

C. REVIEW REPORT ON RECONCILIATION STATEMENT

Review Report on Reconciliation Statement of Jiaoda Kunji High-Tech Company Ltd. for Shareholders' Equity Differences between New and Old PRC Accounting Standards

西安希格瑪有限責任會計師事務所
Xi'an Xigema Certified Public Accountant Firm Limited
Xi Hui Shen Zi No.(2007)0582

Review Report on Reconciliation Statement of Jiaoda Kunji High-Tech Company Ltd. for Shareholders' Equity Differences between New and Old PRC Accounting Standards

To the shareholders of Jiaoda Kunji High-Tech Company Ltd.

We have reviewed the accompanying reconciliation statement of **Jiaoda Kunji High-Tech Company Ltd.** (the "Company") for shareholders' equity differences between new and old PRC Accounting Standards as at December 31, 2006 and January 1, 2007 ("Reconciliation Statement") prepared in accordance with Note 2 Basis of preparation. The management of the Company is responsible for preparing the Reconciliation Statement in accordance with the Accounting Standards for Business Enterprises No. 38 First-time Adoption of Accounting Standards for Business Enterprises, Notice on Preparation for Disclosure of Financial Information regarding the Adoption of New Accounting Standards (Zhengjianfa [2006] No. 136, "Notice") and other related regulations. Our responsibility is to issue a review report on the Reconciliation Statement based on our review.

In accordance with the Notice, we conducted our review in accordance with the Review Standard for Chinese Certified Public Accountants No. 2101 Review of Financial Statements. The standard requires us to plan and conduct a review to obtain limited assurance as to whether the Reconciliation Statement is free of material misstatement. A review is limited primarily to inquiries of company personnel on the accounting policies and all significant assertions related to the preparation of the Reconciliation Statement, understanding of the calculation of the reconciliation figures in the Reconciliation Statement, reviewing the Reconciliation Statement to assess whether the specified basis of preparation have been applied and when necessary, performing analytical procedures on the data if necessary. A review provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Reconciliation Statement is not prepared, in all material respects, in accordance with the related requirement in Accounting Standards for Business Enterprises No. 38 First-time Adoption of Accounting Standards for Business Enterprises, the Notice and other related regulations.

Xi'an Xigema Certified Public Accountants Firm Limited
Xi'an, the PRC

Chinese Certified Public Accountant
Fan Min Hua
Chinese Certified Public Accountant
Wang Yong Zhong

18th April, 2007

C. RECONCILIATION STATEMENT

Reconciliation Statement

Important Notice:

From January 1, 2007, the Company adopted the “Accounting Standards for Business Enterprises” issued by the Ministry of Finance in 2006 (“New Accounting Standards”). The Company is assessing the impact on the Group’s financial position, results of operation and cash flows in adopting the New Accounting Standards. When the Company prepares its 2007 financial statements, the Company may, after careful consideration and referring to the further interpretation of the New Accounting Standards by the Ministry of Finance, change the accounting policies and significant assertions used in preparing this reconciliation statement for shareholders’ equity differences between new and old Accounting Standards (“Reconciliation Statement”) which may result in discrepancies between shareholders’ equity (New Accounting Standards) as at January 1, 2007 in the Reconciliation Statement and the corresponding figure in 2007 financial statements.

C. RECONCILIATION STATEMENT

Jiaoda Kunji High-Tech Company Limited Consolidated Shareholders' Equity Reconciliation between New and Old Accounting Standards

Unit: RMB'000

| Item. | Notes | Details | Amount |
|-------|-------|--|-----------|
| | | Consolidated shareholders' equity (current accounting standards) on 31 December 2006 | 610,751.8 |
| 1 | | Difference in long term equity investment Including: Difference in long-term equity investment from consolidation of enterprises under common control Other difference in long-term equity investment accounted for using equity method (credit balance) | |
| 2 | | Real estate held for investment valued in fair value model | |
| 3 | | Additional provision of depreciation for preceding years due to accrued asset retirement expenses | |
| 4 | | Dismissal compensation qualified as accrued liabilities | |
| 5 | | Share-based payment | |
| 6 | | Restructuring obligations qualified as accrued liabilities | |
| 7 | | Consolidation of enterprises Including: Book value of goodwill from consolidation of enterprises under common control Provision for diminution in value of goodwill under new accounting standards | |
| 8 | | Financial assets measured at fair value through profit or loss and available-for-sale financial assets | |
| 9 | | Financial liabilities measured at fair value through profit or loss | |
| 10 | | Equity increased by splitting financial instruments | |
| 11 | | Derivative financial instruments | |
| 12 | | Income tax | 29,004.3 |
| 13 | | Others | (2,872.7) |
| | | Consolidated shareholders' equity (new accounting standards) for 1 January 2007 | 636,883.4 |

The accompanying notes form an integral part of this reconciliation statement.

