of 5 persons, including 3 independent directors, who were charged with the communication on the internal and external audit of the Company, inspection on supervision and review on annual report.

1. In the course of auditing annual report, the Audit Committee and the independent directors fulfilled duties seriously according to the related requirement from CSRC on properly handling the work of annual report. Before the audit institution's entry, the Audit Committee, independent directors and CPAs of the Company for yearly-audit carried out the meeting procedure, together considering and discussing the time, plan and preliminary scheme of the annual auditing work, then forming the preliminary opinion.
2. According to the related regulations, the financial statements of the Company were reviewed before the CPAs' entry for yearly-audit.
3. After the audit institution's entry, the Audit Committee and the independent directors actively communicated with CPAs, keeping a close watch on progress of auditing work, supervising the auditing work in compliance with the schedule. After the audit institution represented the preliminary opinion, the Audit Committee and the independent directors again communicated with the persons in charge of yearly-audit of the Certified Public Accountants by means of meeting on 7/2008. The Audit Committee audited the financial report audited by the Company and formed corresponding opinion after hearing the review opinion on annual report from the Company, permitting to compile the Annual Report of the Company and Its Abstract in 2007 on the basis of the financial data.
4. The Audit Committee submitted the suggestion on engagement of Reanda Certified Public Accountants in 2008 to the Board of Directors of the Company

(IV) Summary of the performance of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of the Board of Directors was consisted of 5 directors, including 3 independent directors. In the report period, the Remuneration and Appraisal Committee examined the remuneration of the directors, supervisors and the senior management staffs of the Company, and represented the following opinions:

1. The remuneration of the directors, supervisors and the senior management staffs of the Company disclosed in the Annual Report in 2007 was in light with actual situation.
2. So far, the Company hasn't established equity incentive mechanism, but the Company would perfect internal incentive and constraint mechanism constantly, and set up the incentive mechanism combining short-term with long-term gradually, which could promote the integration of the interest between the managements of the Company and the Company & shareholders.

#### VI. Preplan of the profit distribution for 2007

By Dec. 31, 2007, according to the audit of Reanda Certified Public Accountants, the profit of the Company after tax was RMB 67,866,231. According to the principle of profit distribution, as the withdrawal statutory surplus reserves was RMB 0,00, statutory common welfare fund of RMB 0,00, and the undivided retained profit at the end of 2006 was RMB -242,098,534.97, the total profit available for distribution for the shareholders was RMB -174,793,080.87. The preplan of profit distribution of the Company in 2007 was: the Company decided not to distributed the profit or conduct capitalization of common reserves. The distribution preplan would be implemented after being examined and approved at the Shareholders' General Meeting.

VII. The newspaper chosen by the Company to disclose information were Securities Times and Hong Kong Ta Kung Pao in 2007.

#### VIII. Other events to report

##### 1. Special explanation to the funds occupied by the related parties by Reanda Certified Public Accountants

According to Several Issues Concerning the Regulation of Cash Flows Between Listed Companies and Their Affiliates and Security Provided to Outside Parties by Listed Companies Circular (ZJF [2003] No. 56) issued by the China Securities Regulatory Commission and the State-owned Assets Supervision and Administration Commission of the State Council, the Company compiled a form about capital occupied by the controlling shareholders of the Company and other related parties by Dec. 31, 2007 (hereinafter referred to as Situation Form) which was attached with the special explanation.

It was the duty of the Company that the Situation Form should be compiled and disclosed according to the fact with the certainty of truth, legality and integrity. We checked the information in the Situation Form and the related content mentioned in the examined accounting information and the audited financial report when we audited the Financial Report of the Company in 2007. Apart from executing the relevant audit procedure for the related transaction which was implemented during auditing Accounting Statements of the Company in 2007, we didn't execute extra audit procedure for the information in the Situation Form. In order to know the particular about funds occupied by the controlling shareholders of the Company and the related parties, please read the attached Situation Form and audited Consolidated Accounting Statements together.

Through auditing, we believed: by Dec. 31, 2007, the event on funds occupied by the controlling shareholders and other related parties mentioned in Item 2 of Article 1 in Circular didn't occurred between the Company and controlling shareholders & other related parties; neither the expenses during the period of paying salary, welfare, insurance and advertisement or the cost or other expenses undertaken for the controlling shareholders and other related parties.



2. Special explanation and independent opinion on the current capital between the Company and the related parties and external guarantee by the Board of Directors: According to the spirit of Several Issues Concerning the Regulation of Cash Flows Between Listed Companies and Their Affiliates and Security Provided to Outside Parties by Listed Companies Circular (ZJF [2003] No. 56) issued by the China Securities Regulatory Commission, with the spirit of seeking truth from facts, we carefully and responsibly examined the particulars about external guarantee of Shenzhen International Enterprise Co., Ltd and the cash flows between the Company and the related parties, answering the relevant questions as follows:

(1) According to the relevant regulation issued by CSRC, the Company didn't offer any guarantee for the related parties;

(2) By Dec. 31, 2007, the Company had not provided any loan guarantee for its subsidiaries;

(3) By Dec. 31, 2007, the Company only provided guarantee for the bank loan RMB 6 million of Shenzhen Shum Kong Ind. & Trading Co., undertaking the principal fund and interest of RMB of 10.18 million, so the Company and the shareholding subsidiaries brought into consolidated statements had no other external guarantee.

(4) According to the Rule for Stock Listing and the Article of Association of the Company, the Company seriously fulfilled the obligation of the information disclosure for the external guarantee, and faithfully provided information of external guarantee of the Company for the CPAs in accordance with rules.

(5) The Special Explanation to the Funds Occupied by the Controlling shareholders of Shenzhen International Enterprise Co., Ltd and Related Parties issued by the Audit Committee of the Company truly reflected the situation of the Company.

## Section IX Report of the Supervisory Committee

### I. Work of the Supervisory Committee of the Company in the report period

Except attending the Board meetings, the Supervisory Committee of the Company totally held 4 meetings in the report period:

1. On Feb. 6, the 1<sup>st</sup> meeting of the 4<sup>th</sup> Supervisory Committee of the Company in 2007 was held through telecommunication, 2 supervisors present at the meeting, which was required 3 supervisors present. The following proposals were examined and approved at the meeting:

- (1) Proposal on Electing Mr. Guo Jian as the Candidate of the 5<sup>th</sup> Supervisory Committee;
- (2) Proposal on Electing Ms. Zhou Xiaoxing as the Candidate of the 5<sup>th</sup> Supervisory Committee.

The public notices of the resolutions at this meeting were published in Securities Times, Hong Kong Ta Kung Pao and [http://: www.cninfo.com.cn](http://www.cninfo.com.cn) on Feb. 7.

2. On Mar. 6, the 1<sup>st</sup> meeting of the 5<sup>th</sup> Supervisory Committee of the Company in 2007 was held at the meeting room of the Company at 11, 3 supervisors present at the meeting, which met the requirement. The Proposal on Electing Chairman of the Supervisory Committee was examined and approved at the meeting.

The public notices of the resolution at this meeting were published in Securities Times, Hong Kong Ta Kung Pao and [http://: www.cninfo.com.cn](http://www.cninfo.com.cn) on Mar. 7.

3. On Apr. 10, the 2<sup>nd</sup> meeting of the 5<sup>th</sup> Supervisory Committee of the Company in 2007 was held at the meeting room of the Company, 3 supervisors present at the meeting, which met the requirement. The following proposals were examined and approved at the meeting:

- (1) Proposal on Examining and Approving the Work Report of the Supervisory Committee in 2006;
- (2) Examination and Approval of the Reports and Abstracts in 2006.

The public notices of the resolutions at this meeting were published in Securities Times, Hong Kong Ta Kung Pao and [http://: www.cninfo.com.cn](http://www.cninfo.com.cn) on Apr. 11.

4. On Oct. 30, the 3<sup>rd</sup> meeting of the 5<sup>th</sup> Supervisory Committee of the Company was held at meeting room of the Company, 3 supervisors present at the meeting, which met the requirement. The Rectification Report on Special Campaign of Corporate Governance of the Company was examined and approved at the meeting.

The public notices of the resolutions at this meeting were published in Securities Times, Hong Kong Ta Kung Pao and [http://: www.cninfo.com.cn](http://www.cninfo.com.cn) on Oct. 31.

### II. Independent opinions of the Supervisory Committee on the operation of the Company

1. The Company's operation according to laws

In the report period, the Supervisory Committee had conducted supervision on the Company's operation according to laws. The Committee believed that the Company could operate strictly according to Articles of Association and relevant laws and regulations, dutifully carried out the eight-word principle of the CSRC, i.e. "Fa Zhi, Jian Guan, Zi Lv and Gui Fan" (in English: legality, supervision, self-discipline, standard), and punctually and completely disclosed relevant information of the Company. The Company had no irregular cases, and its decision-making procedures were legal and inner control system basically healthy. While performing their duties, the directors, General Manager and other senior administrative personnel of the Company had been diligent, responsible, and dutiful, and strictly carried out each resolution made at the Shareholders' General Meetings in the report period. No deeds that had been against laws, regulations or Articles of Association, or done harm to the rights or interests of the shareholders or the interests of the Company had ever been discovered.

## 2. Financial status of the Company

The Supervisory Committee conducted careful inspection on the financial structure and financial status of the Company, believing that the Company could follow out the state financial standards and accounting systems for the Quarterly Financial Reports, Semi-annual Financial Report and the Annual Report of the Company could truly and objectively reflected the financial status and the results of production and operation of the Company. The Auditors' Report of the Company in 2007 with unqualified audit opinion issued by Reanda Certified Public Accountants truly reflected the financial status and the results of production and operation of the Company.

## 3. In the report period, the Company had no usage of raised proceeds.

## 4. Purchases and sales of assets by the Company in the report period

The purchases and sales of assets occurred in the report period was the need of the normal operation business. The trading price of purchase and sale of assets was reasonable. There existed no internal transactions and the transactions did not damage the right and interest of part shareholders or cause assets run off.

## 5. Related transactions in the report period

All the related transactions of the Company in the report period were all fair commercial behaviors. They had been fair and reasonable, and had not done any harm to the interests of the Company.

## 6. Financial Auditors' Report

Reanda Certified Public Accountants had audited the Financial Report 2007 of the Company, and had produced unqualified opinions.

# Section X Significant Events

## I. Significant lawsuits and arbitration

(1) The loan dissension between Shenzhen Mingxing Industry Development Co., Ltd. (hereinafter referred to as Mingxing Industry) and Shenzhen Rongfa Investment Co., Ltd. (hereinafter referred to as Rongfa Company) was made verdict [ (2005) SZFMEC Zi No. 327] by Shenzhen Intermediate People 's Court on Nov. 17, 2005, ignoring the request of Mingxing Industry. Mingxing Industry appealed to Guangdong High People's Court against the decision. Guangdong High People 's Court issued Civil Mediation Agreement [ (2006) YGFMEZ Zi No. 73] on Jun. 23, 2006, and made judgment for the case.

Owing the appealing for retrial by the opposing party, Rongfa and the opposing party reached reconciliation in the retrial course, at which Rongfa paid RMB 5 million for Mingxing to solve the case. RMB 1 million would paid before Jan. 20, 2008 for the 1<sup>st</sup> phase, RMB 2 million before Mar. 20, 2008 for the 2<sup>nd</sup> phase, RMB 2 million before Jun. 20, 2008 for the 3<sup>rd</sup> phase. The Company received the mediation agreement on Jan. 1, 2008, coming into effect immediately.

(2) The retrial on case which the Company provided guarantee for loans from lender, Bank of China, Shangbu Branch (Shangbu BOC) to borrower, Shum Kong Industry & Trade ruled that, the Company shoulder joint liabilities for the loans of Shum Kong Industry & Trade in 1999 (principal RMB 6 million and overdue interest).

The case was the historical problems in mutual guarantees between the Company and Shum Kong Industry & Trade. After trial of first and second instance, People 's Procuratorate of Guangdong decided not protest the judgment. The Company appealed to Guangdong High People 's Court for retrial against the judgment. Shenzhen Intermediate People's Court made a decision of retrial for the case.

The court ruled that the Company should undertake the joint liabilities in the course of retrial, and return principal fund and interest of RMB 6 million to the opposing party. Yangxi Court sealed up such five sets of real estate as 29C of Guo Qi Building, 102, 701, 802 and 804 of Block 6, South of Songyuan in Luohu District and equity of Rongfa Company, and evaluated the real estate as the case had been appointed to be executed by Yangxi Court. The Company had raised an objection to the evaluation letter to the court. Yangxi Court also sealed up the land (50,000 sq.m.) of Shun Kong Industry & Trade Co., Ltd, the first executor, and the Company was the 3<sup>rd</sup> one to be sealed up.

## II. Significant acquisition and sales of assets of the Company in the report period

According to the Proposal on Examining and Approving the Company and Rongfa Limited Selling Equity of Shenzhen International Arcade which was examined and approved at the 11<sup>th</sup> meeting of the 5<sup>th</sup> Board of Directors of the Company in 2007, the Company and the shareholding subsidiary Shenzhen Rongfa Investment Co., Ltd. (hereinafter referred to as Rongfa Company) reached an agreement with Shenzhen White Horse Garments Co., Ltd. (hereinafter referred to as White Horse Company) on Oct. 18, 2007, transferring all the equity of Shenzhen International Arcade (International Arcade) held by the Company and Rongfa Company by RMB 87.08million.

The transfer of International Arcade was invested by Shenzhen International Enterprise Co., Ltd. and Shenzhen International Enterprise Trade Co., Ltd., which was founded on Jan. 1, 1984. The registered capital was RMB 10 million, Shenzhen International Enterprise Co., Ltd. taking up 95% of investment proportion while 5% for Shenzhen International Enterprises Trade Co., Ltd. The registered number was 4403011030322, the registered address was 1-2/F, Block North, International Commercial Building, Jiabin Road in Luohu District, Shenzhen, the legal representative was Mr. Li Jinquan, the type of the Company belonged to limited liability company.

The business scope of the Company: marketing of daily general merchandise, textile, knitwear, clothing, cultural and sports facilities, instruments, hardware, furniture, daily earthen, sugar, non-staple food, dry and fresh fruit, artistic handicrafts, camera art, ornament of precious metal, cigarette, wine, Chinese Medicine, Chinese Medicinal Material (the item involved into the license management should be operated after obtaining the license); domestic commerce, supply and marketing of material (excluding major in marketing, controlling and selling merchandise); export business (except the items which were banned by the laws, administrative rules and State Department, the restrained item should obtain the license to operate).

According to the evaluation report issued by Beijing Longyuan Zhibo Assets Evaluation Company which was qualified to engage in securities business, by the base date of assets evaluation Sep. 30, 2007, the total assets of International Arcade was RMB 9,184,800, total liabilities of RMB 3,723,200 and shareholders' interest of RMB 5,461,600. In accordance with the decision on changing commercial business model of the Company and adjusting the development strategy, the transfer of Shenzhen International Arcade brought benefit to ensure the maximization of the interest of the listed companies and the industry's adjustment, in line with the long-term development of the Company. The transaction directly influenced the current financial status and operating profit of the Company by RMB 70 million, the influence on the profit in the 4<sup>th</sup> quarter was to decrease the asset depreciation and interest expenses, of which the interest was reduced total by about RMB 4 million, and the influence on the profit in 2007 was to increase the profit by about RMB 74 million. So far, the Company has received all the accounts of the transfer trade.

III. The Company had no significant related transactions in the report period.

IV. Important contracts in the report period and their implementation

1. In the report period, there were no events of significant entrustment, contracting, lease of other companies' assets by the Company or vice versa.

2. Important guarantee contracts of the Company in the report period

In the report period, the Company had provided guarantees for its subsidiaries strictly in accordance with the decision-making procedures stipulated in the Articles of Association and the Work Rules of the Board of Directors:

(1) According to the conventions of the sales of commercial housing through mortgage among real estate companies, the subsidiary Rongfa Company provided guarantees for the mortgages for the sales of the properties developed by itself. By Dec. 31, 2007, the balance of the mortgage guarantees provided by Rongfa Company was RMB 48,327,982.76.

(2) According to the conventions of the sales of commercial housing through mortgage among real estate companies, the subsidiary Huizhou Rongfa Industrial Investment Co., Ltd (hereinafter referred to as Huizhou Rongfa) provided guarantees for the mortgages for the sales of the properties developed by itself. By Dec. 31, 2007, the balance of the mortgage guarantees provided by Huizhou Rongfa was RMB 13,583,600.

3. In the reporting period, the Company has not entrusted others with cash management or issues of getting loans.

4. The Company had no other significant contracts in the report period.

V. No commitments made by the Company or shareholders holding over 5 percent equity were disclosed in newspapers or websites in the report period.

VI. In the report period, the domestic Certified Public Accountants engaged by the Company was Reanda Certified Public Accountants.

Reanda Certified Public Accountants Co., Ltd started to provide auditing service for the Company from 2001, and the annual remuneration for it was RMB 720,000. The total amount paid to the Certified Public Accountants by the Company for the year 2007 was RMB 720,000.

VII. In the report period, neither the Board of the Company, nor its Supervisory Committee, directors, supervisors nor any other senior executives had been inspected by the CSRC, received any administrative punishments or circulating criticism from the CSRC, or publicly criticized by the Shenzhen Stock Exchange.

VIII. The Company had no significant events that fit the stipulations in Article 67 of the Securities Law or Article 17 of Rules on the Disclosure of Information by Companies Making Public Offerings of Shares (Trial Edition), or any events deemed as significant events by the Board of the Company.

## Section XI. Financial Report

I. Auditors' Report (attachment)

II. Financial Statements (attachment)

III. Notes to the Financial Statements (attachment)

## Section XII. Documents for Reference

1. Accounting statements with the signatures and seals of the Legal Representative, the person in charge of accounting work and the person in charge of the accounting departments.
2. Originals of the Auditors ' Reports with the seals of the Certified Public Accountants, as well as the signatures and seals of the CPAs.
3. Texts of all the documents of the Company ever disclosed in the Securities Times, Hong Kong Ta Kung Pao and the CNINFO website in the report period as well as the originals of the public notices.

