

SHENZHEN INTERNATIONAL ENTERPRISE CO., LTD.

INTERIM REPORT 2008

Disclosure Date: 27 Aug. 2008

Section I. Important Notice, Paraphrase and Contents

I. Important Notice

The Board of Directors and directors of Shenzhen International Enterprise Co., Ltd. (hereinafter referred to as the Company) guarantee that there are no any omissions, fictitious or serious misleading statements carried in the report and will take all responsibilities, individual and/or joint for the authenticity, accuracy and completeness of the whole contents.

Director Li Mugui didn't attend the Board meeting due to business trip and authorized Director Li Jinquan to vote on his behalf; Director Xiao Guangsheng 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.

Mr. Li Jinquan, Chairman of the Board, Ms. Song Shengjun, General Manager, and Mr. Zhou Xiaoliang, person in charge of financial affairs, hereby confirm that the financial report enclosed in the interim report is authentic and complete.

This report was prepared in both Chinese and English. Should be there any difference in interpretation between the two versions, the Chinese version shall prevail.

II. Paraphrase

Unless otherwise statement, the following abbreviation has the following meaning:
The Company, Company: Shenzhen International Enterprise Co., Ltd.

III. Contents

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Section II. Company Profile

I. Basic information

1. Legal Chinese Name: 深圳市国际企业股份有限公司
Legal English Name: SHENZHEN INTERNATIONAL ENTERPRISE CO., LTD.
2. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock: SZIEC-A, SZIEC-B
Stock Code: 000056, 200056
3. Registered Address /Office Address: 23/F, Development Center Bldg., Renmin South Road, Shenzhen
Post Code: 518001
Company's Internet Website: <http://www.china-ia.com>
E-mail: sgs000056@163.net
4. Legal representative of the Company: Li Jinquan
5. Secretary of the BOD: Cao Jian
Securities Affairs Representative: Wu Xiaoshuang
Tel: 0755-82281888, 82285565
Contact Address: Investment & Management Dept., 23/F of Development Center Bldg., Renmin South Road, Shenzhen
Fax: 0755-82285573
E-mail: cj000056@21cn.com
6. Newspapers Chosen by the Company for Disclosing the Information: Securities Times and Hong Kong Ta Kung Pao
Internet Website Designated by CSRC for Publishing the Interim Report: <http://www.cninfo.com.cn>
The Place Where the Interim Report is Prepared and Placed: Investment & Management Dept. of the Company
7. Other relevant information
Initial Registration Date: March 1993;
Place: Shenzhen, Guangdong
Registration Code of Enterprise Legal Person's Business License: 4403011016891
Registration Code of Tax: 440303192179083
The Certified Public Accountants Engaged by the Company:
Domestic: Reanda Certified Public Accountants Co., Ltd.
Office Address: Room 808, Xin Dong 'an Market, No. 138, Wangfujing Av.,

Dongcheng District, Beijing

II. Main financial data and indexes

Unit: RMB

| | At the end of the report period | At the period-end of last year | Increase/decrease compared with the period-end of last year (%) |
|---|---|--------------------------------|--|
| Total assets | 1,008,023,914.80 | 1,035,265,567.86 | -2.63% |
| Owners' equity (or shareholders' equity) | 245,068,454.85 | 244,353,284.66 | 0.29% |
| Net assets per share | 1.11 | 1.11 | 0.00% |
| | In the report period (from Jan. to Jun. 2008) | The same period of last year | Increase/decrease compared with the same period of last year (%) |
| Operating profit | -10,138,813.09 | -11,050,117.49 | 8.25% |
| Total profit | -1,591,651.37 | -11,791,695.08 | 86.5% |
| Net profit | 715,170.19 | -5892620.22 | 112.14% |
| Net profit deducted non-recurring gain/loss | -4,612,486.85 | -12,410,242.68 | 62.83% |
| Basic earnings per share | 0.003 | -0.03 | 110% |
| Diluted earnings per share | 0.003 | -0.03 | 110% |
| Net return on equity | 0.29% | 31.59% | -31.30% |
| Net cash flow from operating activities | -44,619,595.20 | -82,166,206.21 | 45.7% |
| Net cash flow from operating activities per share | -0.20 | -0.37 | 45.94% |

Note: Items and amount after deducting non-recurring gains and losses:

| Items of non-recurring gains and losses | Amount |
|---|----------------------|
| Gain/loss from non-current assets disposal | -4,464,785.82 |
| Other net non-operating income and expenditure | -4,082,375.90 |
| Add: Non-recurring profit attributable to minority interest | 3,219,504.68 |
| Total | -5,327,657.04 |

Section III. Changes in Share Capital and Particulars about Shares Held

by Main Shareholders

I. Change in share capital

During the report period, statement of changes in share capital of the Company:

[illegible]

| | | | | | | | | | |
|--|-------------|---------|--|--|--|-------------|-------------|-------------|---------|
| state | | | | | | | | | |
| 2. Shares held by state-owned corporation | 18,293,893 | 8.28% | | | | -11,045,060 | -11,045,060 | 7,248,833 | 3.28% |
| 3. Shares held by other domestic investor | 1,719,672 | 0.78% | | | | -1,398,912 | -1,398,912 | 320,760 | |
| Including: shares held by non-state-owned domestic corporation | 1,398,912 | 0.63% | | | | -1,398,912 | -1,398,912 | 0 | |
| Shares held by domestic natural person | 320,760 | 0.15% | | | | 0 | 0 | 320,760 | 0.15% |
| 4. Shares held by foreign investors | | | | | | | | | |
| Including: Shares held by foreign corporation | | | | | | | | | |
| Shares held by foreign natural person | | | | | | | | | |
| II. Shares not subject to trading moratorium | 200,887,619 | 90.94% | | | | 12,443,972 | 12,443,972 | 213,331,591 | 96.57% |
| 1. RMB ordinary shares | 99,199,427 | 44.91% | | | | 12,443,972 | 12,443,972 | 111,643,399 | 50.54% |
| 2. Domestically listed foreign shares | 101,688,192 | 46.03% | | | | 0 | 0 | 101,688,192 | 46.03% |
| 3. Foreign shares listed in domestic | | | | | | | | | |
| 4. Others | | | | | | | | | |
| III. Total shares | 220,901,184 | 100.00% | | | | 0 | 0 | 220,901,184 | 100.00% |

Notes: Shares subject to moratorium decreased. It was mainly because domestic corporation such as Shenzhen SDG Group, etc decreased part shares holding of companies after share merger reform.

II. Total shareholders at the end of report period

As of 30 Jun. 2008, total shareholders of the Company were 21,168.

III. Particulars about share holding of major shareholders

| Total shareholders | | 21,168 | | | |
|---|--------------------------|------------|--------------|---|--------------------------|
| Particulars about shares held by the top ten shareholders | | | | | |
| Full name of shareholders | Nature of shareholders | Proportion | Total shares | Number of shares held subject to trading moratorium | Shares pledged or frozen |
| FOH CHONG & SONS SDN. BHD. | Foreign corporation | 13.70% | 30,264,192 | 0 | 0 |
| Shenzhen SDG Co., Ltd. | State-owned corporation | 9.76% | 21,566,857 | 7,248,833 | 0 |
| F.C. (ASIA) HOLDINGS SDN. BHD. | Foreign corporation | 3.93% | 8,684,194 | | |
| Shenzhen Taitian Industrial Development Co., Ltd | Domestic non-state-owned | 3.62% | 8,012,725 | | |

| | | | | | |
|--|---|---|-----------|-----------------------------------|--|
| | corporation | | | | |
| Hong Kong Mengxing Industrial Co., Ltd | Foreign corporation | 0.98% | 2,170,200 | | |
| Dapu Foh Chong Chemical Co., Ltd. | Domestic non-state-owned corporation | 0.85% | 1,885,100 | | |
| LETSCON HOLDINGS SDN. BHD. | Foreign corporation | 0.68% | 1,497,172 | | |
| Yang Jun | Domestic natural person | 0.67% | 1,471,986 | | |
| CREDIT SUISSE SINGAPORE | Foreign corporation | 0.63% | 1,399,673 | | |
| Shanghai Hong Kong Wanguo Securities Co., Ltd | Domestic non-state-owned corporation | 0.60% | 1,335,549 | | |
| Particulars about shares held by the top ten shareholders not subject to trading moratorium | | | | | |
| Full name of shareholders | | Number of shares held subject to trading moratorium | | Type of shares | |
| FOH CHONG & SONS SDN. BHD. | | 30,264,192 | | Domestically listed foreign share | |
| Shenzhen SDG Co., Ltd. | | 14,318,024 | | Renminbi ordinary shares | |
| F.C. (ASIA) HOLDINGS SDN. BHD. | | 8,684,194 | | Domestically listed foreign share | |
| Shenzhen Taitian Industrial Development Co., Ltd | | 8,012,725 | | Renminbi ordinary shares | |
| Hong Kong Mengxing Industrial Co., Ltd | | 2,170,200 | | Domestically listed foreign share | |
| Dapu Foh Chong Chemical Co., Ltd. | | 1,885,100 | | Renminbi ordinary shares | |
| LETSCON HOLDINGS SDN. BHD. | | 1,497,172 | | Domestically listed foreign share | |
| Yang Jun | | 1,471,986 | | Renminbi ordinary shares | |
| CREDIT SUISSE SINGAPORE | | 1,399,673 | | Domestically listed foreign share | |
| Shanghai Hong Kong Wanguo Securities Co., Ltd | | 1,335,549 | | Renminbi ordinary shares | |
| Explanation on associated relationship among the aforesaid shareholders or acting-in-concert | The Company was unknown whether there is any associated relationship or there is any action-in-concert among the top ten shareholders as described by the Administrative Rules on Information Disclosure about Changing of Shareholding Status. The Company was unknown whether there is any associated relationship or there is any action-in-concert among the top ten tradable shareholders as described by the Administrative Rules on Information Disclosure about Changing of Shareholding Status. | | | | |

IV. In the report period, changes in the controlling shareholders or actual controller of the Company.

In the report period, the controlling shares and actual controlled of the Company remained unchanged.

Section IV Particulars about Directors, Supervisors and Senior Managements

I. Changes of shares held by directors, supervisors and senior managements of the Company in the report period.

In the report period, shares held by directors, supervisors and senior managements of

the Company remained unchanged.

II. Changes in engagement and dismissal of directors, supervisors and senior management of the Company in the report period.