Chairman and executive officer: Gao Minghui

Financial Controller: Pi Jianguo

Prepared by: Zhao Qiongfeng

C. NOTES TO RECONCILIATION STATEMENT

Notes to Reconciliation Statement for Shareholders' Equity Differences between New and Old Accounting Standards (Unit: RMB'000)

1. Purpose of preparation

Jiaoda Kunji High-Tech Company Ltd and its subsidiaries (the "Group") adopted the New Accounting Standards on January 1, 2007. In order to analyze and disclose the impact of adopting the New Accounting Standards on the financial positions of listed companies, in November 2006, China Securities Regulatory Commission issued Notice on Preparation of Disclosure of Financial Information regarding the Adoption of New Accounting Standards (Zhengjianfa [2006] No. 136, "Notice") which requires companies to disclose a reconciliation of significant differences in the supplementary information of the 2006 financial statements using a reconciliation statement, in accordance with the related requirements in Accounting Standards for Business Enterprises No. 38 – First-time Adoption of Accounting Standards for Business Enterprises, the Notice and other related regulations.

2. Basis of preparation

In accordance with the "Accounting Standards for Business Enterprises No.38 – First time adoption of Accounting Standards for Business Enterprises" paragraph 5 to 19, the Reconciliation Statement is prepared based on the 2006 consolidated financial statements by applying the materiality principle and taking into consideration the Company's/Group's characteristics and conditions.

The Company has prepared the statement of reconciliation of differences between shareholders' equity prepared in accordance with the current and the new PRC Accounting Standards (the "Reconciliation Statement") in accordance with the above mentioned requirements. The Reconciliation Statement is prepared according to the following principles:

- (1) For subsidiaries, associates and jointly controlled entities, adjustments are made in accordance with paragraphs 5 to 19 of the "Accounting Standards for Business Enterprises No.38 – First time adoption of Accounting Standards for Business Enterprises". For those events which affect the Company's retained profits and its share of net assets, the Company would adjust the retained profits or capital reserve accordingly.
- (2) Minority interests are adjusted in accordance with the New Accounting Standards and disclosed as a separate item in the reconciliation statement.

3. Notes to major items

- (1) The amount of the consolidated shareholders' equity as at December 31, 2006 (Current Accounting Standards) are obtained from the Group's consolidated balance sheet as at December 31, 2006 which is prepared in accordance with the current Accounting Standards for Business Enterprises and the Accounting System for Financial Institutions (collectively the "Current Accounting Standards"). Such financial statements have been audited by Xi'an Xigema Certified Public Accountant who issued an audit report on 18th April, 2007 with report reference number Xi Hui Zhen Zi No.[2007]0580. Please refer to 2006 financial statements for the basis of preparation and summary of significant accounting policies for those financial statements.

- (2) *Long term equity investment differences*

There is no difference in long-term equity investment from consolidation of enterprises under common control. Thus, the debit differences of equity investment in the first executive date was recognized as the balance of the book of long-term investment. The difference was recognized as intangible assets-goodwill in the consolidated statements.

C. NOTES TO RECONCILIATION STATEMENT

(3) *Income tax*

According to <Accounting Standards for Business Enterprises No.18 – Income tax expense> No17 “As at balance sheet date, according to the law of taxation, deferred tax assets and deferred tax liabilities are recognized based on the tax rate applicable of the recoverable amounts of the assets or the repayment amounts of the liabilities.” The applicable income tax rate of the Company is 15%. However, according to new standard of <People Republic China Business Enterprise Income tax> which issued recently, the new applicable income tax rate for all business enterprises will be 25% starting from 1st January, 2008 onwards. After obtain the detain information by the Company from Tax Bureau, the applicable tax rate for the Company will be 25% unless the Company further receive any amendment notices or exemptions from tax bureau in future. Therefore, except the temporary difference of the deductible amount which incurred in year 2007 will calculated by 15%, the remaining balance will recognized based on 25%.

According to <Accounting Standards for Business Enterprises No.18- Income tax expense> No12, the long term investment in Xian Ser which contributed from retained profits of the said company was recognized as deferred tax liabilities while the total accumulated impairment losses of Xian Ser was recognized as deferred tax assets. According to the new accounting standards, the Company adjusted the opening balance of minority shareholder and this adjustment will be represented in other items of “Summary of Differences Adjustments”.

Due to the insufficient profit generated by Shanxi Hengtong Intelligent Machine Company Limited, Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited and Winko Machines Company Limited, “Accounting Standards for Business Enterprises No.18 – Income tax expense” No.17 can not be satisfied. “Accounting Standards for Business Enterprises No.18 – Income tax expense” No.17 stated that “As at balance sheet date, there is sufficient evidence to show that the Entity is likely to generated sufficient taxable income to offset the deferred tax assets”. The above subsidiaries may not be able to recognized deferred tax assets as they cannot satisfy the above requirement.

Due to the accumulated loss brought by Shanxi Hengtong Intelligent Machine Company Limited, Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited and Winko Machines Company Limited in prior years, a credit balance of investment in subsidiaries is noted. The recognition of deferred tax assets is in accordance with Article 14 of “Accounting Standards for Business Enterprises No.18 – Income tax expense”.

Jiaoda Kunji High-Tech Company
April 18, 2007