This report has been prepared in both Chinese and English. Should there be any ambiguity in meaning in the two versions, the Chinese version shall prevail.

Shenzhen International Enterprise Co., Ltd

Signature of the Chairman of the Board:      Board of Directors

Apr. 22, 2008

## Auditors' Report

REANDA SHEN ZI [2008] No.1097

To the Shareholders of  
Shenzhen International Enterprise Co., Ltd

We have audited the accompanying financial statements of Shenzhen International Enterprise Co., Ltd (“the Company”) and its subsidiaries (“the Group”), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management’s Responsibility for the Financial Statements**

The Company’s management is responsible for the preparation of these financial statements in accordance with the Enterprises Accounting Standards of China. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; (3) making accounting estimates that are reasonable in the circumstances.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Certified Public Accountants' Auditing Standards. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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



**Opinion**

In our opinion, the financial statements have been prepared in accordance with the requirements of the Enterprises Accounting Standards promulgated by the People's Republic of China, and present fairly, in all material respects, the financial position of the Group as at December 31, 2007, and the results of its operations and its cash flows for the year then ended.

Reanda Certified Public Accountants Co., Ltd.

Certified Public Accountant

Beijing, China

Certified Public Accountant

April 21, 2008

**Shenzhen International Enterprise Co., Ltd**

**Notes to Financial Statements**

For the year of 2007

(All amounts are expressed in RMB yuan unless otherwise stated)

## **I. Corporation Information**

Shenzhen International Enterprise Co., Ltd. (“the Company”) was incorporated in 1983 in the People’s Republic of China and was restructured as a stock limited company in 1993. The Company issued A and B shares in 1994 and 1995 respectively in the Shenzhen Stock Exchange. The principal activities of the Company and its subsidiaries (together with the Company referred to as “the Group”) are chain departmental stores, property development and management, and trading.

## **II. Basis for preparation**

The Company and its subsidiaries maintain their accounting records and prepare their statutory financial statements in accordance with the Enterprise Accounting Standards issued by the Ministry of Finance in February 2006 which became effective from January 1, 2007. The financial statements are prepared base on the assumption of going concern, actual transactions and items, latest Enterprise Accounting Standards, Zheng Jian Fa [2006] No. 136 Notice on the Improvement in Disclosing the Accounting Information related to the New Accounting Standards, Zheng Jian Kuai Ji Zi [2007] No. 10 Disclosure of Accounting Information for public stock company No. 7 Questionnaires - Preparation and Disclosure of Comparable Accounting Information in the Transition Period of New and Old Accounting Standards which issued by China Securities Regulatory Commission etc related regulation, and mentioned in notes IV – the significant accounting policies and accounting estimates. The 2006 annual financial statements were originally prepared in accordance with the old Enterprise Accounting Standards and Enterprise Accounting Systems and relevant supplementary regulations. According to articles 5 to 19 of No. 38 Enterprises Accounting Standard - First Implementation of Enterprise Accounting Standards, and No. 1 Interpretation of Enterprises Accounting Standard which interprets the impacts of comparable income statement and balance sheet, the Company complied with retroactive adjustment principle, and adjusted data into comparable income statement and balance sheet.

## **III. Declaration of Compliance with the Enterprise Accounting Standards**

The Company’s financial statements prepared meet the requirements of the Enterprise Accounting Standards, fairly and completely present the financial position, operation result and cash flow, and other relevant information of the company.

## **IV. Summary of Significant accounting policies and accounting estimates and methods of preparation of consolidated financial statements**

### **(1) Accounting year**

The company employs a period of calendar days from January 1 to December 31 each year as accounting year.

## **(2) Reporting currency**

The Company's reporting currency is Renminbi ("RMB").

## **(3) Measurement characters**

The Company commonly measures accounting factors by historical cost method; if the determined accounting factor amount can be obtained or reliably measured, then replacement cost, net realizable value, net value and fair value method may be employed for some individual accounting factors.

## **(4) Foreign currency transactions**

Foreign currency (currency other than the reporting currency) transactions are translated into reporting currency at spot exchange rates prevailing on the day in which the transactions take place. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing at the balance sheet date. The exchange differences between the spot exchange rate at balance sheet date and initial recognition rate or spot exchange rate at previous balance sheet date are accounted for as profit and loss account for the current period.

The exchange gains and losses arising from foreign currency borrowings especially related to the purchase or construction of fixed assets refer to Enterprise Accounting Standards– Borrowing Costs.

## **(5) Financial assets and financial liabilities**

### **A. Classification**

The categories of financial assets and liabilities include financial assets and liabilities at fair value through profit and loss; held-to-maturity investments; loans and receivables; available-for-sale financial assets; other financial liabilities.

### **B. Initial recognition and subsequent measurement**

- (a) The Company recognizes a financial asset or liability when the Company became one party of financial instrument contract.
- (b) Financial assets and financial liabilities are measured initially with fair value (deducted with any declared but not paid out cash dividends and declared due bond interests but not paid) when are acquired. Related transaction fees are accounted for profit and loss in current period. Interests received and cash dividends received during the period held are recognized as investment income. At balance sheet date, the changes of fair value are accounted for profit and loss in current period.
- (c) Held-to-maturity investments are measured initially with fair value (deducted with any declared but not paid cash dividends and declared due bond interests but not paid) and

transaction fees when are acquired. Interests are measured at actual interest rate during the period held and recognized as investment income.

(d) Receivable

Receivables are measured initially with the price in a purchase contract or an agreement.

(e) Available-for-sale financial assets are measured initially with fair value (deducted with any declared but not paid cash dividends and declared but not paid due bond interests) and transaction fees when are acquired. Interest received and cash dividends received during the period held are recognized as investment income. Any changes of fair value of available-for-sale financial assets at the end of period are accounted for capital reserve (other capital reserve).

(f) Other financial liabilities are measured initially with fair value and transaction fees when are acquired. The subsequent calculations employ amortized cost method.

C. Derecognition and measurement of financial assets

The Company shall derecognize financial assets when all the risks and rewards have been transferred to other party; if not, the Company shall recognize the financial assets. The company adopts substance over form method while making judgment if the derecognition of financial assets meet the requirement of accounting principles. The company differentiates the transfer of financial assets into entire transfer and the partial transfer of financial asset.

When derecogniziton condition of entire transferred assets has been satisfied, the differences between the amounts of following two items shall be accounted for profits and losses of current period.

- (a) The book value of transferred financial assets;
- (b) The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the shareholders' equities (in the event that the financial asset involved in the transfer is a financial asset available-for-sale)

If the transfer of partial financial assets satisfies the conditions of derecognition, the entire book value of the transferred financial asset shall, between the portion whose derecognition and the recognized portion (under such circumstance, the service asset retained shall be deemed as a portion of financial asset whose derecognition), be apportioned according to their respective relative fair value, and the difference between the amounts of the following two items shall be accounted for the profits and losses of the current period .

- (a)The portion book value derecognized;
- (b)The sum of consideration of the portion whose derecognition and the portion of accumulative amount of the changes in the fair value originally recorded in the shareholders' equity which is corresponding to the portion whose derecognized ( in the event that the financial assets involved in the transfer is a financial assets available-for-sale).

If the Company fails to satisfy the conditions of derecognition for transferred financial assets, it shall continue to recognize the entire financial assets to be transferred and shall recognize the consideration it receives as a financial liability.

D. Fair values of financial assets and financial Liabilities

For active financial assets or financial liabilities in the market, the quotations shall be used for the determination of their fair values; for inactive financial instruments, the Company shall employ evaluation techniques to determine their fair values. Valuation techniques include using recent market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

E. Impairment of financial assets

The Company assesses the financial assets except those financial assets at fair value through profit and loss at the balance sheet date. If there is objective evidence that the one or several financial assets are impaired, the Company shall determine the amount of any impairment loss.

(a)Accounts receivable

At the end of the period, if there is objective evidence that the accounts receivable have been impaired, the impairment loss shall be recognized based on the differences between book values and present value of future cash flows.

At the end of the period, impairment test shall be made on individual accounts receivable with significant amounts. If there is objective evidence that they have been impaired, bad debt loss shall be recognized and provision for bad debts shall be made base on the differences between book values and the present value of future cash flows.

For those individual accounts receivable with not significant amounts at the end of the period, along with those accounts receivable that have been tested individually but not impaired, the Company classifies them in line with similar credit risk characteristics into several groups, and make a specific percentage of bad debts provision on the accounts receivable balances at balance sheet date. The percentage reflects the actual impairment loss, that is, the amount of which book values of each group are over their present value of future cash flows.

On the basis of the actual loss rate of receivable accounts, with same or similar credit risk characteristics of accounts receivable package in previous year, the Company also considers current situation and determine the percentage of bad debt provision.

(b) Available-for-sale financial assets

If there is objective evidence that available-for-sale financial assets have significant depreciated,

or after considering various relevant factors, this downward tendency is deemed as not temporary, the impairment loss shall be recognized based on the difference between the present value of future cash flows.

In case of impairment loss of available-for-sale financial assets recognized, it can not be written back.

(c) Held-to-maturity investment

The measurement of impairment loss of held-to-maturity investment, please refer to impairment loss treatment of accounts receivable.

## (6) Bad Debts Provision

The accounts receivable meeting the following criteria are recognized as bad debts:

\*The debtor is deceased or has been declared bankrupt and the debts remain not collectible after considering the assets of the bankrupt or the estate of the deceased debtor;

\*Debts that are long overdue and there is evidence indicating that the debts are not collectible or the possibility of collecting is remote.

Specific and general provisions are made to account for bad debt losses on accounts receivable and other accounts receivable. A specific provision refers to an amount that is provided based on the management's assessment of the recoverability of an individual receivable. A general provision is set up on the remaining balances of receivables (including accounts receivable and other accounts receivable) based on their aging analysis, at the rates below:

	<u>Age</u>	<u>Rate</u>
Accounts receivable, Other accounts receivable	Within 1 year	5%
	1 to 2 years	10%
	2 to 3 years	15%
	3 to 4 years	20%
	4 to 5 years	25%
	Over 5 years	30%-100%

## (7) Inventory

Inventory categories: finished goods, consigned goods, development costs, development products, low-value consumable supplies, package materials, and consumable biology assets etc.

A. Retail merchandise is accounted for by purchase price.

B. All direct and indirect costs incurred in development process for real estate development enterprise are accounted for development costs, and transfer to development products when the projects are completed. Among of them:

① Land used in development: Land is entirely transferred to work-in-process when the whole project is developed; Land is transferred partially to work-in-process when the project is developed by installment, and undeveloped land is still accounted for inventory.

② Public facilities: Public facilities are initially accounted for as development costs by actual cost, and transferred to salable properties such as residences etc when the projects are completed. If the public facilities own their operation values and developers own the right of profit inflows from the public facilities, then those public facilities are accounted for lease development products or finished development products by individually.

③ Amortization method for lease development products and turnover properties: amortize by straight-line method on predicted useful lives.

C. Self-plant consumable forest: all necessary expenses for self-plant consumable trees are initially accounted for by actual costs, and transferred to consumable forest assets when those trees are grown and available to cut for sales; when the trees are cut, the book values of those consumable forest assets are transferred to cost of goods sold accordingly.

D. Other categories of inventory are initially accounted for by actual cost, and are accounted for by weighted average method when are issued. Low consumable supplies or package materials are amortized at one time when they are issued.

E. Impairment loss of inventories

For inventories at balance sheet date, the evaluation criteria should base on the lower value between costs and net values that can be converted into cash. When net values that can be converted into cash are lower than costs, provision for impairment loss of inventories shall be made.

Consumable forest assets are not made impairment loss provision before the trees are grown to cut for sales. The Company assesses consumable forest assets which are available to cut for sales at least once a year at balance sheet date for any impairment loss indications. If the consumable forest assets are suffered by natural disasters, plant diseases, or animal epidemic diseases, and are resulted the lower net values that converted into cash than costs, then the differences between net values that converted into cash and costs are accounted for impairment loss of inventories provision.

## 8. Long-term Equity Investment

### (1) Long-term Equity Investment

#### ① Initial investment cost of long-term equity Investment

##### A. Long-term equity investment caused by enterprise merger

(a) Long-term equity investment obtained through business combinations: for obtaining subsidiary under common control, the consideration price can be cash payment, transfer of non-monetary assets or taking over liabilities. Under this situation, the initial investment cost is the share of carrying amount of shareholders' equity of the subsidiary on the merger date. The difference between the share of carrying amount of the net assets obtained and initial investment cost of long-term equity investment shall be adjusted to capital reserve. If the capital reserve is not sufficient to deduct the difference, any excess shall be adjusted against retained earnings.

In the case of company issues equity securities as the consideration price, the initial investment cost is the carrying amount of shareholders equity of the subsidiary on the merger date. If the book value amount of the issued shares is deemed as the capital, the difference between the carrying amount of the issued shares and initial investment cost of long-term equity investment shall be adjusted to capital reserve. If the capital reserve is not sufficient to deduct the difference, any excess shall be adjusted against retained earnings.

(b) For obtaining subsidiary not under common control, the initial investment cost is the consolidation cost confirmed on acquired date by acquirer, according to No.20 of Enterprise of Accounting Standards - Business Combinations.

##### B. Other types of long-term equity investment:

(a) Long-term equity investment, which is acquired by cash consideration, the actual cash payment shall be deemed as the initial investment cost. The initial investment cost shall include direct expenses related to the long-term equity investment, taxes and other necessary expenses. However, if the actual payment is included declared but not yet received cash dividends, then the cash dividends shall be accounted for as receivables.

(b) Long-term equity investment, which is acquired by equity securities, the fair value of the issued equity shall be deemed as the initial investment cost.

(c) For the long-term equity investment made by the investors, the values agreed in the investment contracts or agreements shall be deemed as the initial investment cost, except that the values agreed



in the contracts or agreements are not fair values.

(d) Long-term equity investment is acquired by exchange of non-monetary assets; the initial investment cost is measured under No. 7 of Enterprise Accounting Standards - Exchange of Non-Monetary Assets.

(e) Long-term equity investment, which is acquired by debts restructure; the initial investment cost is measured under No. 12 of Enterprise Accounting Standards - Debt Restructuring.

## ② Subsequent Measurement of Long-term Equity Investment

### A. Cost method

- (a) A long-term equity investment where the investing enterprise can exercise control over the investee.
- (b) The investing enterprise does not have joint control or significant influence over the investee, the investment is not quoted in an active market and its fair value can't be reliably measured. Cash dividends or profit distributions declared by the investee shall be recognized as investment income in the current period. However, investment income recognized by the investing enterprise shall be limited to the amount declared from its accumulated net profits of the investee arising after the investment was made. Any cash dividends or distributions received in excess of this amount shall be treated as a recovery of initial investment cost.

B. A long-term equity investment where the investing enterprise have joint control or significant influence over the investee, shall be measured by equity method

## ③ Disposal of long-term equity investment

Refer to disposal of long-term equity investment, the differences between the book value and actual price obtained are accounted for investment income for the current period. While dispose of long-term equity investment by equity method, since the investing company has accounted for the change of shareholders' equity for the investee except net profits, the shareholders' equity which originally accounted for proportionately shall transfer to investment income for the current period.

### (2) Long-term securities investment

The actual cost of long-term securities investment is measured by actual consideration paid, deducted by related taxes paid, commission charge or any other subcharge, and interest receivable.

The differences between actual cost and book value of the securities shall be treated as a premium or discount, and amortize over the term of securities by actual interest rate.

### (3) Provision for long-term equity investment impairment loss

For any long-term equity investment that has market value, the Company should set up impairment loss provision, when these investments meet: ① the market value of long-term equity investment is below its book value for two continue years; ② the investment has no transaction for one or more than one year; ③ the investee company suffers serious loss for the year; ④ the investee company incurs loss for two continue years; ⑤ the investee company is under reorganization, liquidation or occur other unsustainable operation indication.

For any long-term equity investment that has not market value, the long-term equity investment should set up impairment loss provision, when these investments meet: ① political or legislation environment changed has negative impact on the investee company's operation; ② the products provided by the investee company have been obsolesced, outdated, and the purchase preference of customers has been changed, resulting the investee company's financial situation in worse; ③ the technology in the industry, where the investee company is in, has significant change, the investee company loses its competitive ability, and resulting the investee company's financial situation in worse. ④ there are evidences indicating that the investment has no longer brought economic benefits into the company in fact.

For any long-term equity investment that has market value, the Company shall set up impairment loss provision for the difference between the carrying value and above-mentioned situations which resulting recoverable amount lower than carrying value of long-term equity investment, and the decreased amount can't be recovered in a foreseeable future. For any long-term equity investment that has not market value, the Company shall set up impairment loss provision for the difference between the carrying value and present value of future cash flows in similar financial assets calculated by the current market return rate.

## 9. Investment property

Investment property is held to earn rentals or for capital appreciation or for both purposes.

Investment property includes leased or ready to transfer land use right after capital appreciation, and leased buildings. Property investment is measured by cost model, and the Company adopts the

same depreciation or amortization policy with fixed assets and intangible assets; while there is indication that the investment property has impaired, the Company shall comply with Enterprise accounting Standards – Impairment Assets.

## 10. Fixed asset and depreciation method

### (1) Recognition of fixed assets

Fixed assets are tangible assets that are held for use in production or supply of goods or services, for rental to others, or for administrative purpose, and have useful lives more than one accounting year. Fixed assets shall be recognized if they meet the following conditions:

- (a) The economic benefits related to fixed asset probably flows to the enterprise;
- (b) The cost of fixed asset may be reliably measured.

### (2) The category of fixed assets

The fixed assets are included: Building and structures, Machines, Vehicles, Office facilities and others.

### (3) Measurement of fixed assets

Fixed assets shall be initially measured at cost method. The cost of fixed asset comprises purchase price, relate tax or duties, and any directly attributable cost of bringing the asset to working condition for its intended use, such as delivery cost, insurance etc.