1. The 1st Meeting of the 5th Board of Directors 2008 of the Company was held on 14 Jan. 2008, which approved to engage Mr. Zhou Xiaoliang as CFO of the Company.
2. The 5th Meeting of the 5th Board of Directors 2008 of the Company was held on 22 Apr. 2008, which approved to engage Mr. Li Yuanchen as Vice Manager of the Company and engaged Cao Jian as the Secretary of the Board of Directors.
3. The Company held the Shareholders' General Meeting 2007 on 27 Jun. 2008, which passed resolution on change of supervisors. Mr. Guo Jian resigned from supervisor and Mr. Zhang Xinliang acted as supervisor of the Company.

Section V. Report of the Board of Directors

I. Brief analysis on the operating results and financial status

In the report period, the Company realized operating income RMB 7,161,847.46, down by 71.22% compared with the same period last year; realized operating profit RMB -10,138,813.09, up by 8.25% year-on-year; realized net profit RMB 715,170.19, up by 111.72% over the same period last year. Change of net profit was mainly because the Company strengthened tap idle assets, meanwhile, strengthened to call back accountants receivable and received part enforcement fund of lawsuit.

In the report period, the Company still persisted to principal guideline with development stratagem of "Commercial real estate and Forestry Industry", stably pushed construction of Shenzhen CDB JingDao International Shopping Mall, and accelerated development of forestry industry project.

Shenzhen CDB JingDao International Shopping Mall project was the key project of the Company, which was a good chance of the transition from traditional department store to large sized shopping mall. The main project has completed at present with effort of all employees, which was in preparation of delicate decoration; in aspect of merchandise and planning, the Company negotiated with famous brand in domestic and foreign, actively introduced international first-class brand, established Jingdao project to be fashionable shopping center in Shenzhen.

Forestry company realized intensivism and scientized plant and management with accumulative experience. Forestry companies such as Wenyuan, Wuhua and Xingning were in process of land compulsory expropriation and forestry plant. Land compulsory expropriation of Zijin and Jiangxi Ganzhou forestry base were in progress, and Ganzhou branch would be established in the second half year of 2008, which further pushed land compulsory expropriation and forestation.

Meanwhile, the Company strengthened land exploitation in Bantian, negotiated with clients to established Bantian Modern Logistics City and developed new profit project.

1. Changes of increase/decrease in financial indexes such as income from main

operations, profit of main operations and etc. than those of the same period of last year.

| Items | Jan.-Jun. 2008 | Jan.-Jun. 2007 | Increase/decrease year-on-year |
|-----------------------------|----------------|----------------|--------------------------------|
| Income from main operations | 7,161,847.46 | 24,881,198.50 | -71.21 |
| Profit from main operations | -10,138,813.09 | -11,050,117.49 | 8.25% |
| Net profit | 715,170.19 | -5892620.22 | 88.28% |

2. Comparison on total assets and shareholders' equity with period-beginning.

Unit: RMB

| Items | 30 Jun. 2008 | 30 Jun. 2007 | Proportion of increase/decrease (%) |
|----------------------|------------------|------------------|-------------------------------------|
| Total assets | 1,008,023,914.80 | 1,035,265,567.86 | -2.63% |
| Shareholders' equity | 245,068,454.85 | 244,353,284.66 | 0.29% |

II. Operations of the Company in the report period

1. Scope of main operations and its operation

The Company's scope of main operations was commerce, development of real estates, properties management and forest planting. In the report period, the Company realized income from main operation RMB 7,161,847.46, with the cost from main operation RMB 17,300,660.55.

2. Main operations classified according to industries

Unit: RMB

| Main operations classified according to industries | | | | | | |
|--|------------------|----------------|------------------------|--|--|--|
| Industries or products | Operating income | Operating cost | Gross profit ratio (%) | Increase/decrease of operating income year-on-year (%) | Increase/decrease of operating cost year-on-year (%) | Increase/decrease of gross profit ratio year-on-year (%) |
| Income from properties management and rent | 6,263,482.52 | 4,924,687.15 | 21.37% | -51.83% | -57.55% | 10.58% |

3. Main operations classified according to regions

Unit: RMB

| Region | Income from main operations | Increase/decrease of main income from operating year-on-year (%) |
|----------|-----------------------------|--|
| Shenzhen | 7,161,847.46 | -83.18% |

4. In the report period, the Company's profit composing, main operations and its composing and profitability of main operations have changed mostly.

5. In the report period, there was no other operating business that impacted significant influence on the Company's net profit.

6. Problems and difficulties in the operation

In the report period, problems and difficulties the Company faced with in the operation were mainly in following aspects:

With the furious competition in various commercial capitals, the Company accelerated transition, transferred Shenzhen International Shopping Mall and retreated from traditional department store. Meanwhile, the building of Jingdao Project and launching of forest industry project were in the capital devotion period, Land of Bantian was in plan and preparation of development, which neither were in profit period.

III. Investment

1. In the report period, the Company had no raised proceeds or raised proceeds in the previous periods carried over to the report period.

2. Other significant investment projects of non-raised proceeds.

In the report period, the Company's non-raised proceeds were mainly invested in the project of Shenzhen CDB Jingdao International Shopping Mall. The project has been going on quite smoothly and is expected to complete and checked & accepted in the second half of the year. Right now the project was in preparation of declined decoration, it is will be trial operation in the next year. Meanwhile, the Company was negotiating with some famous international strategic investors and working toward the establishment of strategic cooperation partnerships.

Section VI. Significant events

I. Corporate governance

During the report period, , the Company continuously perfected corporate governance structure, further improved operation of the Company according to requirements of the Company Law, Securities Law and relevant laws and regulations. Corporate governance organ of the Company was perfected and the efficiency was high. Responsibilities of Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and other internal organ were definite, which was operated in accordance with relevant provisions and rules.

In the report period, the Company formulated or revised relevant rules and administrative system such as Independent Directors System for Annual Report and Rules for the Audit Committee, confirmed members of each specific committees of the Board of Directors, and all commissioners performed responsibilities strictly in accordance with relevant regulations. The Company actively formulated work plan, analyzed and solve problems, fulfilled rectification according to problems discovered in corporate governance. The 2nd Meeting of the 5th Board of Directors 2008 of the Company examined and approved Rectification Report on A Special Campaign of Corporate Governance. The Company further perfected governance structure, improved governance level by self-inspection and examination on-the-spot in special campaign of corporate governance.

The Company was independent in operation. The principal shareholders neither violate the rights of listed company nor served illegal external guarantee. The Company perfected modification of the Articles of Association, financial management system and internal decision-making mechanism which exerted favorable effect on

preventing violation of rights in listed company by principal shareholder.

II. The Company has not carried out any profit distribution, capitalization of public reserves or issuance of new shares. Neither profit distribution nor capitalization of public reserves will be implemented in the interim of 2008.

III. Important lawsuits and arbitrations

No new lawsuits or arbitrations occurred in the report period. The development of the lawsuits and arbitrations that happened in previous periods is as follows:

(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 17 Nov. 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 23 Jun. 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 be paid before 20 Jan. 2008 for the 1st phase, RMB 2 million before 20 Mar. 2008 for the 2nd phase, RMB 2 million before 20 Jun. 2008 for the 3rd phase. The Company received the mediation agreement on 1 Jan. 2008, coming into effect immediately. The Company repaid the 1st fund in time, and didn't pay the balance in time. The other party applied to enforcement, and the Company provided enough property to execute. Now the two parties were in process of reconciliation.

(2) The retrial on case which the Company provided guarantee for loans from lender, Bank of China, Shangbu Branch (Hereinafter referred to as 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. 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. In accordance with carelessness principle, the Company estimated the principal of guarantee and overdue interest amounting to RMB 8,670,209.16 was liabilities in 2004, and interest in 2005, 2006 and 2007 was estimated to RMB 782,925.00 respectively.

The case was in process of reconciliation.

IV. There were no significant purchases or sales of assets in the report period.

V. The Company has made no related transactions in the report period.

VI. Significant contracts of the report period and their implementation

1. In the report period, the Company has not entrusted, contracted or leased the assets of other companies, or vice versa.
2. The Company had no new important guarantees.
3. In the report period, the Company has not entrusted others with cash asset management or loans.
4. The Company had no other significant contracts in the report period.

VII. Special explanation and independent opinions of the independent directors of the 5th Board of Directors on the capital currents and external guarantees between the Company and related parties:

According to the Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to other Parties (ZJF (2003) No. 56) issued by CSRC, we, the independent directors of Shenzhen International Enterprise Co., Ltd, have conducted careful investigation into the external guarantees and capital currents with related parties of the Company, and our answers to relevant questions are as follows:

1. Capital flow between the Company and related parties:

There was no capital flow between the Company and related parties at the end of the period.

2. External guarantee of the Company:

Up to 30 Jun. 2008, the shareholding subsidiaries included in the consolidated statement of the Company have provided no external guarantees for related parties or others.

3. The Company has dutifully disclosed the information on external guarantees as required by the Stock Listing Rules and the Articles of Association, and faithfully provided information relating to external guarantees of the Company to CPA.

VIII. Neither the Company nor any shareholders holding over 5% shares have disclosed any other commitments in the newspapers or on the websites designated in the report period.

IX. In the report period, neither the Board of Directors, nor the Supervisory Committee, the directors, the supervisors, other senior executives have investigated by or received any administrative punishment or notice of criticism from the CSRC, or have been criticized publicly by the Shenzhen Stock Exchange.

X. Other important events

On 17 Apr. 2008, Shenzhen Intermediate People's Court issued Settlement Paper with (2008) SZZ Zi No. 70: dissension on contract of quality of construction installation

between enforcement applier Shenzhen Rongfa Investment Co., Ltd and China **Railway** Construction Engineering Group Shenzhen Branch and China **Railway** Construction Engineering Group Shenzhen Industry Co., Ltd, Civil Judgment Paper with (2006) YGFMYZ Zi No. 199 issued by Guangdong High People's Court has came into legal effect. Applier appealed to enforcement due to failing to perform obligation confirmed by effective law document. In Apr. 2008, the court transferred arrearage RMB 3,690,238.01 to applier. Civil Judgment Paper with (2006) YGFMYZ Zi No. 199 issued by Guangdong High People's Court had been implemented, and the case was settled. In Apr. 2008, Rongfa Investment received RMB 3,690,238.01 remitted by Shenzhen Intermediate People's Court.

Section VII. Financial Report (Un-audited)

The Interim Financial Report 2008 of the Company has not been audited, with details attached.

Section VIII. Documents Available for Reference

Following documents are available:

1. Text of the Interim Report with the signature of the Chairman of the Board of Directors;
2. Accounting Statements with the signatures and seals of the legal representative, the finance chief and the person in charge of accounting work;
3. Texts of all the documents ever disclosed in Securities Times and Hong Kong Ta Kung Pao in the report period as well as the originals of public notices;
4. The Articles of Association;
5. Other relevant materials.