### (4) Depreciation method of fixed assets

The depreciation of fixed assets is calculated by Straight-line method with original price after deducted with 10% expected residual value. The estimated useful lives and annual depreciation rate of various types fixed assets are listed as follows:

<u>Category</u>	<u>Estimated useful lives (years)</u>	<u>Annual depreciation rate</u>
Building and structures	30 years	3%
Vehicles	5 years	18%
Electronic device and other facilities	5 years	18%

For fixed assets has set up impairment loss provision, the company should recalculate the depreciation rate and depreciation amount based on the book value of the fixed assets; if the value of fixed assets with impairment loss provision has been recovered, the company should recalculate the depreciation rate and depreciation amount based on the recovered book value and its remaining useful life.

(5) Idle assets: depreciation of idle assets is treated as the same with other fixed assets.

(6) Impairment loss provision for fixed assets: Impairment loss of assets refer to its recoverable amount is lower than its carrying book value of assets. At the end of period, the entity shall make judgment if there is indication of probable impairment of assets. When the recoverable amount is lower than the carrying book value, then the entity shall make provision of impairment loss of assets. Once the impairment loss is recognized, it can not be reversed. Assets may be impaired when the following indication exists: ①There is indication that an asset is idle, and the entity plans to discontinue the usage of an asset, or plans to disposal of an asset before the previous expected date. ②Due to the technology reason, the assets are no longer for use. ③Even the asset is still in use, but it brings a large amount unqualified fixed assets. ④There is indication that an asset is obsolete, outdated or physically damaged. ⑤Any other fixed assets can not bring in economic benefit into the company.

## **11. Construction in progress**

### **(1) Measurement of construction in progress**

Construction in progress shall be measured base on actual cost. Borrowing costs are accounted into value of construction in progress, before the project reaches its intended use; any borrowing costs occurred after the project completed shall be accounted into current profit or loss. Construction in progress is transferred to fixed assets with the estimated value and prepare for depreciation, when the project is substantially ready for its intended use.

### **(2) Impairment loss provision for construction in progress**

At the end of period, the Company shall make judgment if any provision of impairment loss is necessary. If the project has been stopped for a long time and will not be constructed within three years; or the construct project is far behind current capacity or technology, and will bring significant uncertainty of economic benefits; or evidences have been obtained for the impairment of construct project, then the impairment loss for such construction in progress shall be made base on the differences between recoverable amounts and book values. Once impairment loss is made, it can not be reversed.

## **12. Intangible Assets**

(1)Measurement of intangible assets: The intangible assets provided by shareholders should be accounted with the valued agreed with invested parties.

(2)Amortization of intangible assets: The land use right should be amortized over its useful life.

The amortization of an intangible asset with finite useful lives shall be allocated on a systematic and rational basis over its useful lives. An intangible asset with infinite useful lives, no amortization shall be made. At the end of each year, the entity will review useful lives of intangible assets with finite useful lives and amortization method. In case the useful lives and amortization method are different from the previous estimations, the entity may change as necessary.

(3) Impairment loss provision of intangible assets: The entity treats impairment of intangible asset according to the accounting policy of impairment of assets. Once the impairment loss is made, it can not be reversed.

### **13. Long-term deferred expenses**

The preliminary setting-up expenses shall account for profit and loss on the month when the entity starts operation. Those fixed asset maintenance expenses shall amortize averagely during the interval of maintenance period; and other long-term deferred assets are amortized averagely during the beneficial period.

### **14. Capitalization of borrowing costs**

(1) The capitalization of borrowing costs shall satisfy the following conditions:

- (a) The capital expenditures have been incurred, it includes the cash paid for purchase and construction or for any assets production satisfied with capitalization; non-monetary assets transfer; or payment for interest bearing liability; and,
- (b) The borrowing costs have been incurred; and,
- (c) Activities relating to acquisition, construction or production that are necessary to make the assets being intended for use or sales have been launched.

Other loan interest, amortization of discount or premium and difference of foreign exchange shall be recognized as expenses when it incurred.

(2) Recognition of capitalization of borrowing costs

Borrowing costs that are direct attributable to construction, purchase and production of assets and comply with capitalization conditions, shall be capitalized and accounted for as costs of assets; otherwise, borrowing costs shall be recognized as expenses when it incurred and accounted for current profit and loss in current period. Assets which comply with the

capitalization conditions referring to those assets such as fixed assets, investment properties and inventories etc that require a long time of construction and production activities before being intended for use or for sales.

Borrowing costs that incur for acquisition, construction or production of assets, and are satisfied with the aforesaid capitalization conditions, are recognized as cost of assets before those assets are intended for use or sales. Any borrowing costs incurred after assets that are intended for use or sales, are recognized as financial costs of current period.

### (3) Recognition of Capitalization Rate

① for a specific purpose borrowing, the borrowing cost shall be capitalized by the borrowing interest rate;

② where funds are borrowed under general purpose, the entity shall determine the amount of interest to be capitalized by applying capitalization rate to weighted average of the excess amount between cumulative expenditures on the asset and the amount of specific-purpose borrowings. The capitalization rate shall be weighted average of the interest rates applicable to the general-purpose borrowings.

### (4) Suspending of Capitalization

Capitalization of borrowing costs shall be suspended during periods in which acquisition, construction or production of assets is interrupted abnormally, and is interrupted for a continuous period of three months. Any borrowing costs occurred during the suspended period, should be recognized as expense, and accounted into current profit and loss account.

### (5) Ceasing of Capitalization

Any borrowing costs occurred after assets that are intended for use or sales, should be ceased for capitalization, and those borrowing costs should be recognized as financial costs of current period, and accounted into profit and loss account.

## **15. Accrued liabilities**

The obligations related to contingent item that meet the following conditions shall be confirmed as the liabilities:

(a) This obligation is the current obligation of the company; and,

(b)The performance of this obligation will probably cause economic benefits flow out of the company; and,

(c) The amount of this obligation can be reliably measured.

## **16. Employment Payroll**

Employment Payroll includes employees salary, bonus and allowance;employee welfares; social insurance which including medical insurance, retirement insurance, unemployment insurance, injury insurance and pregnancy insurance; Non-monetary benefit and Redemption for termination of labor contract so on. During the accounting period which the employees provided service to the company, the payroll payable shall be accounted for liabilities, except the situation of termination of labor relationship; the payroll payable shall be recognized as expense or assets.

## **17. Bond payable**

Bond payable shall be accounted with face value, the difference between actual amount received and the face value shall be amortized over the bond's duration with actual interest rate.

## **18. Derecognition and measurement of financial assets**

(1) The Company shall derecognize financial assets when all the risks and rewards have been transferred to other party. The company differentiates the transfer of financial assets into entire transfer and the partial transfer of financial asset.

When derecogniziton condition of entire transferred assets has been satisfied, the differences between the amounts of following two items shall be accounted for profits and losses of current period.

(a)The book value of transferred financial assets;

(b)The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the shareholders' equities (in the event that the financial asset involved in the transfer is a financial asset available-for-sale)

If the transfer of partial financial assets satisfies the conditions of derecognition, the entire book value of the transferred financial asset shall, between the portion whose derecognition and the recognized portion (under such circumstance, the service asset retained shall be deemed as a portion of financial asset whose derecognition), be apportioned according to their respective relative fair value, and the difference between the amounts of the following two items shall be accounted for the profits and losses of the current period

(a) The book value of the portion whose derecognition.

(b) The sum of consideration of the portion whose derecognition and the portion of accumulative amount of the changes in the fair value originally recorded in the shareholders' equity which is corresponding to the portion whose derecognized (in the event that the financial assets involved in the transfer is a financial assets available-for-sale).

## **19. Revenue recognition**

(1) Recognition principle and method of Estate Revenue:

① The project has been completed, sale contract has been signed or any other notice of settlement has been received, the company has completed its obligation mention in the contract, and received payment from buyers, or the one sold under mortgage, which has satisfied with the mortgage condition, and cost of the project can be measured reliably.

② Sales under installment payment: Revenue shall be recognized on each installment payment date as the contract said.

③ Construction of buildings or construction projects: Revenue shall be recognized when the construction settlement bills are handed to consignor(s).

(2) Income from rental properties: the income is recognized by straight-line method under the contract signed.

(3) Recognition principle and method of other business:

① Sale of goods

Revenue from the sale of goods shall be recognized when all of the following conditions are satisfied:

- a. the entity has transferred the significant risks and rewards of ownership of goods to the buyer;
- b. the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods sold;



- c. the amount of revenue can be measured reliably;
- d. The associated costs incurred or to be incurred can be measured reliably.

② Rendering of services

The entity recognize revenue from rendering of service when come out of rendering of service can be measured reliably at balance sheet date, and adopt percentage of completion method in recognition of revenue. When the outcome of rendering of service can not be measured reliably at balance sheet date, revenue shall be recognized to the extent of costs incurred that are expected to be recoverable.

- ③ Other business: The entity recognizes revenue when the related economic benefit shall probably flow into the company; and related income and cost can be measured reliably.

## 20. Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising from investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no larger probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## **21. Basis of Financial Statements Consolidation**

The consolidated financial statements prepared are in accordance with the No. 33 Enterprise Accounting Standards – Consolidated Financial Statement issued in February, 2006.

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company ( “its subsidiaries”) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transaction and balances between group enterprises are eliminated on consolidation.

## **22. Changes in accounting policies, accounting estimates**

### **(1) Changes in accounting polices**

Since January 1, 2007, the company carried out the new enterprise accounting standards systems and guidelines promulgated by the People’s Republic of China. In accordance with the No 38 Enterprise Accounting Standard – First implementation of Enterprise Accounting, Article 5 to 19, and No 1 Interpretation of Enterprise Accounting Standard, the company has adjusted the financial statement retroactively.

#### **① Long-term equity investment in subsidiaries**

According to the document of No 1 Interpretation of Enterprise Accounting Standard and the expert

group's opinion (III) on in implementing Enterprise accounting standards, on the first implementation date, the Company should adjust the long-term equity investment in subsidiary retroactively by cost method, and subsidiary are deemed as complying new accounting standard as when it was acquired; the investment cost shall be apply retroactive adjustment accordingly after adjustment on profit or loss by equity method. The Company adjusted investment income for -86,399,357.48, long-term equity investment for a increase of 79,035,455.01, capital reserve for a decrease of 7,363,902.47, impairment loss provision for long-term equity investment for a increase of 13,999,737.16, retained earning at the beginning of the year for a increase of 63,080,143.63, and surplus reserve for increase of 9,319,476.69.

## ②Income tax

According to new Enterprise Accounting Standards, deferred tax assets are calculated on the difference when the carrying amount of assets and liabilities in the financial statements is lower than the corresponding tax basis used in the computation of taxable profit; and deferred tax liabilities when the carrying amount of assets and liabilities in the financial statements is higher than the corresponding tax basis used in the computation of taxable profit. Since the Group predicts that they will not have sufficient taxable income in a foreseeable future to deduct the temporary difference, the Group does not recognize any deferred income tax assets for current period.

## (2) Changes in accounting estimates

The company has no change in accounting estimates for current period.

## (3) Correction of accounting errors

Shenzhen Security Regulatory Commission inspected the Company on field in 2007. According to the report regarding to Shenzhen Security Regulatory Commission inspection results, the Group corrected the following accounting errors:

① In the debt restructuring with the Company's main shareholder Shenzhen SDG Co., Ltd. in 2005, according to the agreement, the Company recognized 1,445,786.89 as interest incomes which among of the difference between actual payment and book value of accounts payable to Shenzhen SDG Co., Ltd. for 5,627,500. Accordingly, to correct the error, the Company reduced the beginning balance of retained earnings for 1,445,786.89, and increased capital reserves for 1,445,786.89.

② The subsidiary Shenzhen Rongfa has accounted for administration expenses as development cost

for amount of 2,604,000.00 and 2,600,000.00 respectively in 2005 and 2006. Accordingly, to correct the error, Shenzhen Rongfa adjusted net profits in 2005 for a decrease of 2,604,000.00 and net profits in 2006 for a decrease of 2,600,000.00.

Referring to the event mentioned above, the Company has restated on the comparable financial statements of year 2006. It reduced the beginning balance of retained earnings for 3,008,186.89, and reduced its beginning balance of minority interests for 1,041,600.00; the impact on profit and loss for the year of 2006 included increase of administration expenses for 2,600,000.00 in the consolidation income statement, decrease of 1,560,000.00 net profits which attributed to the parent company, and also decrease of 1,040,000.00 net profits which attributable to minority interests.

### III. Taxation

<u>Types</u>	<u>Basis of taxation</u>	<u>Tax rate</u>
Value-Add-Tax(VAT)	Income from sales of products	17%
Consumption Tax	Income from sales of taxable consumption	5%
Business Tax	Income from Estate, Leasing and Rendering of service	5%
Enterprise Income Tax	Taxable Income	15%
City Construction fee	VAT payable, consumption tax payable and business tax payable	1%
Education fee	VAT payable, consumption tax payable and business tax payable	3%

### IV. Subsidiaries and associated company

#### 1. Subsidiaries that included in the scope of financial statements consolidation

<u>Company's name</u>	<u>Legal</u>	<u>Registration</u>	<u>Registered capital</u>	<u>Interest held</u>	<u>Principal activities</u>
	<u>Representative</u>	<u>Place</u>			
Shenzhen Longgang International Arcade Enterprise Co., Ltd.	Song, Shengjun	Shenzhen	15,000,000.00	100%	Retail store
Shenzhen International Arcade Chain Store	Zhou, Xiaoxing	Shenzhen	10,000,000.00	100%	Retail store
Shenzhen International Arcade Property Management Co., Ltd.	Zhang, Zengkuan	Shenzhen	7,000,000.00	61%	Property management
Shenzhen Rongfa Investment Co., Ltd. ("Shenzhen Rongfa")	Song, Shengjun	Shenzhen	USD5,000,000.00	60%	Real estate development

Huizhou Rongfa Industry Investment Co., Ltd. (“Huizhou Rongfa”)	Song, Shengjun	Huizhou	6,000,000.00	54.90%	Real estate development
Wengyuan Guoshanglinhai Development Co., Ltd.	Zhou, Meng	Wengyuan	1,000,000.00	78%	Afforestation
Wuhua Guoshanglinye Development Co., Ltd.	Zhou, Yalin	Wuhua	1,000,000.00	78%	Afforestation
Shenzhen Guoshanglinye Development Co., Ltd.	Zhou, Yalin	Shenzhen	10,000,000.00	60%	Lumber purchase and sale, Industrial establishment
Shenzhen Longgang International Arcade Enterprise Co., Ltd.	Zhou, Meng	Shenzhen	3,000,000.00	90%	Retail store
Xingning Guoshanglinye Development Co., Ltd (“Xingning Guoshang”)	Song, Shengjun	Xingning	5,000,000.00	60%	Afforestation, and lumber sales
Luoyang Rongfazhiye Co., Ltd (“Luoyang Rongfa”)	Song, Shengjun	Luoyang	10,000,000.00	60%	Real estate development and sales, property management and rental

## 2. Subsidiaries that not included in the scope of financial statements consolidation

<u>Company's name</u>	<u>Legal representative</u>	<u>Registration Place</u>	<u>Registered capital</u>	<u>Interest Held</u>	<u>Principal activities</u>
Shenzhen International Arcade trading Co., Ltd (Note 1)	Song, Shenjun	Shenzhen	5,600,000.00	98.75%	International trade
Shenzhen Chunhua Medicine United Co., Ltd. (Note 1)	Song, Shenjun	Shenzhen	3,000,000.00	75%	Medicine and medical machineries
Shenzhen Guoshang Medicine Co., Ltd. (Note 1)	Song, Shenjun	Shenzhen	3,000,000.00	98%	Medicine and medical machineries
Shenzhen Gangyi Oriental Club Industrial Co., Ltd (“Shenzhen Gangyi”) Note 2	Song, Shenjun	Shenzhen	5,000,000.00	64%	Healthy message, industrial establishment

**Note 1 :** Shenzhen International Arcade trading Co., Ltd, Shenzhen Chunhua Medicine United Co., Ltd. and Shenzhen Guoshang Medicine Co., Ltd have suspended their business for several years, and their registration of have been cancelled due to no renewal of registration certificates, and not included in the scope of financial statements consolidation in current period.

Note 2: As stated in the Notes XIII.2. According to agreement signed by both parties, the substance of this transfer is Shenzhen Baotian Investment Development Co., Ltd ( “Shenzhen Baotian”) shall lease Shenzhen Gangyi ’s business qualification and business loation in future six years, and Shenzhen Rongfa shall not control Shenzhen Gangyi’s business operation and financial activities in the six years, so the Company accounts for it using Cost method. According to the agreement, Shenzhen Rongfa accepted Shenzheng Gangyi’s assets and liabilities before the transferring date.

### 3. The change of scope of consolidated financial statements

#### (1) New establishment of subsidiaries in current period

①Xingning Guoshang, is included in the consolidated financial statements since April 29, 2007.

②Luoyang Rongfa, is included in the consolidated financial statements since June 21, 2007.

#### (2) Transfer of subsidiaries in current period

①100% equity interests of Shenzhen International Arcade Co., Ltd have been sold out in current period, and the financial situation is as followed:

##### 1.Cash flows information of the disposed subsidiary- Shenzhen International Arcade Co., Ltd

<u>Items</u>	<u>Amount</u>
Price received for the disposal of subsidiary	80,780,000.00
Including:Cash	80,780,000.00
Cash received from the disposal of subsidiary	71,080,000.00
Less:Cash in subsidiary	—
Net cash inflows from the disposal of subsidiary	71,080,000.00

##### 2.Financial information of disposal subsidiary:

	Book value as at disposal date	Book value as at 31 December 2006
Current assets		43,218,723.03
Non-current assets	7,263,210.25	8,574,474.04
Total assets	7,263,210.25	51,793,197.07
Current liabilities	1,050,184.53	76,057,779.39
Non-current liabilities	—	—
Total Liabilities	1,050,184.53	76,057,779.39
Net assets	6,213,025.72	-24,264,582.32

##### 3.Operating results and cash flows information of the disposal company since from 31 December 2006 to disposal date:

	<u>Amount</u>
Operating Income	19,472,384.30
Operating profits	1,227,615.78
Net Profits	6,187,331.48
Net cash flows from opertating activities	-1,418,883.76

Net cash flows -1,418,883.76

### (3) Shenzhen Gangyi's financial situation

#### ① Financial position:

<u>Item</u>	<u>Book value as at disposal date</u>	<u>Book value as at 31 December 2006</u>
Current assets	888,543.50	1,366,502.50
Non-current assets	18,846,203.75	21,054,154.63
Total assets	19,734,747.25	22,420,657.13
Current liabilities	53,395,248.67	49,686,862.91
Non-current liabilities	—	—
Total Liabilities	53,395,248.67	49,686,862.91
Net assets	-33,660,501.42	-27,266,205.78

#### ② Operating results and cash flows information since from 31 December 2006 to transfer date:

<u>Items:</u>	<u>Amount</u>
Operating Income	4,383,427.70
Operating profits	-6,354,685.88
Net Profits	-6,394,295.64
Net cash flows from operating activities	-16,129.52
Net cash flows	-147,654.41

## VII. Main items of consolidated financial statements

### 1. Monetary Funds

<u>Items</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Cash on hand	339,495.03	308,194.50
Bank deposit	60,883,503.06	25,600,643.16
Other monetary fund	120,000.00	137,439.04
Total	<u>61,342,998.09</u>	<u>26,046,276.70</u>

The ending balance of monetary funds is increased 1.36 times of last year's balance. It is mainly due to the increase of bank borrowings.