Where the aforesaid documents are placed: Investment Administration Department of the Company.

Signature of the Board of Directors:

Board of Directors of
Shenzhen International Enterprise Co., Ltd
27 Aug. 2008

Balance Sheet

Prepared by Shenzhen International Enterprise Co., Ltd
30 Jun. 2008

Unit: RMB

| Items | Amount at period-end | | Amount at period-begin | |
|--|----------------------|----------------|------------------------|----------------|
| | Consolidation | Parent company | Consolidation | Parent company |
| Current Assets: | | | | |
| Monetary funds | 19,795,164.62 | 1,740,158.42 | 61,342,998.09 | 11,369,551.37 |
| Settlement reserve | | | | |
| Dismantle fund | | | | |
| Transaction financial asset | | | | |
| Notes receivable | | | | |
| Account receivable | 1,280,023.49 | | 1,328,901.67 | |
| Account paid in advance | 1,626,975.00 | 180,000.00 | 1,309,621.00 | 180,000.00 |
| Premiums receivable | | | | |
| Reinsurance premiums receivable | | | | |
| Receivable reinsurance contract reserves | | | | |
| Interest receivable | | | | |
| Other account receivable | 19,042,546.49 | 248,936,360.99 | 34,582,967.95 | 257,258,130.51 |
| Buying back the sale of financial assets | | | | |
| Inventories | 862,576,977.70 | 164,920.02 | 826,728,755.33 | 164,920.02 |
| Non-current assets due within 1 year | | | | |
| Other current assets | | | | |
| Total current assets | 904,321,687.30 | 251,021,439.43 | 925,293,244.04 | 268,972,601.90 |
| Non-current assets: | | | | |
| Loans and advance | | | | |
| Available for sale financial assets | | | | |
| Held to maturity investments | | | | |
| Long-term account receivable | | | | |
| Long-term equity investment | 6,570,262.84 | 65,944,253.87 | 6,570,262.84 | 65,944,253.87 |
| Investing property | 7,939,361.47 | 7,534,171.85 | 9,684,331.58 | 7,744,828.67 |
| Fixed assets | 78,329,855.44 | 25,811,828.10 | 80,372,214.68 | 26,680,701.23 |
| Construction in progress | | | | |
| Engineering material | | | | |
| Disposal of fixed assets | | | | |
| Production biological assets | | | | |
| Oil-gas assets | | | | |
| Intangible assets | | | | |
| Development expense | | | | |
| Goodwill | | | | |
| Long-term deferred expenses | 10,862,747.75 | 189,000.00 | 13,345,514.72 | 210,000.00 |
| Deferred tax assets | | | | |
| Other non-current assets | | | | |
| Total of non-current assets | 103,702,227.50 | 99,479,253.82 | 109,972,323.82 | 100,579,783.77 |
| Total assets | 1,008,023,914.80 | 350,500,693.25 | 1,035,265,567.86 | 369,552,385.67 |

| | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Current liabilities:: | | | | |
| Short-term borrowings | 8,000,000.00 | | | |
| Borrowing from Central Bank | 0.00 | | | |
| Deposits and sue to banks and other financial institutions | 0.00 | | | |
| Call loan received | 0.00 | | | |
| Transaction financial liabilities | 0.00 | | | |
| Notes payable | 0.00 | | | |
| Account payable | 256,488,724.86 | | 253,682,750.53 | |
| Account received in advance | 46,058,971.75 | | 46,068,971.75 | 70,000.00 |
| Financial assets sold for repurchase | 0.00 | | | |
| Handling charges and commissions payable | 0.00 | | | |
| Employee 's compensation payable | 2,456,242.82 | 1,013,606.13 | 3,287,503.55 | 1,621,727.06 |
| Tax payable | 345,304.55 | 2,462,705.26 | 394,064.95 | 2,624,676.14 |
| Interest payable | 501,875.00 | | 562,100.00 | |
| Dividend payable | 5,127,701.36 | 5,127,701.36 | 5,127,701.36 | 5,127,701.36 |
| Other account payable | 205,782,216.15 | 84,971,855.03 | 222,645,749.05 | 72,695,222.70 |
| Reinsurance premiums payable | 0.00 | | | |
| Insurance contract reserves | 0.00 | | | |
| Money received for acting trading of securities | 0.00 | | | |
| Money paid for acting underwriting of securities | 0.00 | | | |
| Non-current liabilities due within 1 year | 0.00 | | 17,229,760.00 | 17,229,760.00 |
| Other current liabilities | 0.00 | | | |
| Total current liabilities | 524,761,036.49 | 93,635,897.78 | 548,998,601.19 | 99,369,087.26 |
| Non-current liabilities: | | | | |
| Long-term borrowings | 273,946,400.00 | 14,946,400.00 | 274,918,800.00 | 15,918,800.00 |
| Bonds payable | | | | |
| Long-term payables | | | | |
| Specific payables | | | | |
| Accrued liabilities | 11,018,984.16 | 11,018,984.16 | 11,018,984.16 | 11,018,984.16 |
| Deferred tax liabilities | 1,646,851.37 | | | |
| Other non-current liabilities | | | | |
| Total non-current liabilities | 286,612,235.53 | 25,965,384.16 | 287,790,491.95 | 26,937,784.16 |
| Total liabilities | 811,373,272.02 | 119,601,281.94 | 836,789,093.14 | 126,306,871.42 |
| Owner's equity (or shareholder' s equity) | | | | |
| Paid-up capital (or share capital) | 220,901,184.00 | 220,901,184.00 | 220,901,184.00 | 220,901,184.00 |
| Capital reserves | 72,315,347.06 | 64,951,44.59 | 72,315,347.06 | 64,951,444.59 |
| Less: Treasury Stock | | | | |
| Surplus reserves | 125,929,834.48 | 96,841,026.39 | 125,929,834.48 | 96,841,026.39 |
| Provisions for general risks | | | | |
| Retained profits | -174,077,910.69 | -151,794,243.67 | -174,793,080.88 | -139,448,140.73 |
| Foreign exchange difference | | | | |
| Total owners' equity attributable to parent company | 245,068,454.85 | 230,899,411.31 | 244,353,284.66 | 243,245,514.25 |
| Minority interest | -48,417,812.07 | | -45,876,809.94 | |

| | | | | |
|--------------------------------------|------------------|----------------|------------------|----------------|
| Total owner's equity | 196,650,642.78 | 230,899,411.31 | 198,476,474.72 | 243,245,514.25 |
| Total liabilities and owner's equity | 1,008,023,914.80 | 350,500,693.25 | 1,035,265,567.86 | 369,552,385.67 |

Profit Statement

Prepared by Shenzhen International Enterprise Co., Ltd

Unit: RMB

Jan.-Jun. 2008

| Items | Amount in this period | | Amount in the same period in last year | |
|---|-----------------------|----------------|--|----------------|
| | Consolidation | Parent company | Consolidation | Parent company |
| I. Total sales | 7,161,847.46 | 275,830.00 | 24,881,198.500 | 370,679.000 |
| Including: Sales income | 7,161,847.46 | 275,830.00 | 24,881,198.500 | 370,679.000 |
| Interest income | | | | |
| Premium income | | | | |
| Handling charges and commission income | | | | |
| II. Total cost of sales | 17,300,660.55 | 13,011,412.27 | 35,931,315.99 | 7,138,716.32 |
| Including: Cost of sales | 5,056,020.46 | 24,471.21 | 18,016,694.040 | 23,234.300 |
| Interests expenses | | | | |
| Handling charges and commission expenses | | | | |
| Cash surrender value | | | | |
| Net amount of claims | | | | |
| Net amount of withdrawn from the insurance contract reserve | | | | |
| Expenditure on policy dividends | | | | |
| Reinsurance premium | | | | |
| Taxes and associate charges | 290,327.04 | | 1,014,545.190 | |
| Selling expenses | 5,267,775.75 | | 9,567,043.900 | |
| Administrative expenses | 9,227,364.76 | 4,193,435.27 | 8,030,331.200 | 1,406,661.150 |
| Financial expenses | -1,576,524.57 | -11,513,956.18 | 204,854.660 | -6,957,557.320 |
| Impairment loss | -964,302.89 | 20,307,461.97 | -902,153.000 | 12,666,378.190 |
| Add: gain from change in fair value ("-" means loss) | | | | |
| Gain from investment ("-" means loss) | | | | |
| Including: income form investment on affiliated enterprise and jointly enterprise | | | | |
| Foreign exchange difference ("-" means loss) | | | | |
| III. Business profit ("-" means loss) | -10,138,813.09 | -12,735,582.27 | -11,050,117.490 | -6,768,037.320 |
| Add: non-operation income | 8,666,678.59 | 493,179.33 | 190,451.530 | 2,365.630 |
| Less: non-business expense | 119,516.87 | 103,700.00 | 932,029.120 | 3,402.250 |
| Including: loss from non-current asset disposal | | | | |
| IV. Total profit ("-" means loss) | -1,591,651.37 | -12,346,102.94 | -11,791,695.080 | -6,769,073.940 |
| Less: Tax expense | 234,180.57 | | 261,012.370 | |
| V. Net profit ("-" means loss) | -1,825,831.94 | -12,346,102.94 | -12,052,707.450 | -6,769,073.940 |
| Attributable to owners of parent company | 715,170.19 | | -6,103,919.540 | -6,769,073.940 |
| Minority interest | -2,541,002.13 | | -5,948,787.910 | |

| | | | | |
|---------------------------------|------|-------|----------|--|
| VI. Earnings per share | | | | |
| (I) basic earnings per share | 0.00 | -0.06 | -0.02760 | |
| (II) diluted earnings per share | 0.00 | -0.06 | -0.02760 | |