### 2. Account receivable

## (1) Classification by credit risk characters

Items	<u>2007.12.31</u>			<u>2006.12.31</u>		
	<u>Amount</u>	<u>Proportion</u>	<u>Bad debt</u>	<u>Amount</u>	<u>Proportion</u>	<u>Bad debt</u>
			<u>provision</u>			<u>provision</u>
Individual transaction with significant amount	—	—	—	—	—	—
Individual transaction with not significant amount but significant recoverable risk	—	—	—	—	—	—
Other transaction with no significant amount	<u>1,543,327.55</u>	<u>100.00%</u>	<u>214,425.88</u>	<u>2,304,954.64</u>	<u>100.00%</u>	<u>366,316.57</u>
Total	<u>1,543,327.55</u>	<u>100.00%</u>	<u>214,425.88</u>	<u>2,304,954.64</u>	<u>100.00%</u>	<u>366,316.57</u>

Note: The Company classifies individual client amount which is over 1,000,000 as individual transaction with significant amount according to business operation scale, business nature and client's settlement status.

## (2) Ages analysis

Age	<u>2007.12.31</u>			<u>2006.12.31</u>		
	<u>Amount</u>	<u>Proportion</u>	<u>Bad debt</u>	<u>Amount</u>	<u>Proportion</u>	<u>Bad debt</u>
			<u>provision</u>			<u>provision</u>
Within 1 year	292,966.16	18.98%	14,648.31	858,187.81	37.23%	42,909.39
1-2 years	858,187.81	55.61%	85,818.78	451,032.26	19.57%	45,103.23
2-3 years	15,955.22	1.04%	2,393.28	74,443.00	3.23%	11,166.45
3-4 years	—	—	—	26,000.00	1.13%	5,200.00
4-5 years	26,000.00	1.68%	6,500.00	132,999.36	5.77%	33,249.84
over 5 years	<u>350,218.36</u>	<u>22.69%</u>	<u>105,065.51</u>	<u>762,292.21</u>	<u>33.07%</u>	<u>228,687.66</u>
Total	<u>1,543,327.55</u>	<u>100.00%</u>	<u>214,425.88</u>	<u>2,304,954.64</u>	<u>100.00%</u>	<u>366,316.57</u>

(3) Up to December 31, 2007, there is no accounts receivable balance due from shareholders who owns 5% or over 5% of voting right shares.

## 3. Advance to suppliers



## (1) Age analysis

<u>Age</u>	<u>2007.12.31</u>		<u>2006.12.31</u>	
	<u>Amount</u>	<u>Proportion</u>	<u>Amount</u>	<u>Proportion</u>
Within 1 year	621,638.00	47.47%	303,635.94	25.42%
1-2 years	187,983.00	14.35%	891,000.00	74.58%
2-3 years	<u>500,000.00</u>	<u>38.18%</u>	<u>—</u>	<u>—</u>
Total	<u>1,309,621.00</u>	<u>100.00%</u>	<u>1,194,635.94</u>	<u>100.00%</u>

(2) Significant balance of advance to suppliers at balance sheet date ( 30% or over 30% of the balance of advance to suppliers)

<u>Name of debtor</u>	<u>Amount</u>	<u>Nature or Content</u>
WengYuan County Forest Sapling Base	<u>500,000.00</u>	Deposits
Total	<u>500,000.00</u>	

(3) Up to December 31,2007, there is no advance to suppliers balance due from shareholders who owns 5% or over 5% of voting right shares.

**4. Other accounts receivable**

## (1) Classification by credit risk characters

<u>Items</u>	<u>2007.12.31</u>			<u>2006.12.31</u>		
	<u>Amount</u>	<u>Proportion</u>	<u>Bad debt</u>	<u>Amount</u>	<u>Proportion</u>	<u>Bad debt</u>
			<u>provision</u>			<u>provision</u>
Individual transaction with significant amount	56,530,394.64	93.97%	24,307,131.01	61,850,243.63	89.92%	21,157,720.88
Individual transaction with not so significant amount but significant recoverable risk	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other transaction with no significant amount	<u>3,629,508.07</u>	<u>6.03%</u>	<u>1,269,803.75</u>	<u>6,934,426.18</u>	<u>10.08%</u>	<u>4,323,460.90</u>
Total	<u>60,159,902.71</u>	<u>100.00%</u>	<u>25,576,934.76</u>	<u>68,784,669.81</u>	<u>100.00%</u>	<u>25,481,181.78</u>

Note: The Company classifies individual client amount which is over 1,000,000 as individual transaction with significant amount according to the Company's business operation scale, business nature and debtor's operation status.

## (2) Age analysis

<u>Age</u>	<u>2007.12.31</u>			<u>2006.12.31</u>		
	<u>Amount</u>	<u>Proportion</u>	<u>Bad debt provision</u>	<u>Amount</u>	<u>Proportion</u>	<u>Bad debt provision</u>
Within 1 year	18,103,325.36	30.09%	905,166.27	20,957,458.70	30.47%	1,047,872.95
1-2 years	3,768,138.72	6.26%	376,813.87	1,955,973.16	2.85%	195,597.32
2-3 years	1,772,943.16	2.95%	265,941.48	2,174,942.48	3.16%	326,241.37
3-4 years	500.00	0.00%	100.00	5,569,789.82	8.10%	4,567,549.82
4-5 years	4,100,000.00	6.82%	4,100,000.00	9,419,745.18	13.69%	9,415,892.18
over 5 years	<u>32,414,995.47</u>	<u>53.88%</u>	<u>19,928,913.14</u>	<u>28,706,760.47</u>	<u>41.73%</u>	<u>9,928,028.14</u>
Total	<u>60,159,902.71</u>	<u>100.00%</u>	<u>25,576,934.76</u>	<u>68,784,669.81</u>	<u>100.00%</u>	<u>25,481,181.78</u>

## (3) Other accounts receivable with significant amount

<u>Company's Name</u>	<u>Amount due</u>	<u>Proportion</u>	<u>Age</u>	<u>Reason</u>
Shenzhen Yahaoyuan Investment Co.,Ltd	17,258,286.25	28.69%	Over 5 years	Note 1
Shenzhen Whitehorse clothing Co.,Ltd	16,000,000.00	26.60%	Within one year	Note 3
Shenzhen Shengang Gongmao Import and Export Co.,Ltd	10,180,249.93	16.92%	Over 5 years	Note 2
Beijing Daosen Real Estate Co.,Ltd	4,100,000.00	6.82%	4-5 years	Capital contribution for joint project
Guangdong Huarong Construction Project Company	<u>3,700,000.00</u>	<u>6.15%</u>	Over 5 years	Equity transfer price
Total	<u>51,238,536.18</u>	<u>85.18%</u>		

Note 1: The Company's subsidiary Shenzhen Rongfa Investment Co., Ltd ( "Shenzhen Rongfa") signed an equity transfer contract with Shenzhen Yahaoyuan Investment Co., Ltd ("Yahaoyuan") in 2001 in relation to transfer its 75% equity interests in Shenzhen Longgang Rongfa Investment Co., Ltd ("Longgang Rongfa") to Yahaoyuan. The consideration for this equity transaction was 54.19 millions, meanwhile, Yahaoyuan agreed to reimburse 133.81 millions for Longgang Rongfa to Shenzhen Rongfa for construction prepayment. Up to December 31, 2007, the company received 170,741,713.75 from Yahaoyuan for equity transfer price and repayment, including 5 millions received in the current year.

Note 2: the amount is due to existing historical issues between the Group and Shenzhen Shengang Gongmao Import and Export Co., Ltd ( "Gongmao") in relation to the lender Shenzhen Development Bank, Shennandonglu Branch ("the Bank") sued the Group and filed a claim at the Intermediate People's Court of Shenzhen ("the Court") in 2000 and requested the Group shall has joint repayment liability to a guaranteed loan with 11 millions loan principal and the overdue interests. On February 27, 2001, the court ruled the Group has joint repayment liability to the above-mentioned guaranteed loan.

On December 30, 2002, under the intermediation by the court, The Group and the Bank reached

reconciliation, and agreed that, the Group would repay the loan principal and interests for Gongmao, meanwhile, the Group would claim the repayment from Gongmao. Gongmao promised to the Group except in assistance of transfer of its ownership on the sun house in top floor of Shengang haoyuan mingshang loft to the Group, also provided its land in Baoan Nan road in Luohu district (4000 square meters) and jointed construction for buildings with the Group. The joint operation was: the Group contributed capital for development, and the initial profits after completion of development shall used for repayment of the debts. The Group accounted for the estimated losses for the guaranteed loan which amounted to 3,403,456.00 as non-operating expense in 2002.

In 2004, during the claim of Gongmao for repayment of debts, the Group had confirmed that ownership of the above-mentioned property and land use right were unable to transfer, and Gongmao had no other executive property. Therefore, the Group decided to made full bad debt provision for unrecognized loss of 10,180,249.93.

Note 3: the amount is referred to the balance due from Shenzhen Whitehorse clothing Co., Ltd in relation to transfer of equity interests of the subsidiary Shenzhen International Arcade Co., Ltd. All of the balance due has been received in January 2008.

(4) The details of full amount of bad debt provision or more than 40%:

<u>Company</u>	<u>Amount</u>	<u>Content</u>	<u>Provision Amount</u>	<u>Proportion</u>	<u>Reason</u>
Shenzhen Shenggang Gongmao		Guarantee for debt			Details refer to notes VII.4(3)-note
Import and Export Co., Ltd	10,180,249.93	repayment	10,180,249.93	Over 5 years	2
Beijing Daosen Real Estate		Capital contribution			
Co.,Ltd	4,100,000.00	for joint project	4,100,000.00	4-5 years	Probable for non-receivable
Guangdong Huarong					
Construction Project Co., Ltd	3,700,000.00	Equity transfer price	3,700,000.00	Over 5 years	Probable for non-receivable
Guangzhou Sun Star Co., Ltd	900,000.00	Current account	900,000.00	Over 5 years	Probable for non-receivable
Total	18,880,249.93		18,880,249.93		

(5) Up to December 31, 2007, there is no amount due from shareholders who owns 5% or over 5% of voting shares

(6) Total debts which have been made for full amount of bad debt provision for 1,894,423.99 are written off in current period.

## 5. Inventory

## (1) Listed by category

<u>Items</u>	<u>2007.12.31</u>		<u>2006.12.31</u>	
	<u>Impairment loss</u>		<u>Impairment loss</u>	
	<u>Amount</u>	<u>provision</u>	<u>Amount</u>	<u>provision</u>
Finished goods	273,587.72	—	868,356.48	18,000.00
Consumable forest assets	37,387,045.27	—	12,559,886.84	—
Development costs	714,942,486.03	16,631,692.55	445,853,159.32	16,631,692.55
Development products	35,240,279.76	—	35,240,279.76	—
Lease development products	<u>55,517,049.10</u>	<u>—</u>	<u>57,962,369.45</u>	<u>—</u>
Total	<u>843,360,447.88</u>	<u>16,631,692.55</u>	<u>552,484,051.85</u>	<u>16,649,692.55</u>

Note 1: The Company pledged Bantian industrial estate that accounted for as development costs to bank to obtain borrowings from bank. The book value of the land is 31,011,310.60.

Note 2: Partial shops at Gangyihaoing that accounted for as lease development products are pledged to obtain borrowings from bank. The book value of the pledge property is 25,649,680.16.

Note 3: Futian Central District that accounted for as development costs are pledged to obtain borrowings from bank. The book value of the pledge property is 660,851,001.66.

Note 4: The Company pledged the Consumable forest assets as pledge property to obtain borrowings from bank. The book value of the pledge property is 15,259,136.11.

## (2) Development Costs

<u>Items</u>	<u>Start Date</u>	<u>Estimated</u>	<u>total</u>	<u>2006.12.31</u>		<u>2007.12.31</u>	
				<u>Impairment loss</u>		<u>Impairment loss</u>	
					<u>provision</u>		<u>provision</u>
		<u>completed date</u>	<u>investment</u>				
Bantian							
industrial estate	August in 2001	August in 2008	0.26 billions	46,956,099.55	16,631,692.55	47,643,003.15	16,631,692.55
Rongfu Garden							
phase II				6,421,776.22	—	6,448,481.22	—
Futian Central	January in						
District	2003	October in 2008	0.7 billions	392,343,760.65	—	660,851,001.66	—
Projects in							
Luoyang				<u>131,522.90</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total				<u>445,853,159.32</u>	<u>16,631,692.55</u>	<u>714,942,486.03</u>	<u>16,631,692.55</u>

## (3) Development Products

<u>Item</u>	<u>Completed Date</u>	<u>Impairment Loss</u>		<u>Impairment Loss</u>	
		<u>2006.12.31</u>	<u>Provision</u>	<u>2007.12.31</u>	<u>Provision</u>
Gangyihaoing	December 2000	<u>35,240,279.76</u>	<u>==</u>	<u>35,240,279.76</u>	<u>==</u>
Total		<u>35,240,279.76</u>	<u>==</u>	<u>35,240,279.76</u>	<u>==</u>

## (4) Lease development Products

<u>Item</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Amortization</u>	<u>Decrement</u>	<u>Remaining</u>	
					<u>2007.12.31</u>	<u>amortization</u> <u>years</u>
Gangyihaoing	49,183,030.73	—	1,272,781.78	489,600.00	47,420,648.95	34-44 years
Guoqi Building	3,101,068.70	—	83,109.06	506,743.12	2,508,261.40	40 years
Huizhou						
Sunshine 100	<u>5,678,270.02</u>	<u>==</u>	<u>93,086.39</u>	<u>==</u>	<u>5,588,138.75</u>	60 years
Total	<u>57,962,369.45</u>	<u>==</u>	<u>1,448,977.23</u>	<u>996,343.12</u>	<u>55,517,049.10</u>	

## (5) Inventory impairment loss provision

<u>Item</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Decrement</u>	<u>2007.12.31</u>
Goods in				
stock	18,000.00	—	18,000.00	—
Exploitation				
Cost	<u>16,631,692.55</u>	<u>==</u>	<u>==</u>	<u>16,631,692.55</u>
Total	<u>16,649,692.55</u>	<u>==</u>	<u>18,000.00</u>	<u>16,631,692.55</u>

## 6. Long-term equity investment

## (1) long-term equity investment and impairment loss provision

<u>Item</u>	<u>2007.12.31</u>			<u>2006.12.31</u>		
	<u>Balance of</u>	<u>Impairment</u>	<u>Book value</u>	<u>Balance of</u>	<u>Impairment</u>	<u>Book value</u>
	<u>book value</u>	<u>loss provision</u>		<u>book value</u>	<u>loss provision</u>	
Cost Method	<u>25,570,000.00</u>	<u>18,999,737.16</u>	<u>6,570,262.84</u>	<u>25,570,000.00</u>	<u>18,999,737.16</u>	<u>6,570,262.84</u>
Total	<u>25,570,000.00</u>	<u>18,999,737.16</u>	<u>6,570,262.84</u>	<u>25,570,000.00</u>	<u>18,999,737.16</u>	<u>6,570,262.84</u>

## (2) Long-term equity investment measured by cost method

<u>Investee</u>	<u>Initial investment</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Decrement</u>	<u>2007.12.31</u>
Shenzhen Xinnuo					
Communication Co.,Ltd_	10,000,000.00	10,000,000.00	—	—	10,000,000.00
Shenzhen Chunhua Medicine					
United Co., Ltd.	2,250,000.00	2,250,000.00	—	—	2,250,000.00
Shenzhen Guoshang Medicine					
Co., Ltd.	3,000,000.00	3,000,000.00	—	—	3,000,000.00
Shenzhen International					
Enterprise Trade Co., Ltd.	5,320,000.00	5,320,000.00	—	—	5,320,000.00
Shenzhen Grace East Union					
Industry Co., Ltd.	<u>5,000,000.00</u>	<u>5,000,000.00</u>	<u>—</u>	<u>—</u>	<u>5,000,000.00</u>
Total	<u>25,570,000.00</u>	<u>25,570,000.00</u>	<u>—</u>	<u>—</u>	<u>25,570,000.00</u>

Notes: The registration of Shenzhen International Arcade Trading Co., Ltd, Shenzhen Chunhua Medical Union Enterprise Co., Ltd and Shenzhen International Arcade Medical Co., Ltd have been cancelled due to no renewal of registration certificates, and not included in the scope of financial statements consolidation in current period. An amount of 4,149,737.16 impairment loss provision has been made for the long-term equity investment.

## (3) Long-term equity investment impairment loss provision

<u>Item</u>	<u>2006.12.31</u>	<u>Amount for</u> <u>the year</u>	<u>Transfer out</u>	<u>2007.12.31</u>
Shenzhen Chunhua Medicine				
United Co., Ltd.	418,949.38	—	—	418,949.38
Shenzhen Guoshang Medicine				
Co., Ltd.	3,075,930.02	—	—	3,075,930.02
Shenzhen International				
Enterprise Trade Co., Ltd.	504,857.76	—	—	504,857.76
Shenzhen Grace East Union				
Industry Co., Ltd.	5,000,000.00	—	—	5,000,000.00
Shenzhen Xinnuo TeleCom				
Co.,Ltd	<u>10,000,000.00</u>	<u>—</u>	<u>—</u>	<u>10,000,000.00</u>
Total	<u>18,999,737.16</u>	<u>—</u>	<u>—</u>	<u>18,999,737.16</u>

Note: The investee company Shenzhen Xinnuo TeleCom Co., Ltd ( “Xinnuo” ) was incurring financial difficulties. Up to December 31, 2004, the net book value of Xinnuo was 29.16 millions, including 2.916 million attributed to the Company. However, Xinnuo still owed huge amount of bank loan, and cash generated from inventories and creditors was quite low, the Company considered that the recoverable from the investment was very low, therefore, the Company decided to make full amount of impairment loss provision for this long-term equity investment. Up to December 31, 2007, the financial situation of Xinnuo still has no change.

## 7. Investment Properties

<u>Items</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Decrement</u>	<u>2007.12.31</u>
A. Total original price	<u>20,719,686.70</u>	<u>—</u>	<u>3,210,578.78</u>	<u>17,509,107.92</u>
1. Buildings and structures	20,719,686.70	—	3,210,578.78	17,509,107.92
2. Land use right	—	—	—	—
B.Total of Accumulated Depreciation and				
Accumulated Amortization	<u>8,162,587.45</u>	<u>601,468.96</u>	<u>939,280.07</u>	<u>7,824,776.34</u>
1. Buildings and structures	8,162,587.45	601,468.96	939,280.07	7,824,776.34
2. Land use right	—	—	—	—
C. Total impairment loss provision of				
investment property	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
1. Buildings and structures	—	—	—	—
2. Land use right	—	—	—	—
D. Total book value of investment property	<u>12,557,099.25</u>	<u>—</u>	<u>—</u>	<u>9,684,331.58</u>
1. Buildings and structures	12,557,099.25	—	—	9,684,331.58
2. Land use right	—	—	—	—

## 8. Fixed assets and Accumulated depreciation

<u>Items</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Decrement</u>	<u>2007.12.31</u>
A. total original price of fixed assets	<u>154,415,870.47</u>	<u>4,350,564.29</u>	<u>31,147,752.13</u>	<u>127,618,682.63</u>
Buildings and structures	139,761,593.63	318,090.21	25,283,666.65	114,796,017.19
Vehicles	4,474,321.98	3,238,320.00	1,819,826.98	5,892,815.00
Electronic and other devices	10,179,954.86	794,154.08	4,044,258.50	6,929,850.44
B.Total Accumulated Depreciation	<u>53,399,315.63</u>	<u>4,717,794.61</u>	<u>22,587,536.48</u>	<u>35,529,573.76</u>
Buildings and structures	44,661,854.85	2,928,755.88	17,500,217.92	30,090,392.81
Vehicles	2,857,983.88	449,897.84	1,546,378.50	1,761,503.22
Electronic and other devices	5,879,476.90	1,339,140.89	3,540,940.06	3,677,677.73
C. Impairment loss provision of fixed assets	<u>11,716,894.19</u>	<u>—</u>	<u>—</u>	<u>11,716,894.19</u>
Buildings and structures	11,716,894.19	—	—	11,716,894.19
Vehicles	—	—	—	—
Electronic and other devices	—	—	—	—
D. Net value of the fixed assets	<u>89,299,660.65</u>	<u>—</u>	<u>—</u>	<u>80,372,214.68</u>
Buildings and structures	83,382,844.59	—	—	72,988,730.19
Vehicles	1,616,338.10	—	—	4,131,311.78
Electronic and other devices	4,300,477.96	—	—	3,252,172.71

Note: the net book value of the pledged buildings and structures is 1,798,535.71.

## 9. Long-term deferred expense

<u>Types</u>	<u>Original Amount</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Amortization</u>	<u>Transfer out</u>	<u>Accumulated</u> <u>Amortization</u>	<u>2007.12.31</u>
Furnishing	25,182,576.29	18,116,150.02	79,876.47	5,060,511.77	—	12,047,061.57	13,135,514.72
Cost							
Others	<u>1,045,729.00</u>	<u>489,969.88</u>	<u>464,178.00</u>	<u>741,347.88</u>	<u>2,800.00</u>	<u>835,729.00</u>	<u>210,000.00</u>



Total	<u>26,228,305.29</u>	<u>18,606,119.90</u>	<u>544,054.47</u>	<u>5,801,859.65</u>	<u>2,800.00</u>	<u>12,882,790.57</u>	<u>13,345,514.72</u>
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## 10. Impairment loss provision

Items	2006.12.31	Increment	Decrement		2007.12.31
			Reversal	Written off	
Bad debt provision	25,847,498.35	1,838,286.28	—	1,894,423.99	25,791,360.64
Impairment provision for inventory	16,649,692.55	—	—	18,000.00	16,631,692.55
Impairment provision for long-term investment	18,999,737.16	—	—	—	18,999,737.16
Impairment provision for fixed asset	<u>11,716,894.19</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,716,894.19</u>
Total	<u>73,213,822.25</u>	<u>1,838,286.28</u>	<u>—</u>	<u>1,912,423.99</u>	<u>73,139,684.54</u>

## 11. Restricted assets

### (1) Reason

Assets are pledged to obtain bank loans.

### (2) List of restricted assets

Types of restricted assets	Book value at the beginning of the period	Increment	Decrement	Book value at the end of the period
	the period			end of the period
A.Pledged assets	93,824,363.25	676,797,041.37	36,051,740.38	734,569,664.24
1.Fixed assets-buildings and structures	37,630,286.07	—	35,831,750.36	1,798,535.71
2.Inventories-Development products	25,869,670.18	—	219,990.02	25,649,680.16
3.Inventories-Development costs	30,324,407.00	661,537,905.26	—	691,862,312.26
4.Consumable forest assets	—	15,259,136.11	—	15,259,136.11
B.Other reasons	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>93,824,363.25</u>	<u>676,797,041.37</u>	<u>36,051,740.38</u>	<u>734,569,664.24</u>

## 12. Short-term Loan

Loan condition	2007.12.31	2006.12.31
Pledge loan	<u>—</u>	<u>1,890,000.00</u>
Total	<u>—</u>	<u>1,890,000.00</u>

### 13. Accounts payable

#### (1) Age analysis

<u>Age</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Within one year	251,872,953.50	265,864,597.47
Over one year	1,80 <u>9,797.03</u>	<u>6,659,116.45</u>
Total	<u>253,682,750.53</u>	<u>272,523,713.92</u>

Note 1: Account payable balance which age is over one year is mainly due to the consideration for land purchase in Jingdao project by subsidiary Shenzhen Rongfa.

(2) There is no accounts payable balance due to shareholders who owns 5% or over 5% of voting right shares.

### 14. Advance from customers

#### (1) Age analysis

<u>Age</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Within one year	10,477,238.63	801,680.09
Over one year	<u>35,591,733.12</u>	<u>35,314,753.05</u>
Total	<u>46,068,971.75</u>	<u>36,116,433.14</u>

Note 1: The year end balance of advanced from customers, which age is over one year, is mainly due to the amount received from selling the shops in Gangyihaoing. Because of the buyer has reselling option, and they are not satisfied with revenue recognition principle.

#### (2) Advance from customers related to real estate projects:

<u>Item</u>	<u>2007.12.31</u>	<u>2006.12.31</u>	<u>Completed date</u>	<u>Content</u>
Gangyihaoing	35,467,753.05	35,467,753.05	December 2000	Sales of shops
Guoqi buildings	<u>      </u>	<u>449,570.00</u>	February 1996	Sales of properties
Total	<u>35,467,753.05</u>	<u>35,917,323.05</u>		

(3) there is no advance from customers balance due to shareholders who owns 5% or over 5% of voting right shares.

**15. Payroll payable**

<u>Items</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Pay out</u>	<u>2007.12.31</u>
A.Salary, bonus and allowance	1,324,164.37	9,004,527.55	8,992,906.65	1,335,785.27
B. Employment welfare	447,284.43	959,664.08	1,406,948.51	—
C. Social insurance		628,133.33	628,133.33	—
Including:				
1. Medical insurance	—	172,369.18	172,369.18	—
2. Basic retirement insurance	—	412,151.83	412,151.83	—
3. Disability employment fund	—	4,528.80	4,528.80	—
4. Unemployment insurance	—	19,946.93	19,946.93	—
5. Injury insurance	—	13,312.67	13,312.67	—
6. Pregnancy insurance	—	5,823.92	5,823.92	—
D. Housing accumulation fund	—	—	—	—
E. Labor union fee and employee education fee	1,947,618.61	605,622.82	601,523.15	1,951,718.28
F. Non-monetary benefit		—	—	—
G. Redemption for termination of labor contract		99,256.58	99,256.58	—
H. Other	—	—	—	—
Including: share payment by cash	==	==	==	==
Total	<u>3,719,067.41</u>	<u>11,297,204.36</u>	<u>11,728,768.22</u>	<u>3,287,503.55</u>

**16. Tax payable**

<u>Types</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Add-Value Tax(VAT)	24,856.77	-875,868.71
Business Tax	- 1,778,244.29	-1,140,097.18
Consumption Tax	- 13,345.07	9,858.99
City maintenance construction fee	147,490.97	153,699.86
Enterprise Income Tax	1,741,005.25	1,322,949.03
Property tax	200,808.57	940,862.70
Personal income Tax	10,234.52	108,032.62
Education fee	4,938.12	13,742.07
Others	<u>56,320.11</u>	==
Total	<u>394,064.95</u>	<u>533,179.38</u>

**17. Dividend Payable**

<u>Investors</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Legal person shareholders	<u>5,127,701.36</u>	<u>5,127,701.36</u>
Total	<u>5,127,701.36</u>	<u>5,127,701.36</u>

**18. Other accounts payable****(1) Age analysis**

<u>Age</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Within 1 year	74,623,976.78	104,915,379.13
1-2 years	80,941,194.57	35,098,757.01
2-3 years	35,098,757.00	5,382,236.05
Over 3 years	<u>31,981,820.70</u>	<u>26,599,584.65</u>
Total	<u>222,645,749.05</u>	<u>171,995,956.84</u>

(2) Please refer to Notes IX.3.(3) for the detail about the amount of other accounts payable due to shareholders who own 5% or more than 5% voting right shares until December 31, 2007.

**(3) Significant amount of other accounts payable**

<u>Name of Entities</u>	<u>Balance</u>	<u>Age</u>	<u>Proportion</u>	<u>Nature or Content</u>
Bao Tong Wei	20,868,700.42	Year 2006	9.37%	Borrowings Note 2
Jian Qi Chen	28,291,107.53	Year 2006	12.71%	Borrowings Note 2
Wan Ying Lin	32,770,936.86	Year 2006	14.72%	Borrowings Note 2
Kai De Zheng	26,000,000.00	Year 2007	11.68%	Borrowings Note 3
Employee borrowings	<u>33,550,984.61</u>	Year 2005	<u>15.07%</u>	Borrowings Note 1
Total	<u>141,481,729.42</u>		<u>63.55%</u>	

Note 1: Due to the borrowing conditions for real estates companies have been restricted by the governments, it is more difficult for the Company borrowing money from banks, therefore, the Company decided to borrow money from employees, in order to solve out the temporary financial difficulty and ensure the property and forest projects can be completed on times and generated benefits.

Note 2: According to the agreement signed with Bao Tong Wei, Jian Qi Chen and Wan Ying Lin, the Company shall pay interests calculating at 10% interest rate monthly.

Note 3: No interest is involved in the borrowings from Kai De Zheng.

**19. Non-current liabilities due within one year**

<u>Item</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Long-term borrowings due within one year	<u>17,229,760.00</u>	<u>44,235,720.00</u>
Total	<u>17,229,760.00</u>	<u>44,235,720.00</u>

**20. Long-term Borrowings****(1) Types**

<u>Type</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Pledge loan	<u>274,918,800.00</u>	<u>35,566,380.00</u>
Total	<u>274,918,800.00</u>	<u>35,566,380.00</u>

**(2) List of Creditors**

<u>Lender</u>	<u>Currency</u>	<u>Original currency amount</u>	<u>Equivalent to RMB</u>	<u>Annual interest rate</u>	<u>Loan condition</u>
Agriculture Bank of China, Shenzhen Guomao Branch	HKD	17,000,000.00	15,918,800.00	5.8750%	Pledged
Construction bank of China, Shenzhen Aihua Branch	RMB	250,000,000.00	250,000,000.00	7.227%	Pledged
Wengyuan Rural Credit Cooperatives	RMB	9,000,000.00	<u>9,000,000.00</u>	8.0154%-8.6634%	Pledged
Total			<u>274,918,800.00</u>		

Note 1: The long-term borrowing has increased 6.73 times of last year's balance, is mainly due to the subsidiary- Shenzhen Rongfa borrowed money for the Jingdao Project in Futian Central District.

Note 2: Details of the pledged assets are referring to Notes V.II5 (1), VII.8 and VII.11.  
(2).

**21. Accrued liabilities**

<u>Items</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Decrement</u>	<u>2007.12.31</u>	<u>Reason</u>
Guarantee liabilities	<u>10,236,059.16</u>	<u>782,925.00</u>	<u>—</u>	<u>11,018,984.16</u>	Loan guarantee
Total	<u>10,236,059.16</u>	<u>782,925.00</u>	<u>—</u>	<u>11,018,984.16</u>	

Note: Please refer to Note X.3 for details.

## 22. Deferred Income

<u>Items</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Unrecognized leaseback income	<u>1,852,707.79</u>	<u>2,264,420.63</u>
Total	<u>1,852,707.79</u>	<u>2,264,420.63</u>

Note: The unrecognized leaseback income is the unrecognized income from leaseback of shops in Gangyihaoing.

## 23. Share Capital

<u>Items</u>	<u>2006.12.31</u>	<u>Current changes</u> (+, -)					<u>Unit: share</u>
		<u>Share</u>	<u>Bonus</u>	<u>Capitalization</u>	<u>Other</u>	<u>Sub-total</u>	<u>2007.12.31</u>
		<u>Right</u>	<u>Shares</u>	<u>of public</u>			
				<u>reserve</u>			
① Restricted shares							
Including:							
shares held by states	—	—	—	—	—	—	—
Shares held by state-owned legal persons	44,662,925	—	—	—	-24,970,118	-24,970,118	19,692,807
Shares held by overseas legal persons	29,688,192	—	—	—	-29,688,192	-29,688,192	—
Other							
Sub-total	74,351,117	—	—	—	-54,658,310	-54,658,310	19,692,807
② Unrestricted shares							
1. Ordinary shares listed in mainland	74,550,067	—	—	—	54,658,310	54,658,310	129,208,377
2. Foreign shares listed in mainland	—	—	—	—	—	—	—
3. Foreign shares listed in overseas	72,000,000	—	—	—	—	—	72,000,000
4. Others	—	—	—	—	—	—	—
Total listed shares	<u>146,550,067</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>54,658,310</u>	<u>54,658,310</u>	<u>201,208,377</u>
Total shares	<u>220,901,184</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>220,901,184</u>

The share capital has been verified by Zhongqing Certified Public Accountants and issued a Capital Verification Report with Yanqianzi [1998] No.S006.

## 24. Capital Reserves

<u>Types</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Decrement</u>	<u>2007.12.31</u>
Share premium	50,995,056.63	—	—	50,995,056.63
Other capital reserves	<u>21,320,290.43</u>	<u>—</u>	<u>—</u>	<u>21,320,290.43</u>
Total	<u>72,315,347.06</u>	<u>—</u>	<u>—</u>	<u>72,315,347.06</u>

## 25. Surplus Reserve

<u>Types</u>	<u>2006.12.31</u>	<u>Increment</u>	<u>Decrement</u>	<u>2007.12.31</u>
Statutory surplus reserves	88,023,787.97	—	3,497,306.84	84,526,481.13
Other surplus reserves	<u>42,332,055.10</u>	<u>—</u>	<u>928,701.75</u>	<u>41,403,353.35</u>
Total	<u>130,355,843.07</u>	<u>—</u>	<u>4,426,008.59</u>	<u>125,929,834.48</u>

Note: the company has disposed the Shenzhen International Arcade Co, Ltd in the year, therefore its surplus reserve has been transferred out.