Cash Flow Statement

Prepared by Shenzhen International Enterprise Co., Ltd

Unit: RMB

Jan.-Jun. 2008

| Items | Amount in this period | | Amount in the same period in last year | |
|---|-----------------------|----------------|--|----------------|
| | Consolidation | Parent company | Consolidation | Parent company |
| I. Cash flows from operating activities: | | | | |
| Cash received from sale of commodities and rendering of service | 7,231,673.44 | 275,830.00 | 36,303,177.30 | 203,000.00 |
| Net increase of deposits from customers and dues from banks | | | | |
| Net increase of loans from the central bank | | | | |
| Net increase of funds borrowed from other financial institutions | | | | |
| Cash received from premium of original insurance contracts | | | | |
| Net cash received from reinsurance business | | | | |
| Net increase of savings of policy holders and investment fund | | | | |
| Net increase of disposal of tradable financial assets | | | | |
| Cash received from interest, handling charges and commissions | | | | |
| Net increase of borrowed inter-bank funds | | | | |
| Net increase of buy-back funds | | | | |
| Tax refunds received | | | | |
| Other cash received relating to operating activities | 20,552,485.85 | 39,825,693.73 | 30,017,930.70 | 87,549,588.92 |
| Subtotal of cash inflows from operating activities | 27,784,159.29 | 40,101,523.73 | 66,321,108.00 | 87,752,588.92 |
| Cash paid for purchase of commodities and reception of service | 23,585,823.81 | | 116,697,853.79 | 2,059.00 |
| Net increase of customer lending and advance | | | | |
| Net increase of funds deposited in the central bank and amount due from banks | | | | |
| Cash for paying claims of the original insurance contract | | | | |
| Cash for paying interest, handling charges and commissions | | | | |
| Cash for paying policy dividends | | | | |
| Cash paid to and for employees | 7,550,419.40 | 2,498,181.10 | 6,630,373.80 | 1,553,717.71 |
| Various taxes paid | 1,668,752.21 | 596,714.78 | 4,504,716.10 | 1,269,331.48 |
| Payment of cash relating to operating activities | 39,598,759.07 | 51,145,730.54 | 20,654,370.52 | 76,604,323.20 |

| | | | | |
|---|----------------|----------------|----------------|---------------|
| Subtotal of cash outflows from operating activities | 72,403,754.49 | 54,240,626.42 | 148,487,314.21 | 79,429,431.39 |
| Net cash flows from operating activities | -44,619,595.20 | -14,139,102.69 | -82,166,206.21 | 8,323,157.53 |
| II. Cash Flows from investment activities: | | | | |
| Cash received from return of investments | | | | |
| Cash received from investment income | | | | |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 6,195,221.44 | 6,194,041.44 | 30,816.04 | |
| Net cash received from disposal of subsidiary or other operating business units | 16,000,000.00 | 16,000,000.00 | | |
| Other cash received relating to investment activities | | | | |
| Subtotal of cash inflows from investment activities | 22,195,221.44 | 22,194,041.44 | 30,816.04 | |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 194,053.00 | 86,064.00 | 796,310.09 | 99,565.00 |
| Cash paid to investment | | | | |
| Net increase of pledged loans | | | | |
| Net cash paid by subsidiaries and | | | | |
| Payment of cash relating to other investment activities | | | | |
| Subtotal of cash outflows from investment activities | 194,053.00 | 86,064.00 | 796,310.09 | 99,565.00 |
| Net cash flows from investment activities | 22,001,168.44 | 22,107,977.44 | -765,494.05 | -99,565.00 |
| III. Cash flows from Financing Activities: | | | | |
| Cash received from absorbing investment | | | | |
| Including: Cash received from increase in minority interest | | | | |
| Cash received from borrowings | 8,000,000.00 | | 255,000,000.00 | |
| Cash received from issuance of bonds | | | | |
| Other cash received relating to financing activities | | | | |
| Subtotal of cash inflows from financing activities | 8,000,000.00 | | 255,000,000.00 | |
| Cash repayments of amounts borrowed | 16,823,322.57 | 16,823,322.57 | 1,890,000.00 | |
| Cash paid interest expenses and distribution of dividends or profit | 10,106,084.14 | 774,945.13 | 5,096,186.07 | |
| Including: dividends or profit paid to minority interest | | | | |
| Other cash payments relating to financing activities | | | | 2,673,053.87 |
| Sub-total of cash outflows from financing activities | 26,929,406.71 | 17,598,267.70 | 6,986,186.07 | 2,673,053.87 |
| Net cash flow from financing activities | -18,929,406.71 | -17,598,267.70 | 248,013,813.93 | -2,673,053.87 |
| IV. Effect of foreign exchange rate changes on cash and cash equivalents | | | | |
| V. Increase in cash and cash equivalents | -41,547,833.47 | -9,629,392.95 | 165,082,113.67 | 5,550,538.66 |
| Add : Cash and cash equivalents at year-begin | 61,342,998.09 | 11,369,551.37 | 26,046,276.70 | 908,794.60 |
| VI. Cash and cash equivalents at the end of the period | 19,795,164.62 | 1,740,158.42 | 191,128,390.37 | 6,459,333.26 |

Statement of Change in Owners' Equity

Prepared by Prepared by Shenzhen International Enterprise Co., Ltd

30 Jun. 2008

Unit: RMB

[illegible]

| | | | | | | | | | | | | | | | | | | |
|---|----------------|---------------|--|---------------|--|-----------------|--|--|----------------|----------------|---------------|--|---------------|--|-----------------|--|--|----------------|
| included in the owners' equity | | | | | | | | | | | | | | | | | | |
| 3. Others | | | | | | | | | | | | | | | | | | |
| (IV) Profit distribution | | | | | | | | | | | | | | | | | | |
| 1. Withdrawing surplus public reserve | | | | | | | | | | | | | | | | | | |
| 2. Withdrawing general risk reserve | | | | | | | | | | | | | | | | | | |
| 3. Distribution to owners (or shareholders) | | | | | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | | | | | |
| (V) Internal carrying forward of owners' equity | | | | | | | | | | | | | | | | | | |
| 1. New increase of capital (or share capital) from capital reserves | | | | | | | | | | | | | | | | | | |
| 2. Convert surplus reserves to capital(or share capital) | | | | | | | | | | | | | | | | | | |
| 3. Surplus reserves make up losses | | | | | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | | | | | |
| IV. Balance at the end of this period | 220,901,184.00 | 64,951,444.59 | | 96,841,026.39 | | -151,794,243.67 | | | 230,899,411.31 | 220,901,184.00 | 64,951,444.59 | | 96,841,026.39 | | -139,448,140.73 | | | 243,245,514.25 |

shenzhen International Enterprise Co., Ltd

Notes to Financial Statements

For the year of Jun 30, 2008

(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:

| Category | Estimated useful lives (years) | Annual depreciation rate |
|--|--------------------------------|--------------------------|
| 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 derecognition 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 longer 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

The company has no Changes in accounting polices for current period.

(2) Changes in accounting estimates

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

(3) Correction of accounting errors

The company has no Correction of accounting errors for current period.

III.Taxation

| <u>Types</u> | <u>Basis of taxation</u> | <u>Tax rate</u> |
|------------------------------|--|-----------------|
| <u>Value-Add-Tax(VAT)</u> | <u>Income from sales of products</u> | <u>17%</u> |
| <u>Consumption Tax</u> | <u>Income from sales of taxable consumption</u> | <u>5%</u> |
| <u>Business Tax</u> | <u>Income from Estate, Leasing and Rendering of service</u> | <u>5%</u> |
| <u>Enterprise Income Tax</u> | <u>Taxable Income</u> | <u>18%、25%</u> |
| | | <u>Note</u> |
| <u>Education fee</u> | <u>VAT payable, consumption tax payable and business tax payable</u> | <u>3%</u> |

Note: (1) ShenZhen City: the coporation tax rate in 2008 is 18%;

(2) Other City: the corporation tax rate is 25%.

IV. Subsidiaries and associated company

1. Subsidiaries that 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 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 | Zhou,Meng | Wengyuan | 7,000,000.00 | 78% | Afforestation |

Co., Ltd.

| | | | | | |
|--|---------------|----------|---------------|-----|---|
| 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 Guoshanglineye 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 Chun hua 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 Orien tal 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: 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

The scope of consolidated financial statements is not changed in this financial period.

VII. Main items of consolidated financial statements

1. Monetary Funds

| <u>Items</u> | <u>2008.6.30</u> | <u>2007.12.31</u> |
|---------------------|----------------------|----------------------|
| Cash on hand | 176,056.65 | 339,495.03 |
| Bank deposit | 19,499,107.97 | 60,883,503.06 |
| Other monetary fund | <u>120,000.00</u> | <u>120,000.00</u> |
| Total | <u>19,795,164.62</u> | <u>61,342,998.09</u> |

The ending balance of monetary funds is decreased 67.73% of last year's balance. It is mainly due to the repayment of the loan and payment of the construction cost.

2. Account receivable

(1) Classification by credit risk characters

| <u>Items</u> | <u>2008.6.30</u> | | | <u>2007.12.31</u> | | |
|--|---------------------|-------------------|---------------------------|---------------------|-------------------|---------------------------|
| | <u>Amount</u> | <u>Proportion</u> | <u>Bad debt provision</u> | <u>Amount</u> | <u>Proportion</u> | <u>Bad debt provision</u> |
| Individual transaction with significant amount | — | — | — | — | — | — |
| Individual transaction with not so significant amount but significant recoverable risk | — | — | — | — | — | — |
| Other transaction with no significant amount | <u>1,473,501.57</u> | <u>100.00%</u> | <u>193,478.08</u> | <u>1,543,327.55</u> | <u>100.00%</u> | <u>214,425.88</u> |
| Total | <u>1,473,501.57</u> | <u>100.00%</u> | <u>193,478.08</u> | <u>1,543,327.55</u> | <u>100.00%</u> | <u>214,425.88</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

| <u>Age</u> | <u>2008.6.30</u> | <u>2007.12.31</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 | 292,966.16 | 19.89% | 14,648.31 | 292,966.16 | 18.98% | 14,648.31 |
| 1-2 years | 858,187.81 | 58.24% | 85,818.78 | 858,187.81 | 55.61% | 85,818.78 |
| 2-3 years | 15,955.22 | 1.08% | 2,393.28 | 15,955.22 | 1.04% | 2,393.28 |
| 3-4 years | — | — | — | — | — | — |
| 4-5 years | 26,000.00 | 1.76% | 6,500.00 | 26,000.00 | 1.68% | 6,500.00 |
| over 5 years | <u>280,392.38</u> | <u>19.03%</u> | <u>84,117.71</u> | <u>350,218.36</u> | <u>22.69%</u> | <u>105,065.51</u> |
| Total | <u>1,473,501.57</u> | <u>100.00%</u> | <u>193,478.08</u> | <u>1,543,327.55</u> | <u>100.00%</u> | <u>214,425.88</u> |

(3) Up to June 30,2008, 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>2008.6.30</u> | | <u>2007.12.31</u> | |
|---------------|---------------------|-------------------|---------------------|-------------------|
| <u>Age</u> | <u>Amount</u> | <u>Proportion</u> | <u>Amount</u> | <u>Proportion</u> |
| Within 1 year | 940,992.00 | 57.84% | 621,638.00 | 47.47% |
| 1-2 years | 187,983.00 | 11.55% | 187,983.00 | 14.35% |
| 2-3 years | <u>498,000.00</u> | <u>30.61%</u> | <u>500,000.00</u> | <u>38.18%</u> |
| Total | <u>1,626,975.00</u> | <u>100.00%</u> | <u>1,309,621.00</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>498,000.00</u> | Deposits |
| Total | <u>498,000.00</u> | |

(3) Up to Up to June 30,2008, 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>2008.6.31</u> | <u>2007.12.31</u> |
|--------------|------------------|-------------------|
|--------------|------------------|-------------------|

| | <u>Amount</u> | <u>Proportion</u> | <u>Bad debt</u> <u>provision</u> | <u>Amount</u> | <u>Proportion</u> | <u>Bad debt</u> <u>provision</u> |
|--|----------------------|-------------------|-------------------------------------|----------------------|-------------------|-------------------------------------|
| Individual transaction with significant amount | 36,886,021.25 | 84.45% | 23,200,220.88 | 56,530,394.64 | 93.97% | 24,307,131.01 |
| Individual transaction with not so significant amount but significant recoverable risk | 900,000.00 | 2.06% | 900,000.00 | — | — | — |
| Other transaction with no significant amount | <u>5,890,104.91</u> | <u>13.49%</u> | <u>533,358.79</u> | <u>3,629,508.07</u> | <u>6.03%</u> | <u>1,269,803.75</u> |
| Total | <u>43,676,126.16</u> | <u>100.00%</u> | <u>24,633,579.67</u> | <u>60,159,902.71</u> | <u>100.00%</u> | <u>25,576,934.76</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>2008.6.30</u> | | | <u>2007.12.31</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 | 3,875,579.77 | 8.87% | 193,778.98 | 18,103,325.36 | 30.09% | 905,166.27 |
| 1-2 years | 1,638,901.83 | 3.75% | 163,890.18 | 3,768,138.72 | 6.26% | 376,813.87 |
| 2-3 years | 1,646,649.09 | 3.77% | 246,997.37 | 1,772,943.16 | 2.95% | 265,941.48 |
| 3-4 years | — | — | — | 500.00 | 0.00% | 100.00 |
| 4-5 years | 4,100,000.00 | 9.39% | 4,100,000.00 | 4,100,000.00 | 6.82% | 4,100,000.00 |
| over 5 years | <u>32,414,995.47</u> | <u>74.22%</u> | <u>19,928,913.14</u> | <u>32,414,995.47</u> | <u>53.88%</u> | <u>19,928,913.14</u> |
| Total | <u>43,676,126.16</u> | <u>100.00%</u> | <u>24,633,579.67</u> | <u>60,159,902.71</u> | <u>100.00%</u> | <u>25,576,934.76</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 | 39.51% | Over 5 years | Note 1 |
| Shenzhen Shengang Gongmao Import and Export Co.,Ltd | 10,180,249.93 | 23.31% | Over 5 years | Note 2 |
| Beijing Daosen Real Estate Co.,Ltd | 4,100,000.00 | 9.39% | 4-5 years | Capital contribution for joint project |
| Guangdong Huarong Construction Project Company | <u>3,700,000.00</u> | 8.47% | Over 5 years | Equity transfer price |
| Total | <u>35,238,536.18</u> | <u>80.68%</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 Jun 30, 2008, 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.

(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> |
|---|---------------|--|-------------------------|-------------------|-----------------------------|
| Details refer to notes VII.4(3)-note | | | | | |
| Shenzhen Shenggang Gongmao Import and Export Co., Ltd | 10,180,249.93 | Guarantee for debt repayment | 10,180,249.93 | Over 5 years | 2 |
| Beijing Daosen Real Estate Co.,Ltd | 4,100,000.00 | Capital contribution 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 Jun 30, 2008, there is no amount due from shareholders who owns 5% or over 5% of voting shares

5. Inventory

(1) Listed by category

| <u>Items</u> | <u>2008.6.30</u> | | <u>2007.12.31</u> | |
|----------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
| | <u>Amount</u> | <u>Impairment loss provision</u> | <u>Amount</u> | <u>Impairment loss provision</u> |
| Finished goods | 1,139,013.55 | — | 273,587.72 | — |
| Consumable forest assets | 45,582,239.00 | — | 37,387,045.27 | — |
| Development costs | 742,453,099.90 | 16,631,692.55 | 714,942,486.03 | 16,631,692.55 |
| Development products | 35,240,279.76 | — | 35,240,279.76 | — |
| Lease development products | <u>54,794,038.04</u> | <u>—</u> | <u>55,517,049.10</u> | <u>—</u> |
| Total | <u>879,208,670.25</u> | <u>16,631,692.55</u> | <u>843,360,447.88</u> | <u>16,631,692.55</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 31,199,750.60.

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 25,306,029.08.

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 688,173,175.53.

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 17,958,157.95.

(2) Development Costs

| <u>Items</u> | <u>Start Date</u> | <u>Estimated</u> | | <u>2007.12.31</u> | <u>Impairment loss</u> | | <u>2008.6.30</u> | <u>Impairment loss</u> | |
|-------------------|-------------------|-----------------------|-------------------|-------------------|------------------------|--|------------------|------------------------|--|
| | | <u>Estimated</u> | <u>total</u> | | <u>provision</u> | | | <u>provision</u> | |
| | | <u>completed date</u> | <u>investment</u> | | | | | | |
| Bantian | | | | | | | | | |
| industrial estate | August 2001 | | | 47,643,003.15 | 16,631,692.55 | | 47,831,443.15 | 16,631,692.55 | |
| Rongfu Garden | | | | | | | | | |
| phase II | | | | 6,448,481.22 | — | | 6,448,481.22 | — | |
| Futian Central | | | | | | | 688,173,175.53 | | |
| District | January 2003 | October in 2008 | 0.7 billions | 660,851,001.66 | — | | | | |

Projects in

Luoyang

| | | | | |
|-------|-----------------------|----------------------|-----------------------|----------------------|
| Total | <u>714,942,486.03</u> | <u>16,631,692.55</u> | <u>742,453,099.90</u> | <u>16,631,692.55</u> |
|-------|-----------------------|----------------------|-----------------------|----------------------|

(3) Development Products

| <u>Item</u> | <u>Completed Date</u> | <u>2007.12.31</u> | <u>Impairment Loss</u> | <u>2008.6.30</u> | <u>Impairment Loss</u> |
|--------------|-----------------------|----------------------|------------------------|----------------------|------------------------|
| | | | <u>Provision</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>2007.12.31</u> | <u>Increment</u> | <u>Amortization</u> | <u>Decrement</u> | <u>2008.6.30</u> | <u>Remaining</u> |
|----------------|----------------------|------------------|---------------------|------------------|----------------------|---------------------|
| | | | | | | <u>amortization</u> |
| | | | | | | <u>years</u> |
| Gangyihaoing | 47,420,648.95 | — | 636,390.89 | — | 46,784,258.06 | 33.5-43.5 years |
| Guoqi Building | 2,508,261.40 | — | 41,554.53 | — | 2,466,706.87 | 39.5 years |
| Huizhou | | | | | | |
| Sunshine 100 | <u>5,588,138.75</u> | <u> </u> | <u>45,065.64</u> | <u> </u> | <u>5,543,073.11</u> | 59.5 years |
| Total | <u>55,517,049.10</u> | <u> </u> | <u>723,011.06</u> | <u> </u> | <u>54,794,038.04</u> | |

(5) Inventory impairment loss provision

| <u>Item</u> | <u>2007.12.31</u> | <u>Increment</u> | <u>Decrement</u> | <u>2008.6.30</u> |
|--------------|----------------------|------------------|------------------|----------------------|
| Goods in | | | | |
| stock | <u>16,631,692.55</u> | <u> </u> | <u> </u> | <u>16,631,692.55</u> |
| Exploitation | | | | |
| Cost | <u>16,631,692.55</u> | <u> </u> | <u> </u> | <u>16,631,692.55</u> |
| Total | <u>16,631,692.55</u> | <u> </u> | <u> </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>2008.6.30</u> | | | <u>2007.12.31</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>2007.12.31</u> | <u>Increment</u> | <u>Decrement</u> | <u>2008.6.30</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.

(3) Long-term equity investment impairment loss provision

| <u>Item</u> | <u>Amount for</u> | | | <u>2008.6.30</u> |
|----------------------------|-------------------|-----------------|---------------------|------------------|
| | <u>2007.12.31</u> | <u>the year</u> | <u>Transfer out</u> | |
| Shenzhen Chunhua Medicine | | | | |
| United Co., Ltd. | 418,949.38 | — | — | 418,949.38 |
| Shenzhen Guoshang | | | | |
| Medicine Co., Ltd. | 504,857.76 | — | — | 504,857.76 |
| Shenzhen International | | | | |
| Enterprise Trade Co., Ltd. | 3,075,930.02 | — | — | 3,075,930.02 |

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 Jun 30, 2008, the

financial situation of Xinnuo still

has no change.

7. Investment Properties

| | | | | |
|--------------|-------------------|------------------|------------------|------------------|
| <u>Items</u> | <u>2007.12.31</u> | <u>Increment</u> | <u>Decrement</u> | <u>2008.6.30</u> |
|--------------|-------------------|------------------|------------------|------------------|

| | | | | |
|--|----------------------|-------------------|---------------------|----------------------|
| A. Total original price | <u>17,509,107.92</u> | <u>—</u> | <u>2,480,845.58</u> | <u>15,028,262.34</u> |
| 1. Buildings and structures | 17,509,107.92 | — | 2,480,845.58 | 15,028,262.34 |
| 2. Land use right | — | — | — | — |
| B.Total of Accumulated Depreciation and | | | | |
| Accumulated Amortization | <u>7,824,776.34</u> | <u>229,672.80</u> | <u>965,548.27</u> | <u>7,088,900.87</u> |
| 1. Buildings and structures | 7,824,776.34 | 229,672.80 | 965,548.27 | 7,088,900.87 |
| 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>9,684,331.58</u> | <u>—</u> | <u>—</u> | <u>7,939,361.47</u> |
| 1. Buildings and structures | 9,684,331.58 | — | — | 7,939,361.47 |
| 2. Land use right | — | — | — | — |

8. Fixed assets and Accumulated depreciation

| <u>Items</u> | <u>2007.12.31</u> | <u>Increment</u> | <u>Decrement</u> | <u>2008.6.30</u> |
|---|-----------------------|-------------------|------------------|-----------------------|
| A. total original price of fixed assets | <u>127,618,682.63</u> | <u>239,645.40</u> | <u>70,282.81</u> | <u>127,788,045.22</u> |
| Buildings and structures | 114,796,017.19 | — | — | 114,796,017.19 |
| Vehicles | 5,892,815.00 | 50,915.00 | — | 5,943,730.00 |
| Electronic and other devices | 6,929,850.44 | 188,730.40 | 70,282.81 | 7,048,298.03 |
| B.Total Accumulated Depreciation | <u>35,529,573.76</u> | 2,265,560.33 | 53,838.50 | 37,741,295.59 |
| Buildings and structures | 30,090,392.81 | 1,408,803.32 | — | 31,499,196.13 |
| Vehicles | 1,761,503.22 | 433,872.80 | — | 2,195,376.02 |
| Electronic and other devices | 3,677,677.73 | 422,884.21 | 53,838.50 | 4,046,723.44 |

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>80,372,214.68</u> | <u>—</u> | <u>—</u> | <u>78,329,855.44</u> |
| Buildings and structures | 72,988,730.19 | — | — | 71,579,926.87 |
| Vehicles | 4,131,311.78 | — | — | 3,748,353.98 |
| Electronic and other devices | 3,252,172.71 | — | — | 3,001,574.59 |

Note: the net book value of the pledged buildings and structures is 11,438,112.49.

9. Long-term deferred expense

| <u>Types</u> | <u>Original</u> | | <u>Increment</u> | <u>Amortization</u> | <u>Transfer Accumulated</u> | | <u>2008.6.30</u> |
|--------------|----------------------|----------------------|------------------|---------------------|-----------------------------|----------------------|----------------------|
| | <u>Amount</u> | <u>2007.12.31</u> | | | <u>out</u> | <u>Amortization</u> | |
| Furnishing | | | | | | | |
| Cost | 25,182,576.29 | 13,135,514.72 | — | 2,461,766.97 | — | 14,508,828.54 | 10,673,747.75 |
| Others | <u>1,045,729.00</u> | <u>210,000.00</u> | <u>—</u> | <u>21,000.00</u> | <u>—</u> | <u>856,729.00</u> | <u>189,000.00</u> |
| Total | <u>26,228,305.29</u> | <u>13,345,514.72</u> | <u>—</u> | <u>2,482,766.97</u> | <u>—</u> | <u>15,365,557.54</u> | <u>10,862,747.75</u> |

10. Impairment loss provision

| <u>Items</u> | <u>2007.12.31</u> | <u>Increment</u> | <u>Decrement</u> | | <u>2008.6.30</u> |
|--------------------------------|----------------------|--------------------|------------------|--------------------|----------------------|
| | | | <u>Reversal</u> | <u>Written off</u> | |
| Bad debt provision | 25,791,360.64 | -964,302.89 | — | — | 24,827,057.75 |
| Impairment provision for | | | | | |
| inventory | 16,631,692.55 | — | — | — | 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>73,139,684.54</u> | <u>-964,302.89</u> | <u>—</u> | <u>—</u> | <u>72,175,381.65</u> |

11. Restricted assets

(1) Reason

Assets are pledged to obtain bank loans.

(2) List of restricted assets

| <u>Types of restricted assets</u> | <u>Book value at</u> | | | <u>Book value at the</u> |
|---|-------------------------|----------------------|-------------------|--------------------------|
| | <u>the beginning of</u> | <u>Increment</u> | <u>Decrement</u> | |
| | <u>the period</u> | | | <u>end of the period</u> |
| A.Pledged assets | 734,569,664.24 | 39,849,212.49 | 343,651.08 | 774,075,225.65 |
| 1.Fixed assets-buildings and structures | 1,798,535.71 | 9,639,576.78 | — | 11,438,112.49 |
| 2.Inventories-Development products | 25,649,680.16 | — | 343,651.08 | 25,306,029.08 |
| 3.Inventories-Development costs | 691,862,312.26 | 27,510,613.87 | — | 719,372,926.13 |
| 4.Consumable forest assets | 15,259,136.11 | 2,699,021.84 | — | 17,958,157.95 |
| B.Other reasons | == | == | == | == |
| Total | <u>734,569,664.24</u> | <u>39,849,212.49</u> | <u>343,651.08</u> | <u>774,075,225.65</u> |

12. Short-term Loan

| <u>Loan condition</u> | <u>2008.6.30</u> | <u>2007.12.31</u> |
|-----------------------|---------------------|-------------------|
| Pledge loan | <u>8,000,000.00</u> | == |
| Total | <u>8,000,000.00</u> | == |

13. Accounts payable

(1) Age analysis

| <u>Age</u> | <u>2008.6.30</u> | <u>2007.12.31</u> |
|-----------------|-----------------------|-----------------------|
| Within one year | 254,678,927.83 | 251,872,953.50 |
| Over one year | <u>1,809,797.03</u> | <u>1,809,797.03</u> |
| Total | <u>256,488,724.86</u> | <u>253,682,750.53</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>2008.6.30</u> | <u>2007.12.31</u> |
|-----------------|----------------------|----------------------|
| Within one year | — | 10,477,238.63 |
| Over one year | <u>46,058,971.75</u> | <u>35,591,733.12</u> |
| Total | <u>46,058,971.75</u> | <u>46,068,971.75</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>2008.6.30</u> | <u>2007.12.31</u> | <u>Completed date</u> | <u>Content</u> |
|--------------|----------------------|----------------------|-----------------------|----------------|
| Gangyihaoing | <u>35,467,753.05</u> | <u>35,467,753.05</u> | December 2000 | Sales of shops |
| Total | <u>35,467,753.05</u> | <u>35,467,753.05</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>2007.12.31</u> | <u>Increment</u> | <u>Pay out</u> | <u>2008.6.30</u> |
|-------------------------------|-------------------|------------------|----------------|------------------|
| A.Salary, bonus and allowance | 1,335,785.27 | 4,974,280.45 | 5,866,961.88 | 443,103.84 |
| B. Employment welfare | — | 796,725.05 | 796,725.05 | — |
| C. Social insurance | — | 801,234.07 | 801,234.07 | — |
| Including: | | | | |
| 1. Medical insurance | — | 155,155.59 | 155,155.59 | — |
| 2. Basic retirement insurance | — | 568,219.98 | 568,219.98 | — |
| 3. Disability employment fund | — | — | — | — |
| 4. Unemployment insurance | — | 18,928.72 | 18,928.72 | — |

| | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| 5. Injury insurance | — | 51,782.77 | 51,782.77 | — |
| 6. Pregnancy insurance | — | 7,147.01 | 7,147.01 | — |
| D. Housing accumulation fund | — | — | — | — |
| E. Labor union fee and employee education fee | 1,951,718.28 | 146,919.10 | 85,498.40 | 2,013,138.98 |
| F.Non-monetary benefit | — | — | — | — |
| G. Redemption for termination of labor contract | — | — | — | — |
| H.Other | — | — | — | — |
| Including: share payment by cash | — | — | — | — |
| Total | <u>3,287,503.55</u> | <u>6,719,158.67</u> | <u>7,550,419.40</u> | <u>2,456,242.82</u> |

16. Tax payable

| <u>Types</u> | <u>2008.6.30</u> | <u>2007.12.31</u> |
|-----------------------------------|-------------------|-------------------|
| Add-Value Tax(VAT) | 40,207.55 | 24,856.77 |
| Business Tax | -1,823,562.34 | - 1,778,244.29 |
| Consumption Tax | -31,516.27 | - 13,345.07 |
| City maintenance construction fee | 147,619.80 | 147,490.97 |
| Enterprise Income Tax | 1,846,889.73 | 1,741,005.25 |
| Property tax | 156,945.25 | 200,808.57 |
| Personal income Tax | 6,829.76 | 10,234.52 |
| Education fee | 1,821.49 | 4,938.12 |
| Others | <u>69.58</u> | <u>56,320.11</u> |
| Total | <u>345,304.55</u> | <u>394,064.95</u> |

17. Dividend Payable

| <u>Investors</u> | <u>2008.6.30</u> | <u>2007.12.31</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>2008.6.30</u> | <u>2007.12.31</u> |
|---------------|-----------------------|-----------------------|
| Within 1 year | 54,819,639.78 | 74,623,976.78 |
| 1-2 years | 80,014,865.33 | 80,941,194.57 |
| 2-3 years | 34,317,103.01 | 35,098,757.00 |
| Over 3 years | <u>36,630,608.03</u> | <u>31,981,820.70</u> |
| Total | <u>205,782,216.15</u> | <u>222,645,749.05</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 Jun 30, 2008.

(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 | 21,868,516.42 | Year 2006 | 10.63% | Borrowings Note 2 |
| Jian Qi Chen | 29,662,539.53 | Year 2006 | 14.41% | Borrowings Note 2 |
| Wan Ying Lin | 34,419,616.86 | Year 2006 | 16.73% | Borrowings Note 2 |
| Employee borrowings | <u>33,550,984.61</u> | Year 2005 | <u>16.30%</u> | Borrowings Note 1 |
| Total | <u>119,501,657.42</u> | | <u>58.07%</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.

19. Non-current liabilities due within one year

| <u>Item</u> | <u>2008.6.30</u> | <u>2007.12.31</u> |
|--|------------------|----------------------|
| Long-term borrowings due within one year | == | <u>17,229,760.00</u> |
| Total | == | <u>17,229,760.00</u> |

20. Long-term Borrowings

(1) Types

| <u>Type</u> | <u>2008.6.30</u> | <u>2007.12.31</u> |
|-------------|-----------------------|-----------------------|
| Pledge loan | <u>273,946,400.00</u> | <u>274,918,800.00</u> |

| | | |
|-------|-----------------------|-----------------------|
| Total | <u>273,946,400.00</u> | <u>274,918,800.00</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 | 14,946,400.00 | 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>273,946,400.00</u> | | |

Note 1: The long-term borrowing 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>2007.12.31</u> | <u>Increment</u> | <u>Decrement</u> | <u>2008.6.30</u> | <u>Reason</u> |
|--------------------------|----------------------|------------------|------------------|----------------------|----------------|
| Guarantee liabilities | <u>11,018,984.16</u> | <u>==</u> | <u>==</u> | <u>11,018,984.16</u> | Loan guarantee |
| Total | <u>11,018,984.16</u> | <u>==</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>2008.6.30</u> | <u>2007.12.31</u> |
|-------------------------------|---------------------|---------------------|
| Unrecognized leaseback income | <u>1,646,851.37</u> | <u>1,852,707.79</u> |
| Total | <u>1,646,851.37</u> | <u>1,852,707.79</u> |

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

23. Share Capital

| Items | 2007.12.31 | Current changes (+, -) | | | | | Unit: share |
|---------------------------------------|--------------------|------------------------|----------|----------------|-------------------|-------------------|--------------------|
| | | Share | Bonus | Capitalization | Other | Sub-total | 2008.6.30 |
| | | Right | Shares | of public | | | |
| | | | | reserve | | | |
| ① Restricted shares | | | | | | | |
| Including: | | | | | | | |
| shares held by states | — | — | — | — | — | — | — |
| Shares held by state-owned legal | | | | | | | |
| persons | 19,692,807 | — | — | — | -12,443,972 | -12,443,972 | 7,248,835 |
| Shares held by overseas legal persons | — | — | — | — | — | — | — |
| Other | — | — | — | — | — | — | — |
| Sub-total | 19,692,807 | — | — | — | -12,443,972 | -12,443,972 | 7,248,835 |
| ② Unrestricted shares | — | — | — | — | — | — | — |
| 1. Ordinary shares listed in mainland | 129,208,377 | — | — | — | 12,443,972 | 12,443,972 | 141,652,349 |
| 2. Foreign shares listed in mainland | — | — | — | — | — | — | — |
| 3. Foreign shares listed in overseas | 72,000,000 | — | — | — | — | — | 72,000,000 |
| 4. Others | — | — | — | — | — | — | — |
| Total listed shares | <u>201,208,377</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>12,443,972</u> | <u>12,443,972</u> | <u>213,652,349</u> |
| | <u>220,901,184</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>220,901,184</u> |
| Total shares | | | | | | | |

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

| Types | 2007.12.31 | Increment | Decrement | 2008.6.30 |
|------------------------|----------------------|-----------|-----------|----------------------|
| 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>2007.12.31</u> | <u>Increment</u> | <u>Decrement</u> | <u>2008.6.30</u> |
|----------------------------|-----------------------|------------------|------------------|-----------------------|
| Statutory surplus reserves | 84,526,481.13 | — | — | 84,526,481.13 |
| Other surplus reserves | <u>41,403,353.35</u> | <u>—</u> | <u>—</u> | <u>41,403,353.35</u> |
| Total | <u>125,929,834.48</u> | <u>—</u> | <u>—</u> | <u>125,929,834.48</u> |

26. Retained Earnings

| <u>Items</u> | <u>Jan-Jun2008</u> | <u>Jan-Jun2007</u> |
|---|------------------------|------------------------|
| Balance at the beginning of the year of 2008 | -174,793,080.88 | -242,659,312.26 |
| Add: Consolidated net profit | 715,170.19 | -5,892,620.22 |
| Other transfer-in | — | — |
| 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 | <u>—</u> | <u>—</u> |
| Balance at the end of the Jun 2008 | <u>-174,077,910.69</u> | <u>-248,551,932.48</u> |

27. Minority Interest

| <u>Name of investee</u> | <u>Proportion of minority interest</u> | <u>Beginning balance of Minority interest</u> | <u>Closing balance of Minority interest</u> |
|--|--|---|---|
| Shenzhen Guomao Property Management Co., Ltd | 39.00% | -3,621,575.21 | -1,860,459.96 |
| Shenzhen Rongfa Investment Co.,Ltd | 40.00% | <u>-42,255,234.73</u> | <u>-46,557,352.11</u> |
| Total | | <u>-45,876,809.94</u> | <u>-48,417,812.07</u> |

28. Operating revenue and operating costs

28.1 Listed by items

| <u>Items</u> | <u>Jan-Jun 2008</u> | | | <u>Jan-Jun 2007</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 | 6,263,482.52 | 4,924,687.15 | 1,338,795.37 | 24,881,198.50 | 18,016,694.04 | 6,864,504.46 |
| Income from sales | | | | | | |
| of goods | — | — | — | 8,174,954.70 | 7,291,687.16 | 883,267.54 |
| Income from sales | | | | | | |
| of property | — | — | — | 1,831,164.00 | 1,093,951.94 | 737,212.06 |
| Property services | | | | | | |
| and rental income | 6,263,482.52 | 4,924,687.15 | 1,338,795.37 | 10,491,652.10 | 5,877,109.41 | 4,614,542.69 |
| Other service | | | | | | |
| income | — | — | — | 4,383,427.70 | 3,753,945.53 | 629,482.17 |
| 2. Revenue from | | | | | | |
| other operation | 898,364.94 | 131,333.31 | 767,031.63 | — | — | — |
| Rental income | <u>898,364.94</u> | <u>131,333.31</u> | <u>767,031.63</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total | <u>7,161,847.46</u> | <u>5,056,020.46</u> | <u>2,105,827.00</u> | <u>24,881,198.50</u> | <u>18,016,694.04</u> | <u>6,864,504.46</u> |

28.2 Listed by segments or areas

| <u>Items</u> | <u>Jan-Jun 2008</u> | | | <u>Jan-Jun 2007</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>7,161,847.46</u> | <u>5,056,020.46</u> | <u>2,105,827.00</u> | <u>24,881,198.50</u> | <u>18,016,694.04</u> | <u>6,864,504.46</u> |
| Total | <u>7,161,847.46</u> | <u>5,056,020.46</u> | <u>2,105,827.00</u> | <u>24,881,198.50</u> | <u>18,016,694.04</u> | <u>6,864,504.46</u> |

28.3 Sales revenue from top five clients

| <u>Item</u> | <u>Jan-Jun 2008</u> | | <u>Jan-Jun 2007</u> | |
|-----------------------------------|---------------------|----------------------------------|---------------------|----------------------------------|
| | <u>Sales</u> | <u>Proportion to total sales</u> | <u>Sales</u> | <u>Proportion to total sales</u> |
| Total sales from top five clients | 473,080.00 | 6.61% | 1,831,164.00 | 7.36% |

29. Financial costs

| <u>Items</u> | <u>Jan-Jun 2008</u> | <u>Jan-Jun 2007</u> |
|-----------------------|---------------------|---------------------|
| Interest expenses | — | 398,652.78 |
| Less: interest income | 100,553.37 | 292,453.18 |
| Exchange losses | — | — |
| Less: Exchange gains | 1,521,604.67 | — |

| | | |
|--------------|----------------------|-------------------|
| Bank charges | 20,793.47 | 98,655.06 |
| Others | <u>24,840.00</u> | <u> </u> |
| Total | <u>-1,576,524.57</u> | <u>204,854.66</u> |

30. Impairment loss for assets

| <u>Item</u> | <u>Jan-Jun 2008</u> | <u>Jan-Jun 2007</u> |
|---------------------|---------------------|---------------------|
| Bad debts provision | <u>-964,302.89</u> | <u>-902,153.00</u> |
| Total | <u>-964,302.89</u> | <u>-902,153.00</u> |

31. Non-operating income

| <u>Items</u> | <u>Jan-Jun 2008</u> | <u>Jan-Jun 2007</u> |
|-------------------------------------|---------------------|---------------------|
| Gains from disposal of fixed assets | 4,477,502.69 | 30,816.04 |
| Income from debts restructure | 3,690,238.01 | — |
| Others | <u>498,937.89</u> | <u>159,635.49</u> |
| Total | <u>8,666,678.59</u> | <u>190,451.53</u> |

32. Non-operating expenses

| <u>Items</u> | <u>Jan-Jun 2008</u> | <u>Jan-Jun 2007</u> |
|---|---------------------|---------------------|
| Losses from disposal of fixed assets | 12,716.87 | 86,526.04 |
| Losses from disposal of intangible assets | — | — |
| Losses from debts restructure | — | — |
| Guarantee expenses | 800.00 | — |
| Others | <u>106,000.00</u> | <u>845,503.08</u> |
| Total | <u>119,516.87</u> | <u>932,029.12</u> |

33. Income tax

| <u>Item</u> | <u>Jan-Jun 2008</u> | <u>Jan-Jun 2007</u> |
|-------------------------------|---------------------|---------------------|
| Income tax for current period | <u>234,180.57</u> | <u>261,012.37</u> |
| Total | <u>234,180.57</u> | <u>261,012.37</u> |

34. Supplemental information for cash flow statement

| <u>Supplementary information</u> | <u>Jan-Jun 2008</u> | <u>Jan-Jun 2007</u> |
|----------------------------------|---------------------|---------------------|
|----------------------------------|---------------------|---------------------|

1. Adjusting net profits into cash flows from operating activities:

| | | |
|--|----------------|----------------|
| Net profits | - 1,825,831.94 | -12,052,707.45 |
| Add: Impairment loss provision of assets | - 964,302.89 | -902,153.00 |
| Depreciation of fixed assets 、 oil and gas assets and production biological assets | 2,495,233.13 | 2,903,107.08 |
| Amortization of intangible assets | — | — |
| Amortization of Long-term deferred expenses | 2,482,766.97 | 3,370,554.00 |
| Loss on disposal of fixed assets 、 intangible assets and other long-term deferred assets (Loss/Gain +/—) | -4,464,785.82 | 55,710.00 |
| Loss from written off assets (Loss/Gain +/—) | — | — |
| Loss of fair value fluctuation on assets (Loss/Gain +/—) | — | — |
| Financial cost (Loss/Gain +/—) | -1,521,604.67 | 398,652.78 |
| Loss on investment (Loss/Gain +/—) | — | — |
| Decrease of deferred income tax assets (Decrease/Increase +/-) | — | — |
| Increase of deferred income tax liabilities(Increase/Decrease +/-) | — | — |
| Decrease of inventories (Decrease/Increase +/-) | -22,071,161.74 | -60,814,751.02 |
| Decrease of operating receivables (Decrease/Increase +/-) | 16,236,248.53 | 19,717,529.64 |
| Increase of operating payables(Increase/Decrease +/-) | -30,903,780.87 | -34,842,148.24 |
| Losses on Debts restructure(Losses/Gains +/-) | — | — |
| Others | -4,082,375.90 | — |
| Net cash flows arising from operating activities | -44,619,595.20 | -82,166,206.21 |

Supplementary information

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 | 19,795,164.62 | 191,128,390.37 |
| Less: Beginning balance of cash | 61,342,998.09 | 26,046,276.70 |
| Add : Ending balance of cash equivalents | — | — |
| Less: Beginning balance of cash equivalents | — | — |

| | | |
|--|-----------------------|-----------------------|
| Net increase (decrease) of cash and cash equivalents | <u>-41,547,833.47</u> | <u>165,082,113.67</u> |
|--|-----------------------|-----------------------|

35. Cash and cash equivalents

| <u>Items</u> | <u>Jan-Jun 2008</u> | <u>Jan-Jun 2007</u> |
|---|----------------------|-----------------------|
| 1. Cash | | |
| Including: Cash on hand | 176,056.65 | 630,061.87 |
| unrestricted bank deposits | 19,499,107.97 | 190,361,923.85 |
| unrestricted other monetary funds | <u>120,000.00</u> | 136,404.65 |
| 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>19,795,164.62</u> | <u>191,128,390.37</u> |

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>2008.6.30</u> | | | <u>2007.12.31</u> | | |
|------------|------------------|-------------------|------------------|-------------------|-------------------|------------------|
| <u>Age</u> | <u>Balance</u> | <u>Proportion</u> | <u>Bad debts</u> | <u>Balance</u> | <u>Proportion</u> | <u>Bad debts</u> |
| | | | <u>provision</u> | | <u>n</u> | <u>provision</u> |
| Within one | | | | | | |
| year | 388,962,765.64 | 97.23% | 140,185,704.86 | 376,977,073.19 | 97.15% | 119,878,242.89 |
| 1-2 years | 89,065.00 | 0.02% | 8,906.50 | 89,065.00 | 0.02% | 8,906.50 |
| 2-3 years | 71,426.71 | 0.02% | 10,714.01 | 71,426.71 | 0.02% | 10,714.01 |
| 3-4 years | — | — | — | — | — | — |

| | | | | | | |
|-----------|-----------------------|----------------|-----------------------|-----------------------|----------------|-----------------------|
| 4-5 years | 1,467,789.82 | 0.37% | 1,467,789.82 | 1,467,789.82 | 0.38% | 1,467,789.82 |
| Over 5 | | | | | | |
| years | <u>9,436,272.34</u> | <u>2.36%</u> | <u>9,417,843.33</u> | <u>9,436,272.34</u> | <u>2.43%</u> | <u>9,417,843.33</u> |
| Total | <u>400,027,319.51</u> | <u>100.00%</u> | <u>151,090,958.52</u> | <u>388,041,627.06</u> | <u>100.00%</u> | <u>130,783,496.55</u> |

2. Long-term equity investments

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

| | <u>2008.6.30</u> | | <u>2007.12.31</u> | | |
|-----------------------|--------------------------|------------------------|----------------------|--------------------------|------------------------|
| <u>Items</u> | <u>Investment amount</u> | <u>Provision for</u> | <u>Book value</u> | <u>Investment amount</u> | <u>Provision for</u> |
| | | <u>Impairment loss</u> | | | <u>Impairment loss</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>89,943,991.03</u> | <u>23,999,737.16</u> |
| Total | <u>89,943,991.03</u> | <u>23,999,737.16</u> | <u>65,944,253.87</u> | <u>89,943,991.03</u> | <u>23,999,737.16</u> |

(2) Long-term equity investment by cost method

| <u>Name of investees</u> | <u>Initial</u> | <u>Accumulated</u> | <u>2007.12.31</u> | <u>Addition</u> | <u>Deduction</u> | <u>2008.6.30</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 | | | | | | |
| 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>83,516,718.10</u> | <u>6,427,272.93</u> | <u>89,943,991.03</u> | <u>—</u> | <u>—</u> | <u>89,943,991.03</u> |

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

| <u>Investment project</u> | <u>2007.12.31</u> | <u>Increase</u> | <u>Decrease</u> | <u>2008.6.30</u> |
|--|----------------------|-----------------|-----------------|----------------------|
| 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. | 504,857.76 | — | — | 504,857.76 |
| Shenzhen International trade enterprise Co., Ltd | 3,075,930.02 | — | — | 3,075,930.02 |
| 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>Jan-Jun 2008</u> | | | <u>Jan-Jun 2007</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>275,830.00</u> | <u>24,471.21</u> | <u>251,358.79</u> | <u>370,679.00</u> | <u>23,234.30</u> | <u>347,444.70</u> |
| Total | <u>275,830.00</u> | <u>24,471.21</u> | <u>251,358.79</u> | <u>370,679.00</u> | <u>23,234.30</u> | <u>347,444.70</u> |

(2) Listed by business or geography

| <u>Item</u> | <u>Jan-Jun 2008</u> | | | <u>Jan-Jun 2007</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>275,830.00</u> | <u>24,471.21</u> | <u>251,358.79</u> | <u>370,679.00</u> | <u>23,234.30</u> | <u>347,444.70</u> |
| Total | <u>275,830.00</u> | <u>24,471.21</u> | <u>251,358.79</u> | <u>370,679.00</u> | <u>23,234.30</u> | <u>347,444.70</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 SDN.BHD. | Holding 13.70% of the Company's equity interests |
| 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>2008.6.30</u> | | <u>2007.12.31</u> | |
|--|----------------------|-------------------|----------------------|-------------------|
| | <u>Balance</u> | <u>Proportion</u> | <u>Balance</u> | <u>Proportion</u> |
| Other payables: | | | | |
| Malaysia Foh Chong & Sons SDN.BHD. | 27,147,598.25 | 13.19% | 25,449,040.65 | 11.43% |
| Shenzhen Chunhua Medicine United Co., Ltd. | 2,090,239.43 | 1.02% | 2,090,239.43 | 0.94% |
| Shenzhen Guoshang Medicine Co., Ltd. | 1,491,767.33 | 0.72% | 1,491,767.33 | 0.67% |
| Shenzhen International trade enterprise Co., Ltd | <u>4,160,185.75</u> | <u>2.02%</u> | <u>4,160,185.75</u> | <u>1.87%</u> |
| Total | <u>34,889,790.76</u> | <u>16.95%</u> | <u>33,191,233.16</u> | <u>14.91%</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 Jun 30, 2008, Shenzhen Rongfa Investment Co., Ltd. provides guarantees for mortgage property sales for 44,320,179.88.

(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 Jun 30, 2008, Huizhou Rongfa Investment Co., Ltd provides guarantees for mortgage property sales for 12,570,500.

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 June 30, 2008, 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 | 2,515,857.67 | 411,712.84 |

| | | |
|------------------|----------------------|---------------------|
| Over three years | — | <u>411,712.85</u> |
| Total | <u>15,793,360.43</u> | <u>1,646,851.37</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] YGFMRCZ 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] YGFMRCZ 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, On April 17, 2008, the Shenzhen Intermediate People's Court (2008) issued a closed notice [2005] SZFMRCZ No. 70: execution applicant is Shenzhen Rongfa and International Arcade, and

the party subject to enforcement is Shenzhen branch of China Railway Construction Group Co. Ltd., (China Railway), the case of Shenzhen industrial corporation of China Railway Construction Group Co. Ltd., which is related to the quality of construction and installation project contract. Guangdong Superior People's Court issued Civil Order [2006] YGFMRZZ No.199, is legal in effect. Since China Railway did not fulfill the obligations established by legal instruments, Shenzhen Rongfa and International Arcade applied to the court to enforce the obligation of China Railway. In April 2008, the result from the court: this court will remit a payment RMB3,690,238.01 to the Shenzhen Rongfa and International Arcade from China Railway. Guangdong Superior People's Court issued Civil Order [2006] YGFMRZZ No.199 is implemented, and the case is closed

In April 2008, Shenzhen Rongfa and International Arcade received the remittance RMB3,690,238.01 from Shenzhen Intermediate People's Court.

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

| <u>Items</u> | <u>Amount</u> |
|--|----------------------|
| Net Profits | 715,170.19 |
| Less: Profit or loss from disposal of non-current assets | 4,464,785.82 |
| Government grants | — |
| Losses from debts restructuring | — |
| Losses from accrued liabilities not relating to the company's main business activities | — |
| Other non-operating profits | 4,082,375.90 |
| Non-recurring profits and losses designated by China Securities Regulator Commission No. 3 | — |
| Subtotal: | -7,831,991.53 |
| Add: Amount influenced by income tax | |
| Add: Non-recurring profit attributable to minority interest | 3,219,504.68 |
| Net profits after deduction of non-recurring profit and loss | <u>-4,612,486.85</u> |

XIII. Yield Rate of Net Assets and Earnings Per Share

1. Yield rate of net assets

| Calculation of Weighted average yield rate | Jan-Jun 2008 | Jan-Jun 2007 |
|--|--------------|--------------|
|--|--------------|--------------|

| net assets | | | 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 | 715,170.19 | -4,612,486.85 | -5,892,620.22 | -5,447,363.88 |
| Net profits attributable to ordinary shareholders | NP | 715,170.19 | -4,612,486.85 | -5,892,620.22 | -5,447,363.88 |
| Net assets attributable to ordinary shareholders at beginning of year | E0 | 244,353,284.66 | 244,353,284.66 | 181,473,839.16 | 181,473,839.16 |
| 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 | 6 | 6 | 6 | 6 |
| 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 transaction or events | Ek | _____ | _____ | _____ | _____ |
| 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 | | 0.29% | -1.91% | -3.30% | -3.05% |

Weight average yield of net assets = $P / (E0 + NP \times M0 - Ei \times Mi + Ej \times Mj - Ek \times Mk + M0)$

| Calculation of diluted yield rate of net assets | Code | Jan-Jun 2008 | | Jan-Jun 2007 | |
|--|------|--------------|--|--------------|--|
| | | Net profits | Net profits after deduction of non-recurring profits and | Net profits | |

| | | | losses | Net profits | |
|--|---|----------------|----------------|----------------|----------------|
| Net profits or net profits after deduction of non-recurring profits and losses attributable to ordinary shareholders | P | 715,170.19 | -4,612,486.85 | -5,892,620.22 | -5,447,363.88 |
| Net assets attributable to ordinary shareholders | E | 245,068,454.85 | 245,068,454.85 | 175,581,218.94 | 175,581,218.94 |
| Diluted yield rate of net assets | | 0.29% | -1.88% | -3.36% | -3.10% |

Diluted yield rate of net assets=P÷E

2. Earnings per share

| Items | Jan-Jun 2008 | Jan-Jun 2007 |
|--|--------------|---------------|
| Calculation of basic earnings per share and diluted earnings per share | | |
| 1. Nominator: | | |
| Net profits after tax | 715,170.19 | -5,892,620.22 |
| Adjustment: Impacts of preference share and other instruments | — | — |
| Net profits attributable to the ordinary shareholders in calculation of basic earnings per share | 715,170.19 | -5,892,620.22 |
| 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 | 715,170.19 | -5,892,620.22 |
| 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 | 0.0032 | -0.0267 |
| Diluted earnings per share | 0.0032 | -0.0267 |

XIII. Approval of financial statements

The consolidated financial statements for the year of Jun 30, 2008 are approved and

authorized for issuance by the Board of Directors on August 25, 2008.

Director

Director

Shenzhen International Enterprise Co., Ltd