## 26. Retained Earnings

<u>Items</u>	<u>2007.12.31</u>	<u>2006.12.31</u>
Balance at the beginning of the year of 2007	-242,659,312.26	-205,276,139.00
Add: Consolidated net profit	67,866,231.38	-42,874,333.22
Other transfer-in	—	5,491,159.96
Less: Withdrawal of statutory surplus reserve	—	—
Withdrawal of employees' reward and welfare fund	—	—
Withdrawal of reserve fund	—	—
Withdrawal of Enterprise development fund	—	—
Reimbursement of investment	—	—
Less: dividends payable for preference shares	—	—
Withdrawal of surplus reserves	—	—

Dividends payable for ordinary shares	—	—
Dividends for ordinary shares transfer into capital	—	—
Balance at the end of the year of 2007	<u>-174,793,080.88</u>	<u>-242,659,312.26</u>

## 27. Minority Interest

<u>Name of investee</u>	<u>Proportion of</u>	<u>Beginning balance of</u>	<u>Closing balance of</u>
	<u>minority interest</u>	<u>Minority interest</u>	<u>Minority interest</u>
Shenzhen Guomao Property Management Co., Ltd	39.00%	-3,987,161.31	-3,621,575.21
Shenzhen Rongfa Investment Co., Ltd	40.00%	<u>-25,783,991.72</u>	<u>-42,255,234.73</u>
Total		<u>-29,771,153.03</u>	<u>-45,876,809.94</u>

## 28. Operating revenue and operating costs

### 28.1 Listed by items

<u>Items</u>	<u>2007</u>			<u>2006</u>		
	<u>Operating revenue</u>	<u>Operating cost</u>	<u>Operating profit</u>	<u>Operating revenue</u>	<u>Operating cost</u>	<u>Operating profit</u>
1. Revenue from main operation	<u>35,779,620.56</u>	<u>27,984,973.72</u>	<u>7,794,646.84</u>	<u>71,030,841.89</u>	<u>79,466,619.18</u>	<u>-8,435,777.29</u>
Income from sales of goods	15,285,911.96	13,684,690.61	1,601,221.35	18,064,979.91	15,706,522.24	2,358,457.67
Income from sales of property	1,831,164.00	1,082,407.30	748,756.70	32,704,264.17	48,155,177.83	-15,450,913.66
Property services and rental income	13,004,281.01	11,600,841.71	1,403,439.30	17,521,063.81	14,634,525.32	2,886,538.49
Other service income	5,658,263.59	1,617,034.10	4,041,229.49	2,740,534.00	970,393.79	1,770,140.21
2. Revenue from other operation	<u>6,807,451.44</u>	<u>374,995.04</u>	<u>6,432,456.40</u>	<u>9,641,702.49</u>	<u>507,515.54</u>	<u>9,134,186.95</u>
Rental income	6,807,451.44	374,995.04	6,432,456.40	9,641,702.49	507,515.54	9,134,186.95
Total	<u>42,587,072.00</u>	<u>28,359,968.76</u>	<u>14,227,103.24</u>	<u>80,672,544.38</u>	<u>79,974,134.72</u>	<u>698,409.66</u>

### 28.2 Listed by segments or areas

<u>Items</u>	<u>2007</u>			<u>2006</u>		
	<u>Operating revenue</u>	<u>Operating cost</u>	<u>Operating profit</u>	<u>Operating revenue</u>	<u>Operating cost</u>	<u>Operating profit</u>
Shenzhen city	<u>42,587,072.00</u>	<u>28,359,968.76</u>	<u>14,227,103.24</u>	<u>80,672,544.38</u>	<u>79,974,134.72</u>	<u>698,409.66</u>
Total	<u>42,587,072.00</u>	<u>28,359,968.76</u>	<u>14,227,103.24</u>	<u>80,672,544.38</u>	<u>79,974,134.72</u>	<u>698,409.66</u>



## 28.3 Sales revenue from top five clients

<u>Item</u>	<u>2007</u>		<u>2006</u>	
	<u>Sales</u>	<u>Proportion to total</u>	<u>Sales</u>	<u>Proportion to total</u>
		<u>sales</u>		<u>sales</u>
Total sales from top five clients	10,465,752.00	24.57%	29,387,100.00	36.43%

## 29. Financial costs

<u>Items</u>	<u>2007</u>	<u>2006</u>
Interest expenses	—	12,034,642.89
Less: interest income	451,728.63	894,055.88
Exchange losses	—	82,630.39
Less: Exchange gains	2,717,856.15	2,066,649.44
Bank charges	12,110.51	—
Others	<u>80,000.00</u>	<u>86,470.05</u>
Total	<u>- 3,077,474.27</u>	<u>9,243,038.01</u>

## 30. Impairment loss for assets

<u>Item</u>	<u>2007</u>	<u>2006</u>
Bad debts provision	<u>1,838,286.28</u>	<u>921,227.88</u>
Total	<u>1,838,286.28</u>	<u>921,227.88</u>

## 31. Investment income

<u>Items</u>	<u>2007</u>	<u>2006</u>
Investment income from stocks, material funds, bonds	—	—
Distributed profits from associated or joint-venture company	—	—
Net increase/decrease of equity for investee companies at year end	—	—
Gains from transfer of equity investment	79,458,098.90	—
Amortization of equity investment differences	—	—
Impaired loss provisions for investments	—	—
Gains/losses from disposals of long-term equity investments	—	- <u>95,478.50</u>
Total	<u>79,458,098.90</u>	<u>-95,478.50</u>

Note: The gains from transfer of equity investment for 79,458,098.90, is due from the gains from sales of the Company's subsidiary of Shenzhen International Arcade Co., Ltd.

**32. Non-operating income**

<u>Items</u>	<u>2007</u>	<u>2006</u>
Gains from disposal of fixed assets	3,016,402.00	13,471,512.13
Income from debts restructure	5,002,090.40	—
Others	<u>2,889,748.89</u>	<u>412,363.77</u>
Total	<u>10,908,241.29</u>	<u>13,883,875.90</u>

**33. Non-operating expenses**

<u>Items</u>	<u>2007</u>	<u>2006</u>
Losses from disposal of fixed assets	344,413.75	747,267.49
Losses from disposal of intangible assets	—	2,430,814.66
Losses from debts restructure	7,883,244.61	—
Guarantee expenses	782,925.00	782,925.00
Others	<u>982,171.89</u>	<u>1,693,145.30</u>
Total	<u>9,992,755.25</u>	<u>5,654,152.45</u>

**34. Income tax**

<u>Item</u>	<u>2007</u>	<u>2006</u>
Income tax for current period	<u>438,402.97</u>	<u>103,309.94</u>
Total	<u>438,402.97</u>	<u>103,309.94</u>

**35. Supplemental information for cash flow statement**

<u>Supplementary information</u>	<u>2007</u>	<u>2006</u>
1. Adjusting net profits into cash flows from operating activities:		
Net profits	51,760,574.47	-77,022,029.37
Add: Impairment loss provision of assets	1,838,286.28	921,227.88
Depreciation of fixed assets 、 oil and gas assets and production biological assets	5,319,263.57	10,310,133.74
Amortization of intangible assets	—	357,533.40
Amortization of Long-term deferred expenses	5,801,859.65	5,711,779.50
Loss on disposal of fixed assets 、 intangible assets and other long-term deferred assets (Loss/Gain +/—)	-2,671,988.25	-10,293,429.98
Loss from written off assets (Loss/Gain +/—)	—	—
Loss of fair value fluctuation on assets (Loss/Gain +/—)	—	—
Financial cost (Loss/Gain +/—)	-2,717,856.15	10,040,694.12
Loss on investment (Loss/Gain +/—)	-79,458,098.91	95,478.50

Decrease of deferred income tax assets (Decrease/Increase +/-)	—	—
Increase of deferred income tax liabilities(Increase/Decrease +/-)	—	—
Decrease of inventories (Decrease/Increase +/-)	-265,770,677.07	-231,459,087.52
Decrease of operating receivables (Decrease/Increase +/-)	26,823,736.68	-4,773,046.39
Increase of operating payables(Increase/Decrease +/-)	25,489,179.88	323,690,526.31
Losses on Debts restructure(Losses/Gains +/-)	2,881,154.21	—
Net cash flows arising from operating activities	-230,704,565.63	27,579,780.19

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## 2. Significant investing and financing activities that not involving cash flows:

Conversion of debts into capital	—	—
Convertible corporate bond due within 1 year	—	—
Finance leased fixed assets	—	—

## 3. Net increase (decrease) of cash and cash equivalents

Ending balance of cash	61,342,998.09	26,046,276.70
Less: Beginning balance of cash	26,046,276.70	39,053,624.29
Add : Ending balance of cash equivalents	—	—
Less: Beginning balance of cash equivalents	—	—
Net increase (decrease) of cash and cash equivalents	<u>35,296,721.39</u>	<u>-13,007,347.59</u>

**36. Cash and cash equivalents**

<u>Items</u>	<u>2007</u>	<u>2006</u>
1. Cash	61,342,998.09	26,046,276.70
Including: Cash on hand	339,495.03	308,194.50
unrestricted bank deposits	60,883,503.06	25,600,643.16
unrestricted other monetary funds	120,000.00	137,439.04
Deposits in central bank	—	—
Placements in other banks or financial institutions	—	—
Due to other banks or financial institutions	—	—

## 2. Cash equivalents

Including: Bond investment within three month

3. Ending balance of cash and cash equivalents	<u>61,342,998.09</u>	<u>26,046,276.70</u>
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Including: restricted cash and cash equivalents for the parent or  
subsidiaries in the Group

**VIII. Notes to financial statements of the Parent company****1. Other receivable**

## (1) Age analysis:

<u>Age</u>	<u>2007.12.31</u>			<u>2006.12.31</u>		
	<u>Balance</u>	<u>Proportion</u>	<u>Bad debts</u> <u>provision</u>	<u>Balance</u>	<u>Proportion</u>	<u>Bad debts</u> <u>provision</u>
Within one year	376,977,073.19	97.15%	119,878,242.89	322,974,462.50	96.17%	74,925,990.16
1-2 years	89,065.00	0.02%	8,906.50	71,426.71	0.02%	7,142.67
2-3 years	71,426.71	0.02%	10,714.01	—	—	—
3-4 years	—	—	—	1,467,789.82	0.44%	1,467,149.82
4-5 years	1,467,789.82	0.38%	1,467,789.82	9,410,745.18	2.80%	9,410,745.18
Over 5 years	<u>9,436,272.34</u>	<u>2.43%</u>	<u>9,417,843.33</u>	<u>1,906,327.16</u>	<u>0.57%</u>	<u>1,887,898.15</u>
Total	<u>388,041,627.06</u>	<u>100.00%</u>	<u>130,783,496.55</u>	<u>335,830,751.37</u>	<u>100.00%</u>	<u>87,698,925.98</u>

(2) Bad debts provision for 1,894,423.99 has been written off in current period.

**2. Long-term equity investments**

## (1) Long-term equity investments and provision for impairment loss

<u>Items</u>	<u>2007.12.31</u>			<u>2006.12.31</u>		
	<u>Investment</u> <u>amount</u>	<u>Provision for</u> <u>Impairment</u> <u>loss</u>	<u>Book value</u>	<u>Investment</u> <u>amount</u>	<u>Provision for</u> <u>Impairment</u> <u>loss</u>	<u>Book value</u>

Accounted for by cost

method	<u>89,943,991.03</u>	<u>23,999,737.16</u>	<u>65,944,253.87</u>	<u>131,768,438.08</u>	<u>23,999,737.16</u>	<u>107,768,700.92</u>
Total	<u>89,943,991.03</u>	<u>23,999,737.16</u>	<u>65,944,253.87</u>	<u>131,768,438.08</u>	<u>23,999,737.16</u>	<u>107,768,700.92</u>

## (2) Long-term equity investment by cost method

<u>Name of investees</u>	<u>Initial</u>	<u>Accumulated</u>	<u>2006.12.31</u>	<u>Addition</u>	<u>Deduction</u>	<u>2007.12.31</u>
	<u>investment</u>	<u>Addition of</u>				
		<u>investment</u>				
Shenzhen Xinnuo Communication						
Co., Ltd	10,000,000.00	—	10,000,000.00	—	—	10,000,000.00
Shenzhen Chunhua Medicine United						
Co., Ltd.	2,250,000.00	—	2,250,000.00	—	—	2,250,000.00
Shenzhen Guoshang Medicine Co.,						
Ltd.	2,850,000.00	—	2,850,000.00	—	—	2,850,000.00
Shenzhen International trade						
enterprise Co., Ltd	5,320,000.00	—	5,320,000.00	—	—	5,320,000.00
Shenzhen International Arcade						
Property Management Co., Ltd.	2,800,000.00	—	2,800,000.00	—	—	2,800,000.00
Shenzhen Rongfa Investment Co.,						
Ltd.	35,296,718.10	—	35,296,718.10	—	—	35,296,718.10
Shenzhen Longgang International						
Arcade Enterprise Co., Ltd.	15,000,000.00	6,427,272.93	21,427,272.93	—	—	21,427,272.93
Shenzhen International Arcade Co.,						
Ltd.	9,500,000.00	32,324,447.05	41,824,447.05	—	41,824,447.05	—
Shenzhen International Arcade Chain						
Store	<u>10,000,000.00</u>	<u>—</u>	<u>10,000,000.00</u>	<u>—</u>	<u>—</u>	<u>10,000,000.00</u>
Total	<u>93,016,718.10</u>	<u>38,751,719.98</u>	<u>131,768,438.08</u>	<u>—</u>	<u>41,824,447.05</u>	<u>89,943,991.03</u>

## (3) Provision for impairment loss of long-term equity investment

<u>Investment project</u>	<u>2006.12.31</u>	<u>Increase</u>	<u>Decrease</u>	<u>2007.12.31</u>
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Shenzhen Xinnuo Communication Co., Ltd	10,000,000.00	—	—	10,000,000.00
Shenzhen Chunhua Medicine United Co., Ltd.	418,949.38	—	—	418,949.38
Shenzhen Guoshang Medicine Co., Ltd.	3,075,930.02	—	—	3,075,930.02
Shenzhen International trade enterprise Co., Ltd	504,857.76	—	—	504,857.76
Shenzhen International Arcade Chain Store	<u>10,000,000.00</u>	<u>—</u>	<u>—</u>	<u>10,000,000.00</u>
Total	<u>23,999,737.16</u>	<u>—</u>	<u>—</u>	<u>23,999,737.16</u>

### 3. Operating revenue and operating costs

#### (1) Listed by items

<u>Item</u>	<u>2007</u>			<u>2006</u>		
	<u>Operating</u> <u>revenue</u>	<u>Operating</u> <u>costs</u>	<u>Operating</u> <u>profits</u>	<u>Operating</u> <u>revenue</u>	<u>Operating</u> <u>costs</u>	<u>Operating</u> <u>profits</u>
Property and rental						
income	<u>749,150.00</u>	<u>45,214.39</u>	<u>703,935.61</u>	<u>439,226.00</u>	<u>40,325.33</u>	<u>398,900.67</u>
Total	<u>749,150.00</u>	<u>45,214.39</u>	<u>703,935.61</u>	<u>439,226.00</u>	<u>40,325.33</u>	<u>398,900.67</u>

#### (2) Listed by business or geography

<u>Item</u>	<u>2007</u>			<u>2006</u>		
	<u>Operating</u> <u>revenue</u>	<u>Operating</u> <u>costs</u>	<u>Operating</u> <u>profits</u>	<u>Operating</u> <u>revenue</u>	<u>Operating</u> <u>costs</u>	<u>Operating</u> <u>profits</u>
Shenzhen city	<u>749,150.00</u>	<u>45,214.39</u>	<u>703,935.61</u>	<u>439,226.00</u>	<u>40,325.33</u>	<u>398,900.67</u>
Total	<u>749,150.00</u>	<u>45,214.39</u>	<u>703,935.61</u>	<u>439,226.00</u>	<u>40,325.33</u>	<u>398,900.67</u>

## IX. Related party and related party transactions

### 1. Confirmation related parties

The Company has control, jointly control or significant influence on the other party, or is under same party's control, jointly control or significant influence with other company, is deemed as related parties.

### 2. The relationship of related parties

#### Related party with non-controllable relationship

<u>Company's name</u>	<u>Relationship with the Company</u>
Malaysia Foh Chong & Sons	Holding 13.70% of the Company's equity interests

SDN.BHD.

Shenzhen SDG Co., Ltd.

Holding 10.67% of the Company's equity interests

Because the Company's equity structure is quite decentralizing, and has no absolute control shareholder for the Company, the Company lists Malaysia Foh Chong & Sons SDN.BHD. and Shenzhen SDG Co., Ltd. as related parties with non-controllable relationship.

### 3. Related party transactions

(1) The Company and related party transactions are based on independence principle, and the transaction price is according to the prevailing market price or agreement

(2) Related party transaction: no transaction in the year.

(3) Balance of account receivable and payable for related parties

<u>Name of enterprise</u>	<u>2007.12.31</u>		<u>2006.12.31</u>	
	<u>Balance</u>	<u>Proportion</u>	<u>Balance</u>	<u>Proportion</u>
Other payables:				
Malaysia Foh Chong & Sons SDN.BHD.	25,449,040.65	11.43%	26,599,584.65	15.47%
Shenzhen Chunhua Medicine United Co., Ltd.	2,090,239.43	0.94%	2,090,239.43	1.22%
Shenzhen Guoshang Medicine Co., Ltd.	1,491,767.33	0.67%	1,491,767.33	0.87%
Shenzhen International trade enterprise Co., Ltd	<u>4,160,185.75</u>	<u>1.87%</u>	<u>1,160,185.75</u>	<u>0.67%</u>
Total	<u>33,191,233.16</u>	<u>14.91%</u>	<u>31,341,777.16</u>	<u>18.23%</u>

## X. Contingency

### 1. Guarantee

(1) According to common practices of the sale of mortgage properties in the property investment industry, the Company's subsidiary Shenzhen Rongfa Investment Co., Ltd. provides guarantees for those mortgage property sales which developed by itself. Until December 31, 2007, Shenzhen Rongfa Investment Co., Ltd. provides guarantees for mortgage property sales for 48,327,982.76.

(2) According to common practices of the sale of mortgage properties in the property investment industry, the Company's subsidiary Huizhou Rongfa Investment Co., Ltd. provides guarantees for those

mortgage property sales which developed by itself. Until December 31, 2007, Huizhou Rongfa Investment Co., Ltd provides guarantees for mortgage property sales for 13,583,600.

## 2. Pledge

The Company has no other pledge event except mentioned in Notes to financial statements VII.5. (1), VII. 8 and VII, 11. (2)

## 3. Litigation

In September 2005, Shenzhen Intermediate People's Court issued Review Order [2005] SZMFZ No.22, ruled that the Group has joint liability to a guaranteed loan (RMB6 million and related overdue interest) borrowed from Bank of China, Shenzhen Shangbu branch by Shenzhen Shengang Gongmao Co., Ltd. ("Shengang Gongmao") in 1999.

The case was a historical issue between the Group and Shengang Gongmao. The court had judged in favor of the Group in previous court decisions until the above review decision came into effective.

The Group filed an appeal at Guangdong Superior People's Court. By the balance sheet date, the case is on going. In accordance with conservative principle, the Company accounted for guaranteed loan principal for 8,670,209.16 as accrued liabilities, and accrued interests for 782,925.00 for the year of 2005, 2006 and 2007.

## XI. Commitment

Until December 31, 2007, The Company signed non-revocable operating lease contracts with third party as follows:

<u>Maturity</u>	<u>Rental payable</u>	<u>Deferred investment income</u>
Within one year	6,638,751.38	411,712.84
1-2 years	6,638,751.38	411,712.84
2-3 years	5,835,233.36	411,712.84
Over three years	—	<u>617,569.27</u>
Total	<u>19,112,736.12</u>	<u>1,852,707.79</u>

## XII. Non-adjustment event after balance sheet date

The Company has no after balance sheet date event to disclose as at the reporting date.

## XIII. Other Significant events

1. Shenzhen Rongfa signed a loan borrowing agreement with Shenzhen Mingxing Industrial



Development Co., Ltd. ( “Mingxing”) on 17 November 2004. The Company provides guarantee and bears joint liability with Shenzhen Rongfa on this loan borrowing. Mingxing would lend RMB34,600,181 to Shenzhen Rongfa in installments accordingly.

On 1 March 2005, the land use right of Longgang No.5 Project was listed for sale on Shenzhen Land & Property Exchange Center at an initial listing price of RMB91.08 million. Shenzhen Guangyecheng Investment Development Co., Ltd. ( “Guangyecheng”) won the bid at a purchase price of RMB140.88 million. Towards the above land deal, Mingxing sued Shenzhen Rongfa and the Group for breaching the contract between the three parties, asking for a compensation of RMB 46,762,200, equivalent to the net difference between the initial listing price and the closing price of the sale of the land use right, and an interest of RMB869,776.92.

On 17 November 2005, Shenzhen Intermediate People’s Court issued Civil Order [2005] SZFMRCZ No. 327, and on 23 June 2006, Guangdong Superior People's Court issued Civil Order [2006] YGFMRZZ No.73, rejected the claim from Mingxing. Mingxing responded with a further appeal to Guangdong Superior People’s Court. On 18 December 2007, Guangdong Superior People’s Court issued Civil Order [2007] YGFMRZ No.94, decided to close the case.

The final result from the court: Under intermediation by the Guangdong Superior People’s Court, Shenzhen Rongfa Investment Co., Ltd agreed to pay 5 million to Mingxing by installments. First payment will be 1 million RMB paid on 20 January 2008; Second payment will be 2 million RMB paid on 20 March 2008 and final payment will be 2 million RMB paid on 20 June 2008.

Up to January 2008, Shenzhen Rongfa has paid the first payment 1 million RMB to Mingxing.

2. Shenzhen Rongfa and International Arcade signed an repurchase equity transfer contract with Shenzhen Baotian Investment Development Co.,Ltd (Shenzhen Baotian ) on 31 January 2007. According to the contract, Shenzhen Rongfa and International Arcade would transfer their holding interests of 85% and 10% respectively in Shenzhen Gangyi to Shenzhen Baotian. After the equity transfer transaction, Shenzhen Baotian and Shenzhen Rongfa will hold 95% and 5% shares in Shenzhen Gangyi respectively. The contract requires that Shenzhen Baotian shall transfer the equity interests back to ShenzhenRongfa or designated party by Shenzhen Rongfa for RMB 1 million no later than six years since the contract signed. Shenzhen Rongfa and Baotian Investment signed a supplementary agreement of equity transfer contract late after, Shenzhen Rongfa agreed to give up the current or future benefits from its 5% interests in Shenzhen Gangyi, that is, Shenzhen Rongfa will not participate in any profit

distribution or bear any loss from Shenzhen Gangyi within the six years after the equity transfer.

3. In 2007, International Arcade transferred its 45% holding interests in Wuhua Forest, and 45% holding in Wengyuan Forest to Shenzhen Rongfa. International Arcade and Guoshang Property signed an equity transfer agreement on 3 September 2007, and International Arcade agreed to transfer its 90% holding interests in Huizhou Rongfa to Guoshang Property at a price of RMB1 yuan. After the equity transfer, Guoshang Property holds 90% shares of Huizhou Rongfa. The share changes in minority shareholders are showed as follows:

(1) Changes of shares holding by shareholders

<u>Name of Entity</u>	<u>Before equity transfer</u>		<u>After equity transfer</u>		<u>Increase holding by Minority</u>
	<u>Holding by</u>	<u>Holding by</u>	<u>Holding by The</u>		
	<u>The Company</u>	<u>Minority</u>	<u>Company</u>	<u>Holding by Minority</u>	
Wengyuan					
Guoshang	78%	22%	60%	40.00%	18.00%
Wuhua					
Guoshang	78%	22%	60%	40.00%	18.00%
Huizhou					
Rongfa	88.20%	11.80%	54.90%	45.10%	33.30%

(2) Changes in shareholder's equity

<u>Items</u>	<u>Year 2005</u>	<u>Year 2006</u>
Minority Interest	-7,880,019.83	-8,976,047.07
Profit or Loss to Minority Shareholder	-279,844.99	-1,084,544.97
Net profit attributed to Parent Company	279,844.99	1,084,544.97
Shareholder's equity attributed to Parent Company	7,880,019.83	8,976,047.07

4. The Company and Shenzhen Rongfa signed an equity transfer agreement with Shenzhen Whitehorse Clothing Co., Ltd (Whitehorse) on 18 October 2007. The Company and Shenzhen Rongfa would transfer all their shares in International Arcade to Whitehorse with a transfer price of 87.08 millions. An amount of 77,174,898.90 which gained from the transfer are attributed to parent company.

## XII. Net profits after deduction of non-recurring profits and losses

<u>Items</u>	<u>Amount</u>
Net Profits	67,866,231.38
Less: Profit or loss from disposal of non-current assets	82,130,087.16
Government grants	—

Losses from debts restructuring	-2,881,154.21
Losses from accrued liabilities not relating to the company's main business activities	-782,925.00
Other non-operating profits	1,907,577.00
Non-recurring profits and losses designated by China Securities Regulator Commission No. 3	—
Subtotal:	-12,507,353.57
Add: Amount influenced by income tax	—
Add: Non-recurring profit attributable to minority interest	97,110.89
Net profits after deduction of non-recurring profit and loss	-12,410,242.68

### XIII. Yield Rate of Net Assets and Earnings Per Share

#### 1. Yield rate of net assets

Calculation of Weighted average yield rate of net assets	Code	2007		2006	
		Net profits	Net profits after deduction of non-recurring profits and losses	Net profits	Net profits after deduction of non-recurring profits and losses
Net profits or net profits after deduction of non-recurring profits and losses attributable to ordinary shareholders	P	67,866,231.38	-12,410,242.67	-42,874,333.22	-51,094,676.36
Net profits attributable to ordinary shareholders	NP	67,866,231.38	-12,410,242.67	-42,874,333.22	-51,094,676.36
Net assets attributable to ordinary shareholders at beginning of year	E0	180,913,061.87	180,913,061.87	210,081,939.21	210,081,939.21
Newly issuance shares or transfer of debts into shares during reporting period, net assets attributable to ordinary shareholders	Ei				
Repurchase or decrease of cash dividends during reporting period, net assets attributable to ordinary shareholders	Ej				
Number of month during the reporting period	M0	12	12	12	12
Number of months from the next month to the end of reporting period for increase of net assets	Mi				
Number of months from the next month to the end of reporting period for decrease of net assets	Mj				
Increase/decrease of net assets due to other	Ek				

transaction or events					
Number of months from the next month to the end of reporting period for increase/decrease of net assets due to other transaction or events	Mk				
Weighted average yield of net assets		31.59%	-7.10%	-22.73%	-27.69%

Weight average yield of net assets =  $P / (E_0 + E_1 \times M_1 \div M_0 - E_j \times M_j \div M_0 + E_k \times M_k \div M_0)$

Calculation of diluted yield rate of net assets	Code	2007		2006	
		Net profits	Net profits after deduction of non-recurring profits and losses		Net profits
Net profits or net profits after deduction of non-recurring profits and losses attributable to ordinary shareholders	P	67,866,231.38	-12,410,242.67	-42,874,333.22	-51,094,676.36
Net assets attributable to ordinary shareholders	E	244,353,284.66	244,353,284.66	180,913,061.87	180,913,061.87
Diluted yield rate of net assets		27.77%	-5.08%	-23.70%	-28.24%

Diluted yield rate of net assets =  $P \div E$

## 2. Earnings per share

Items	2007	2006
Calculation of basic earnings per share and diluted earnings per share		
1. Nominator:		
Net profits after tax	67,866,231.38	-42,874,333.22
Adjustment: Impacts of preference share and other instruments	—	—
Net profits attributable to the ordinary shareholders in calculation of basic earnings per share	67,866,231.38	-42,874,333.22
Adjustment:	—	—
Dividends and interests related to potential dilution in ordinary shares	—	—
Income or expense incurred by potential dilution in ordinary shares transfer	—	—
Net profits attributable to ordinary shareholders in calculation of diluted earnings per share	67,866,231.38	-42,874,333.22
2. Denominator:		
Weighted average ordinary shares issued at reporting period in calculation of basic earnings per share	220,901,184	220,901,184
Add: weighted average related to the transfer of all potential dilution	—	—

ordinary shares to ordinary shares

Weighted average ordinary shares issued at reporting period in calculation of

diluted earnings per share	220,901,184	220,901,184
3. Earnings per share		
Basic earnings per share	0.3072	-0.1941
Diluted earnings per share	0.3072	-0.1941

## Supplementary Information

**According to the circular on issuing No 7 Question and responses of information Disclosure standard of Public companies-Completion and Disclosure of the comparative Financial accounting information during the transition period between New and Old account standards, the Company prepared adjusted difference table for new and old Enterprise Accounting Standards.**

### (1). Procedures for adjustment of comparative income statement

**By analysis of article 5 to 19 of No 38 of Enterprise Accounting Standards – First implementation of Enterprise Accounting Standards, the Company prepared the following table:**

(1) The impacts on the shareholders' equity of comparative financial statements due to retroactive adjustments

Items	2005.12.31	2006.12.31
Shareholders' equity as at December 31, 2006 (old accounting standards)	200,927,031.38	164,713,709.78
Minority interest included in shareholder's equity in consolidated financial statement	13,524,183.16	-8,367,800.94
Accounting error correction	-2,604,000.00	-5,204,000.00
Shareholders' equity as at January 1, 2007 (new accounting standards)	211,847,214.54	151,141,908.84
Shareholder's equity attributable to parent company	210,081,939.21	180,913,061.87
Minority interests	1,765,275.33	-29,771,153.03

(2) Net profits adjustment difference table

Items	Year of 2006
Net profits for the year of 2006 (Old accounting standards)	-11,479,898.50
Add: Minority Interest	-24,925,803.89
Unrecognized investment loss	-38,016,326.98
Correction of accounting error	-2,600,000.00
Total	-77,022,029.37
Net profits for the year of 2006 (New accounting standards)	-77,022,029.37
Including: Net profits attributable to parent company(new accounting standards)	-42,874,333.22
Net profits attributable to Minority Interests	-34,147,696.15
Assuming the company apply with the new accounting standards	
Add: other items affecting on total amount	28,129,785.50
Including: Financial costs	12,034,642.89

Profit and loss of debts restructure	16,095,142.61
Net profits for the year 2006 under new accounting standards	-48,892,243.87
Including: Net profits attributable to parent company	-22,391,548.67
Net profits attributable to Minority interests	-26,500,695.20

The corresponding disclosure of changes in Shareholders' equity under new and old accounting standards

Items	The amounts to be disclosed in 2007	The amounts to be disclosed in 2006	Difference	reason
shareholder equities on December 31, 2006(original accounting standard)	180,913,061.87	164,713,709.78	16,199,352.09	3,122,400.00 decreased amount is related to correction of accounting error;8,976,047.07 increased amount is related to business combination under common control; minority interest would bear 10,345,705.02 unrecognized investment loss calculated by equity proportion
Difference on long-term equity investment				
Including: Difference on long-term equity investment occurred by consolidation under same control				
Difference on borrowing for long-term equity investment measured by equity method				
investment property measured by fair value				
Share payment				
Consolidation				
Including: Book value of goodwill after consolidation under common control				
Goodwill impairment loss provision under new accounting standards				
Financial assets at fair value through P&L ,and available-for-sale financial assets				

Financial liabilities at fair value through P&L				
Derivative financial instruments				
Items	The amounts to be disclosed in 2007	The amounts to be disclosed in 2006	Difference	reason
Income tax		4,074,516.32	-4,074,516.32	After verification, on the first executive date, the company confirmed that the company and its subsidiaries has no enough reversal amount of income tax payable to off set the timing difference, therefore no deferred tax assets are recognized
Minority interest	-29,771,153.03	-8,367,800.94	-21,403,352.09	2,081,600.00 decreased amount is related to correction of accounting error;8,976,047.07 increased amount is related to business combination under common control; minority interest would bear 10,345,705.02 unrecognized investment loss calculated by equity proportion
Social retroactive adjustment for companies listed in B shares or H shares				
Others				
Shareholders' equity on 1 Jan 2007(New accounting standards)	151,141,908.84	160,420,425.16	-9,278,516.32	.The total adjustment amount is -9,278,516.32,referring to all reason mention above.

### XIII. Approval of financial statements

The consolidated financial statements for the year of 2007 are approved and authorized for issuance by the Board of Directors on April 21, 2008.

**Director**

**Director**

**Shenzhen International Enterprise Co., Ltd**





## Balance Sheet

December 31,2007

Prepared by:Shenzhen International Enterprise Co., Ltd

Unit:RMB

Assets	Note	Consolidation		Parent Company	
		2007.12.31	2006.12.31	2007.12.31	2006.12.31
Current Assets:					
Monetary Funds	VII、1	61,342,998.09	26,046,276.70	11,369,551.37	908,794.60
Tradable financial assets					
Notes receivables					
Account receivables	VII、2	1,328,901.67	1,938,638.07		
Advances to suppliers	VII、3	1,309,621.00	1,194,635.94	180,000.00	180,000.00
Interest receivables					
Dividends receivable					
Other receivables	VII、4	34,582,967.95	43,303,488.03	257,258,130.51	248,131,825.39
Inventories	VII、5	826,728,755.33	535,834,359.30	164,920.02	183,162.52
Including:Consumable biology assets		37,387,045.27	12,559,886.84		

Non-current assets due within one year					
Other current assets					
<b>Total current assets</b>		<b>925,293,244.04</b>	<b>608,317,398.04</b>	<b>268,972,601.90</b>	<b>249,403,782.51</b>
Non-current assets:					
Available-for-sale financial assets					
Held-to-maturity investments					
Long-term account receivables					
Long-term equity investments	VII、6	6,570,262.84	6,570,262.84	71,920,720.27	113,745,167.32
Investment properties	VII、7	9,684,331.58	12,557,099.25	7,744,828.67	10,513,636.62
Fixed assets	VII、8	80,372,214.68	89,299,660.65	26,680,701.23	27,495,579.82
Construction in progress					
Construction materials					
Liquidation of fixed assets					
Intangible assets					
Development expenses					
Long-term deferred assets	VII、9	13,345,514.72	18,606,119.90	210,000.00	92,800.00
Deferred income tax assets					
Other non-current assets					
<b>Total non-current assets</b>		<b>109,972,323.82</b>	<b>127,033,142.64</b>	<b>106,556,250.17</b>	<b>151,847,183.76</b>
<b>Total assets</b>		<b>1,035,265,567.86</b>	<b>735,350,540.68</b>	<b>375,528,852.07</b>	<b>401,250,966.27</b>

Legal Representative:                      Person in charge of accounting department:                      Chief  
accountant:

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## Balance Sheet(Continued)

December 31,2007

Prepared by:Shenzhen International Enterprise Co., Ltd

Unit:RMB

Liabilities and Shareholders	Note	Consolidation		Parent Company	
		2007.12.31	2006.12.31	2007.12.31	2006.12.31
Current liabilities:					
short-term loan	VII、 12		1,890,000.00		
Tradable financial liabilities					
Notes payables					
Account payables	VII、 13	253,682,750.53	272,523,713.92		
Advances from customers	VII、 14	46,068,971.75	36,116,433.14	70,000.00	70,000.00
Payroll payables	VII、 15	3,287,503.55	2,028,206.23	1,621,727.06	1,217,737.65
Tax payable	VII、 16	394,064.95	533,179.38	2,624,676.14	3,334,453.09
Interest payables		562,100.00			

Dividend payables	VII、 17	5,127,701.36	5,127,701.36	5,127,701.36	5,127,701.36
Other account payables	VII、 18	218,602,256.57	173,686,818.02	72,695,222.70	54,865,884.27
Non-current liabilities due within one year	VII、 19	17,229,760.00	44,235,720.00	17,229,760.00	44,235,720.00
Other current liabilities					
<b>Total current liabilities</b>		<b>544,955,108.71</b>	<b>536,141,772.05</b>	<b>99,369,087.26</b>	<b>108,851,496.37</b>
Non-current liabilities:					
Long-term borrowings	VII、 20	274,918,800.00	35,566,380.00	15,918,800.00	35,566,380.00
Bond payable					
Long-term account payable					
Special accounts payable					
Accrued liabilities	VII、 21	11,018,984.16	10,236,059.16	11,018,984.16	10,236,059.16
Deferred income tax liabilities					
Deferred incomes	VII、 22	1,852,707.79	2,264,420.63		
<b>Total non-current liabilities</b>		<b>287,790,491.95</b>	<b>48,066,859.79</b>	<b>26,937,784.16</b>	<b>45,802,439.16</b>
<b>Total liabilities</b>		<b>832,745,600.66</b>	<b>584,208,631.84</b>	<b>126,306,871.42</b>	<b>154,653,935.53</b>
Shareholders' equity:					
Share capital	VII、 23	220,901,184.00	220,901,184.00	220,901,184.00	220,901,184.00

Less: inventory shares					
Capital reserve	VII、 24	72,315,347.06	72,315,347.06	64,951,444.59	64,951,444.59
Surplus reserve	VII、 25	125,929,834.48	130,355,843.07	96,841,026.39	96,841,026.39
Retained earnings	VII、 26	-170,664,142.22	-242,098,534.97	#####	-136,096,624.24
<b>Equity attributable to the holders of parent company</b>		<b>248,482,223.32</b>	<b>181,473,839.16</b>	<b>249,221,980.65</b>	<b>246,597,030.74</b>
Minority interests		-45,962,256.13	-30,331,930.32		
<b>Total shareholders' equity</b>		<b>202,519,967.19</b>	<b>151,141,908.84</b>	<b>249,221,980.65</b>	<b>246,597,030.74</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,035,265,567.85</b>	<b>735,350,540.68</b>	<b>375,528,852.07</b>	<b>401,250,966.27</b>

Legal Representative:

Person in charge of accounting department:

Chief accountant:

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## Consolidated Income Statement

For the year ended December 31, 2007

Prepared by: Shenzhen International Enterprise Co., Ltd

Unit: RMB

Items	Note	Consolidation		Parent Company	
		2007	2006	2007	2006

<b>I. Total operating income</b>	VII、 28	<b>42,587,072.00</b>	<b>80,672,544.38</b>	<b>749,150.00</b>	<b>439,226.00</b>
Less: Operating cost	VII、 28	28,359,968.76	79,974,134.72	45,214.39	40,325.33
Business taxes and surtax		1,520,203.37	3,243,813.95		
Selling expenses		21,298,572.87	34,268,527.71		
Administrative expenses		20,822,122.49	33,347,299.83	5,204,606.18	1,920,916.44
Financial costs	VII、 29	-3,077,474.27	9,243,038.01	-15,686,016.54	-5,622,448.90
Impairment loss of assets	VII、 30	1,610,540.27	921,227.88	44,979,994.56	74,638,535.78
Add: gains from the fair value changes (The loss is listed beginning with “-”)					
Investment income (The loss is listed beginning with “-”)	VII、 31	86,047,999.77	-95,478.50	36,547,552.95	
Including: the investment income from associated and joint ventures enterprises					
<b>II. Operating profit</b>		<b>58,101,138.27</b>	<b>-79,499,748.34</b>	<b>2,752,904.36</b>	<b>-66,696,269.77</b>
Add: non-operating income	VII、 32	10,694,625.82	13,883,875.90	2,961,251.59	6,961,129.71
Less: non-operating expense	VII、 33	9,992,755.25	5,654,152.45	3,089,206.04	979,142.47

Including: loss from disposal of non-current assets					
<b>III. Total profits (The loss is listed beginning with “-”)</b>		<b>58,803,008.84</b>	<b>-71,270,024.89</b>	<b>2,624,949.91</b>	<b>-60,714,282.53</b>
Less: income tax expense	VII、 34	438,402.97	103,309.94		
<b>IV. Net profits (the net loss is listed beginning with “-”)</b>		<b>58,364,605.87</b>	<b>-71,373,334.83</b>	<b>2,624,949.91</b>	<b>-60,714,282.53</b>
Net profits attributable to equity holders of the parent company		73,954,984.68	-37,225,638.68		
Minority interests		-15,590,378.81	-34,147,696.15		
<b>V. Earnings per share</b>					
1. Basic earnings per share					
2. Diluted earnings per share					

Legal Representative:

Person in charge of accounting department:

Chief accountant:

## onsolidated Statement of Changes in Equity

For the year ended December 31, 2007

Prepared by:Shenzhen

International Enterprise Co., Ltd

Unit:RMB

Items	Amount for year 2007								
	Shareholder's equity attributable to parent company							Minority interests	Total equity
	Share capital	Capital reserve	minus : Share s at stock	Capital surplus	Unrecognis ed investment losses	Undistributed Profit	Sub-tot al		
<b>I. Balance at the end of previous year</b>	220,901,184.00	70,869,560.17		121,036,366.38	-82,342,131.01	-165,751,269.76	164,713,709.78	-8,367,800.94	156,345,908.84
plus: changes of accounting policies				9,319,476.69		-9,319,476.69			
Correction of errors in prior years		1,445,786.89				-4,568,186.89	-3,122,400.00	-2,081,600.00	-5,204,000.00
Consolidation under same control						8,976,047.07	8,976,047.07	-8,976,047.07	



Transfer-in of unrecognised investment loss					82,342,131.01	-71,996,425.99	10,345,705.02	-10,345,705.02	
<b>II. Balance at the beginning of the year</b>	220,901,184.00	72,315,347.06		130,355,843.07		-242,659,312.26	180,913,061.87	-29,771,153.03	151,141,908.84
<b>III. Changes in equity in the year (the decrease is listed beginning with “-”)</b>				-4,426,008.59		67,866,231.38	63,440,222.79	-16,105,656.91	47,334,565.88
(I)Net profit for the year						67,866,231.39	67,866,231.39	-16,105,656.91	51,760,574.48
(II)Gain and loss directly accrued to equity									
1. Net amount of fair value changes of available-for-sale financial assets									
2.Net amount of shareholder's equity changes in investee company by equity method									
3. Income tax effect accrued to equity items									
4. Others									
Subtotal of (I) and (II)						67,866,231.39	67,866,231.39	-16,105,656.91	51,760,574.48
(III) Capital investment by the shareholders									

1.Capital investment by shareholders in the year									
2. Amount calculated into equity paid in shares									
3.Others									
(IV)Profit distribution in the year									
1. Withdrawal of surplus reserve									
2.Withdrawal of general risk provision									
3.Distribution to shareholders									
4.Others									
(V) Internal settlement and transfer of shareholders' equity									
1. Transfer of capital reserve to capital									
2. Transfer of surplus reserve to capital									
3. Surplus reserve makes up for the loss									
4. Others									
(VI)Others				-4,426,008.59			-4,426,008.59		-4,426,008.59
<b>IV. Balance at the end of this period</b>	220,901,184.00	72,315,347.06		125,929,834.48		-174,793,080.88	244,353,284.6	-45,876,809.94	198,476,474.72

[illegible]

Legal Representative:

Person in charge of accounting department:

Chief accountant:

## Consolidated Statement of Changes in Equity

For the year ended December 31, 2006

Prepared by:Shenzhen International

Enterprise Co., Ltd

Unit:RMB

Items	Amount for year 2006									
	Shareholder's equity attributable to parent company						Minority interests		Total equity	
	Share capital	C a p i t a l r e s e r v e	minus: Shares at stock	Capital surplus	Unrecognised investment losses	U n d i s t r i b u t e d	Sub-total			

					P r o f i t			
<b>I. Balance at the end of previous year</b>	220,901,184.00	62,655,264.25		121,036,366.38	-49,394,411.99	200,927,031.38	13,524,183.16	214,454.21
plus: changes of accounting policies				9,319,476.69	-9,311			

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Correction of errors in prior years		7				,	-1,562,400.00	-1,041,600.00	,
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		9				8			0
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Consolidation under same control						8	7,880,019.83	-7,880,019.83	
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						5			
						5			
						7			
Transfer-in of unrecognised investment loss				49,394,411.99	2,837,288.00	-2,837,288.00			
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II. Balance at the beginning of the year	220,901,184.00	,		130,355,843.07		0	210,081,939.21	1,765,275.33	1
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(I)Net profit for the year					-			-
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					-42,874,333.22		-34,147,696.15	

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(II)Gain and loss directly accrued to equity		8				8,214,295.92	8
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1. Net amount of fair value changes of available-for-sale financial assets							



2.Net amount of shareholder's equity changes in investee company by equity method									
3. Income tax effect accrued to equity items									
4. Others		8 , 2 1 4 , 2 9 5 . 9 2					8,214,295.92		8 , 2 1 4 , 2 9 5 . 9 2
Subtotal of (I) and (II)		8 , 2 1 4 , 2 9 5 . 3				- 4 2 , 8 7 4 , 3 3	-34,660,037.30	-34,147,696.15	- 6 8 , 8 0 7 , 7 3

		9 2				3 . 2 2			3 . 4 5
(III) Capital investment by the shareholders									
1.Capital investment by shareholders in the year									
2. Amount calculated into equity paid in shares									
3.Others									
(IV)Profit distribution in the year									
1. Withdrawal of surplus reserve									
2.Withdrawal of general risk provision									
3.Distribution to shareholders									
4.Others									
(V) Internal settlement and transfer of shareholders' equity									
1. Transfer of capital reserve to capital									
2. Transfer of surplus reserve to capital									
3. Surplus reserve makes up for the loss									
4. Others									
(VI)Others						5 ,	5,491,159.96	2,611,267.79	8 ,

						4 9 1 , 1 5 9 . 9 6			1 0 2 , 4 2 7 . 7 5
IV. Balance at the end of this period	220,901,184.00	7 2 , 3 1 5 , 3 4 7 . 0 6		130,355,843.07		- 2 4 2 , 6 5 9 , 3 1 2 . 2 6	180,913,061.87	-29,771,153.03	1 5 1 , 1 4 1 , 9 0 8 . 8 4

Legal Representative:

Person in charge of accounting department:

Chief accountant:

### Consolidated Statement of Changes in Equity

For the year ended December 31, 2007

Prepared by: Shenzhen International Enterprise Co., Ltd

Unit: RMB

Items	Amount for year 2007								
	Shareholder's equity attributable to parent company							Minority interests	Total equity
	Share capital	Capital reserve	minus: Shares at stock	Capital surplus	Unrecog nised investme nt losses	Undistribute d Profit	Sub-total		
I. Balance at the end of previous year	220,901,184.00	70,869,560.17		121,036, 366.38	-82,342, 131.01	-165,751,26 9.76	164,713,70 9.78	-8,367,8 00.94	156,345,908.84
plus: changes of									

accounting policies				9,319,476.69		-9,319,476.69			
Correction of errors in prior years		1,445,786.89				-4,568,186.89	-3,122,400.00	-2,081,600.00	-5,204,000.00
Consolidation under same control						8,976,047.07	8,976,047.07	-8,976,047.07	
Transfer-in of unrecognised investment loss					82,342,131.01	-71,996,425.99	10,345,705.02	-10,345,705.02	
<b>II. Balance at the beginning of the year</b>	220,901,184.00	72,315,347.06		130,355,843.07		-242,659,312.26	180,913,061.87	-29,771,153.03	151,141,908.84
<b>III. Changes in equity in the year (the decrease is listed beginning with “-”)</b>				-4,426,008.59		67,866,231.38	63,440,222.79	-16,105,656.91	47,334,565.88
(I)Net profit for the year						67,866,231.39	67,866,231.39	-16,105,656.91	51,760,574.48
(II)Gain and loss directly accrued to equity									
1. Net amount of fair value changes of									

available-for-sale financial assets									
2.Net amount of shareholder's equity changes in investee company by equity method									
3. Income tax effect accrued to equity items									
4. Others									
Subtotal of (I) and (II)						67,866,231. 39	67,866,231. 39	-16,105, 656.91	51,760,574.48
(III) Capital investment by the shareholders									
1.Capital investment by shareholders in the year									
2 . Amount calculated into equity paid in shares									
3.Others									
(IV)Profit distribution in the year									
1. Withdrawal of surplus reserve									

2.Withdrawal of general risk provision									
3.Distribution to shareholders									
4.Others									
(V) Internal settlement and transfer of shareholders' equity									
1. Transfer of capital reserve to capital									
2. Transfer of surplus reserve to capital									
3. Surplus reserve makes up for the loss									
4. Others									
(VI)Others				-4,426,008.59			-4,426,008.59		-4,426,008.59
<b>IV. Balance at the end of this period</b>	220,901,184.00	72,315,347.06		125,929,834.48		-174,793,080.88	244,353,284.66	-45,876,809.94	198,476,474.72

Legal Representative:

Person in charge of accounting department:

Chief accountant:

### Consolidated Statement of Changes in Equity

For the year ended December 31, 2006

Prepared by: Shenzhen International Enterprise Co., Ltd

Unit: RMB

Items	Amount for year 2006								
	Shareholder's equity attributable to parent company							Minority interests	Total equity
	Share capital	Capital reserve	minus: Shares at stock	Capital surplus	Unrecog nised investme nt losses	Undistribute d Profit	Sub-total		
<b>I. Balance at the end of previous year</b>	220,901,184.00	62,655,264.25		121,036,366.38	-49,394,411.99	-154,271,371.26	200,927,031.38	13,524,183.16	214,451,214.54
plus: changes of accounting policies				9,319,476.69		-9,319,476.69			
Correction of errors in prior years		1,445,786.89				-3,008,186.89	-1,562,400.00	-1,041,600.00	-2,604,000.00
Consolidation under same control						7,880,019.83	7,880,019.83	-7,880,019.83	
Transfer-in of unrecognised investment loss					49,394,411.99	-46,557,123.99	2,837,288.00	-2,837,288.00	



<b>II. Balance at the beginning of the year</b>	220,901,184.00	64,101,051.14		130,355,843.07		-205,276,139.00	210,081,939.21	1,765,275.33	211,847,214.54
<b>III. Changes in equity in the year (the decrease is listed beginning with “-”)</b>		8,214,295.92				-37,383,173.26	-29,168,877.34	-31,536,428.36	-60,705,305.70
(I)Net profit for the year						-42,874,333.22	-42,874,333.22	-34,147,696.15	-77,022,029.37
(II)Gain and loss directly accrued to equity		8,214,295.92					8,214,295.92		8,214,295.92
1. Net amount of fair value changes of available-for-sale financial assets									
2.Net amount of shareholder's equity changes in investee company by equity method									
3. Income tax effect accrued to equity items									
4. Others		8,214,295.92					8,214,295.92		8,214,295.92

							2		
Subtotal of (I) and (II)		8,214,295.92				-42,874,333.22	-34,660,037.30	-34,147,696.15	-68,807,733.45
(III) Capital investment by the shareholders									
1.Capital investment by shareholders in the year									
2 . Amount calculated into equity paid in shares									
3.Others									
(IV)Profit distribution in the year									
1. Withdrawal of surplus reserve									
2.Withdrawal of general risk provision									
3.Distribution to shareholders									
4.Others									
(V) Internal settlement and transfer of shareholders' equity									
1. Transfer of capital									

reserve to capital									
2. Transfer of surplus reserve to capital									
3. Surplus reserve makes up for the loss									
4. Others									
(VI)Others						5,491,159.96	5,491,159.96	2,611,267.79	8,102,427.75
<b>IV. Balance at the end of this period</b>	220,901,184.00	72,315,347.06		130,355,843.07		-242,659,312.26	180,913,061.87	-29,771,153.03	151,141,908.84

Legal Representative:

Person in charge of accounting department:

Chief accountant:

## Consolidated Cash Flow Statement

For the year ended December 31,2007

Prepared by:Shenzhen International Enterprise Co., Ltd

Unit:RMB

Items	Note	2007		2006	
		consolidation	parent company	consolidation	parent company
I. Cash flows from operating activities:					
Cash received from sales of goods or rendering of services		36,303,177.30	203,000.00	86,660,552.20	432,252.00
Tax refund					
Cash received related to other operating activities		30,017,930.70	87,549,588.92	290,437,444.55	149,569,092.63
<b>Subtotal of cash inflow from operating activities</b>		<b>66,321,108.00</b>	<b>87,752,588.92</b>	<b>377,097,996.75</b>	<b>150,001,344.63</b>
Cash paid for sales of goods and received services		116,697,853.79	2,059.00	61,192,767.12	381,287.86
Cash paid to and on behalf of employees		6,630,373.80	1,553,717.71	17,510,700.01	1,732,321.61
Tax payments		4,504,716.10	1,269,331.48	9,193,589.15	1,982,739.29
Cash paid to other operating activities		20,654,370.52	76,604,323.20	190,364,997.34	65,992,042.29
<b>Subtotal of Cash outflow from operating activities</b>		<b>148,487,314.21</b>	<b>79,429,431.39</b>	<b>278,262,053.62</b>	<b>70,088,391.05</b>
<b>Net cash flow arising from operating activities</b>	<b>VII, 35</b>	<b>-82,166,206.21</b>	<b>8,323,157.53</b>	<b>98,835,943.13</b>	<b>79,912,953.58</b>
II. Cash flow from investment activities:					
Cash received from investments					
Cash dividends received from investment					
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		30,816.04		33,125,196.56	33,058,964.56
Net cash received from disposal of subsidiaries an other business units					

Cash received related to other investing activities					
<b>Subtotal of cash inflow from investing activities</b>		<b>30,816.04</b>		<b>33,125,196.56</b>	<b>33,058,964.56</b>
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		796,310.09	99,565.00	3,626,107.64	521,180.00
Cash paid to acquire investments					
Net cash paid to acquire subsidiaries and other business units					
Cash paid related to other investing activities					
<b>Subtotal of Cash outflow from investing activities</b>		<b>796,310.09</b>	<b>99,565.00</b>	<b>3,626,107.64</b>	<b>521,180.00</b>
<b>Net cash flow arising from investing activities</b>		<b>-765,494.05</b>	<b>-99,565.00</b>	<b>29,499,088.92</b>	<b>32,537,784.56</b>
III. Cash flow from financing activities:					
Cash received from investments					
Including: subsidiaries received cash investment from minority shareholders					
Cash received from loans		255,000,000.00		37,800,000.00	19,800,000.00
Cash received related to other financing activities				54,172,152.19	54,172,152.19
<b>Subtotal of cash inflow from financing activities</b>		<b>255,000,000.00</b>		<b>91,972,152.19</b>	<b>73,972,152.19</b>
Repayment of loans or debts		1,890,000.00		236,456,400.00	175,738,000.00
Cash paid for dividends, profits, or interests		5,096,186.07		12,803,434.96	10,444,949.96
Including: subsidiaries paid for minority shareholders with cash dividends and profits					
Cash paid related to other financing activities			2,673,053.87	50,000.00	50,000.00
<b>Subtotal of cash outflow from financing activities</b>		<b>6,986,186.07</b>	<b>2,673,053.87</b>	<b>249,309,834.96</b>	<b>186,232,949.96</b>

Net cash flow arising from financing activities		248,013,813.93	-2,673,053.87	#####	-112,260,797.77
IV. Effects on cash and cash equivalents due to the change of foreign exchange rates				9,929.72	9,929.72
<b>V. Net increase in cash and cash equivalents</b>	<b>VII, 36</b>	<b>165,082,113.67</b>	<b>5,550,538.66</b>	<b>-28,992,721.00</b>	<b>199,870.09</b>
Add: beginning balance of cash and cash equivalents		26,046,276.70	908,794.60	55,038,997.70	708,924.51
<b>VI .Ending balance of cash and cash equivalents</b>		191,128,390.37	6,459,333.26	26,046,276.70	908,794.60

Legal Representative:

Person in charge of accounting department:

Chief

accountant: