

## SHENZHEN XINZHOU CERTIFIED PUBLIC ACCOUNTANTS

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**Tax:** 83278806

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SHENXINZHOU external audit 【2007】 No.005

### Audit Report

All shareholders of Shenzhen Fuqi Jewelry Co., LTD. ,

We have audited the attached financial statements of Shenzhen Fuqi jewelry Co., LTD. (hereinafter referred to as the "company"), including the balance sheet on December 31, 2007, the income statement in 2007 , the statement of cash flows and the note of financial statement.

According to the accounting standards for enterprises and the Provisions of the Accounting System, preparing financial statements is your company management's responsibility which Includes: (1) Design, implement, maintain and prepare the related internal controls so that the financial statements doesn't exist great mistakes, whether due to fraud or error caused. (2) Choose and use the suitable accounting strategy. (3) Make a reasonable estimate for accounting.

Our duty is to give our audit opinions based on the auditing of financial statements. We have implemented an audit in the light of "China Auditing Standards for CPA". Chinese certified public accountants auditing standard requires us to abide by the professional work ethic, making schedule and implementing the audit so as to obtain the reasonable assurances to see if there were big mistake in the statement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure is selected depending on the auditor's judgment, which includes the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. While the risk assessing, considering the preparation financial statement related internal controls to design the reasonable audit procedure, but not on the purpose to give the opinion for the effectiveness of the internal controls. Audit work includes evaluation management, as per the appropriateness of accounting policies and then make the rationality of accounting estimates, and evaluation of the overall presentation of the financial statements.

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

We believe that your company financial statements in accordance with the accounting standards for business enterprises and the accounting system, which also reflected the company financial situation on Dec, 31<sup>st</sup> 2007, the state of operation and cash flow in 2007 in major aspects.

**SHENZHEN XINZHOU CERTIFIED PUBLIC ACCOUNTANTS**

**THE CHINESE CERTIFIED PUBLIC ACCOUNTANT**

Report Date: February 29<sup>th</sup>, 2008

## SHENZHEN LIANCHUANG LIXIN CERTIFIED PUBLIC ACCOUNTS

**Baoan Add** : Room 309/310, the 3rd Floor, Xinhua Bookstore Building, Jianan Road , Baoan District, Shenzhen

**Zip Code**: 518101

**Futian Add** : Room 1018, Hangangfuchun Business Tower, No.6031,Shennan Avenue, Shenzhen

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**Tel**: (0755) 88299609 88299729 88299615 27880568 **Tax**: 88299739

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\* Confidential \*

SHENLIANCHUANLIXIN External Audit (2009) NO.003

### Audit Report

All shareholder of Shenzhen Fuqi Jewelry Co., LTD.,

We have audited the attached financial statements of Shenzhen Fuqi jewelry Co., Ltd. (hereinafter referred to as the "company"), including the balance sheet on December 31, 2008, the income statement in 2008, the statement of cash flows and the note of financial statement .

i, Responsibility of the company's management for the financial statements

According to the accounting standards for enterprises and the Provisions of the Accounting System, preparing financial statements is your company management's responsibility which Includes: (1) Design, implement, maintain and prepare the related internal controls so that the financial statements doesn't exist great mistakes, whether due to fraud or error caused. (2) Choose and use the suitable accounting strategy. (3) Make a reasonable estimate for accounting.

ii. The responsibility of Certified Public Accountants

Our duty is to give our audit opinions based on the auditing of financial statements. We have implemented an audit in the light of "China Auditing Standards for CPA". Chinese certified public accountants auditing standard requires us to abide by the professional work ethic, making schedule and implementing the audit so as to obtain the reasonable assurances to see if there were big mistake in the statement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure is selected depending on the auditor's judgment, which includes the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. While the risk assessing, considering the preparation financial statement related internal controls to design the reasonable audit procedure, but not on the purpose to give the opinion

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for the effectiveness of the internal controls. Audit work includes evaluation management, as per the appropriateness of accounting policies and then make the rationality of accounting estimates, and evaluation of the overall presentation of the financial statements.

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

iii. Audit opinion

We believe that your company's financial statements in accordance with the accounting standards for business enterprises and the Provisions of the Accounting System. which also reflected the company financial situation on Dec, 31<sup>st</sup> 2008, the state of operation and cash flow in 2008 in major aspects.

**SHENZHEN LIANCHUANG LIXIN CERTIFIED PUBLIC ACCOUNTS**

**THE CHINESE CERTIFIED PUBLIC ACCOUNTANT**

March 6<sup>th</sup>, 2009

# The Balance Sheet

December 31st, 2006

Name of enterprise: Shenzhen Fuqi Jewelry Co., LTD.

Monetary Unit: RMB (Yuan)

Assets	Notes	Closing Amount	Opening Amount
<b>Current Assets</b>			
Cash	1	2,291,425.43	22,634,707.73
Short-term investments			
Notes receivable			
Dividend receivable			
Interest receivable			
Accounts receivable	2	53,840,580.44	36,943,847.40
Other receivables	4	85,017,801.82	71,546,378.89
Accounts prepaid	3	1,140,772.20	14,932,193.97
Subsidy receivable			
Inventory	5	56,958,215.98	52,451,842.90
Deferred expense			
Long-term debt investment due within one year			
Other current assets			
Total current assets		199,248,795.87	198,508,970.89
<b>Long-term investment</b>			
Long-term equity investments			
Long-term debt investment	6	500,000.00	500,000.00
Total long-term investment		500,000.00	500,000.00
<b>Fixed assets</b>			
Original value of fixed assets	7	10,319,866.80	10,066,186.42
Less: Accumulated depreciation	7	4,957,679.67	3,128,205.68
Net value of fixed assets	7	5,362,187.13	6,937,980.74
Less: Impairment of fixed assets			
Net fixed assets		5,362,187.13	6,937,980.74
Project goods and material			
Construction in progress			
Liquidation of fixed assets			
Improvement of operating lease of fixed assets		2,540,442.76	2,540,442.76
Less: Accumulated depreciation		1,616,740.30	1,197,039.42
Net Improvement of operating lease of fixed assets		923,702.46	1,343,403.34
Total fixed assets		6,285,889.59	8,281,384.08
<b>Intangible and other assets</b>			
Intangible assets		312,135.00	29,559.81
Long-term deferred expenses			
Other long-term assets			
Total intangible and other assets		312,135.00	29,559.81
<b>Deferred tax</b>			
Deferred assets debits			
Total assets		206,346,820.46	207,319,914.78

# The Balance Sheet (cont.)

December 31st, 2006

Name of enterprise: Shenzhen Fuqi Jewelry Co., Ltd.

Monetary Unit: RMB (Yuan)

<b>Liabilities and Owners (Shareholders) Equity</b>	<b>Notes</b>	<b>Closing amount</b>	<b>Opening amount</b>
<b>Current Liabilities</b>			
Short-term borrowings	8	110,000,000.00	110,000,000.00
Notes payable			22,000,000.00
Accounts payable	9	10,000.00	97,000.00
Advances from customers			
Accrued wages			
Welfare funds payable		1,247,997.97	1,087,030.25
Dividends payable			
Tax payable	11	-71,595.96	-1,936,022.26
Other payable to government			
Other payable	10	10,086,185.00	
Accrued expense			
Accrued liabilities			
Long-term liability due within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>121,272,587.01</b>	<b>131,248,007.69</b>
<b>Long-term liabilities</b>			
Long-term loans			
Bonds payable			
Long-term payables			
Special payable			
Other long-term liabilities			
<b>Total long-term liabilities</b>			
<b>Deferred tax</b>			
Deferred tax liabilities			
<b>Total liability</b>		<b>121,272,587.01</b>	<b>131,248,007.69</b>
<b>Owners (shareholders)' equity</b>			
Paid-in capital (share capital)	12	60,000,000.00	60,000,000.00
Less: Investments returned			
Pain-in capital (share capital) net	12	60,000,000.00	60,000,000.00
Capital reserves			
Surplus reserves			
Including: public welfare funds			
Undistributed profits		25,074,233.45	16,071,907.09
<b>Total owners (shareholders) equity</b>		<b>85,074,233.45</b>	<b>76,071,907.09</b>
<b>Total liabilities and owners (shareholders) equity</b>		<b>206,346,820.46</b>	<b>207,319,914.78</b>

# Income Statement

January 1st, 2006 - December 31st, 2006

Name of enterprise: Shenzhen Fuqi Jewelry Co., LTD.		Monetary Unit: RMB (Yuan)	
Items	Notes	Current Year	
<b>i. Revenue</b>	13	679,567,936.84	
Less: Cost of goods sold	13	656,823,998.45	
Tax and associate cost		316,216.44	
<b>ii. Income from main operation</b>		21,427,721.95	
Add: other business profits			
Less: business expense		1,280,931.08	
Administrative expenses		3,898,478.05	
Financial expenses	14	5,757,340.61	
<b>iii. Operating profit</b>		10,490,972.21	
Add: Investment income (loss is negative )			
Subsidy income		100,000.00	
Non-operating gain			
Less: Non-operating expense			
<b>iv. Total profits</b>		10,590,972.21	
Less: Income tax		1,588,645.85	
<b>v. Net income</b>		9,002,326.36	
Add: undistributed profit at beginning of year		16,071,907.09	
Other changeover in			
<b>vi. Profit available for dividend</b>		25,074,233.45	
Less: Withdrawal legal surplus			
Withdrawal legal public welfare funds			
Withdrawal staff and workers bonus and welfare fund			
Withdrawal reserve fund			
Withdrawal reserve for business expansion			
Profits capitalized on return of investment			
<b>vii. Profit available for owners distribution</b>		25,074,233.45	
Less: Preferred dividend			
Withdrawal other common accumulation fund			
Common Stock dividends payable			
Common Stock dividends change to assets			
<b>viii. Undistributed profits</b>		25,074,233.45	

# The Balance Sheet

## December 31st, 2007

Name of enterprise: Shenzhen Fuqi Jewelry Co., LTD.

Monetary Unit: RMB (Yuan)

Assets	Notes	Closing amount	Opening amount
<b>Current assets</b>			
Cash	1	83,447,752.37	2,291,425.43
Short-term investment			
Notes receivable			
Dividend receivable			
Interest receivable			
Accounts receivable	2	130,703,828.87	53,840,580.44
Other receivables	4	168,576,213.18	85,017,801.82
Accounts prepaid	3	178,339,154.81	1,140,772.20
Subsidy receivable			
Inventory	5	167,916,043.34	56,958,215.98
Deferred expense			
Long-term debt investment due within one year			
Other current assets			
<b>Total current assets</b>		<b>728,982,992.57</b>	<b>199,248,795.87</b>
<b>Long-term investment</b>			
Long-term equity investments			
Long-term debt investment			
<b>Total long-term investment</b>	<b>6</b>	<b>500,000.00</b>	<b>500,000.00</b>
<b>Fixed assets</b>			
Original value of fixed assets	7	12,845,173.66	10,319,866.80
Less: Accumulated depreciation	7	6,657,077.36	4,957,679.67
Net value of fixed assets	7	6,188,096.30	5,362,187.13
Less: Impairment of fixed assets			
Net fixed assets		6,188,096.30	5,362,187.13
Project goods and material			
Construction in progress			
Liquidation of fixed assets			
Management and improvement of the rented fixed assets		3,272,463.76	2,540,442.76
Less: Accumulated depreciation		2,083,593.01	1,616,740.30
Improvement the net value of rented fixed assets		1,188,870.75	923,702.46
<b>Total fixed assets</b>		<b>7,376,967.05</b>	<b>6,285,889.59</b>
<b>Intangible and other assets</b>			
Intangible assets		280,155.00	312,135.00
Long-term deferred expenses			
Other long-term assets			
<b>Total intangible and other assets</b>		<b>280,155.00</b>	<b>312,135.00</b>
<b>Deferred tax</b>			
Deferred assets debits			
<b>Total assets</b>		<b>737,140,114.62</b>	<b>206,346,820.46</b>

# The Balance Sheet (cont.)

December 31st, 2007

Name of enterprise: Shenzhen Fuqi Jewelry Co., LTD.

Monetary Unit: RMB (Yuan)

<b>Liabilities and Owners (Shareholders) Equity</b>	<b>Notes</b>	<b>Closing amount</b>	<b>Opening amount</b>
<b>Current Liabilities</b>			
Short-term borrowings	8	125,000,000.00	110,000,000.00
Notes payable			
Accounts payable	9	295,395.97	10,000.00
Advances from customers			
Accrued wages			
Welfare funds payable		1,644,791.39	1,247,997.97
Dividends payable			
Tax payable	11	-11,816,831.51	-71,595.96
Other payable to government			
Other payable	10	16,033,000.00	10,086,185.00
Accrued expense			
Accrued liabilities			
Long-term liability due within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>131,176,355.85</b>	<b>121,272,587.01</b>
<b>Long-term liability</b>			
Long-term loans			
Bonds payable			
Long-term payables	12	266,882,050.00	
Special payable			
Other long-term liabilities			
<b>Total long-term liabilities</b>		<b>266,822,050.00</b>	
<b>Deferred Tax</b>			
Deferred Tax liabilities			
<b>Total liability</b>		<b>398,058,405.85</b>	<b>121,272,587.01</b>
<b>Owners (shareholders) equity</b>			
Paid-in capital (share capital)	13	276,351,600.00	60,000,000.00
Less: Investments returned			
Pain-in capital (share capital) net	13	276,351,600.00	60,000,000.00
Capital reserves			
Surplus reserves			
Including: public welfare funds			
Undistributed profits		62,730,108.77	25,074,233.45
<b>Total owners (shareholders) equity</b>		<b>339,081,708.77</b>	<b>85,074,233.45</b>
<b>Total liabilities and owners (shareholders) equity</b>		<b>737,140,114.62</b>	<b>206,346,820.46</b>

# Income Statement

## January 1st, 2007 - December 31st, 2007

Name of enterprise: Shenzhen Fuqi Jewelry Co., LTD.	Monetary Unit: RMB (Yuan)	
Items	Notes	Current Year
<b>i. Revenue</b>	14	1,013,057,894.20
Less: Cost of goods sold	14	978,215,969.92
Tax and associate cost		1,495,757.12
<b>ii. Income from main operation</b>		33,346,167.16
Add: other business profits		27,408,108.85
Less: business expense		2,963,218.76
Administrative expenses		5,511,270.34
Financial expenses	15	7,977,344.47
<b>iii. Operating profit</b>		44,302,442.44
Add: Investment income (loss is negative )		
Subsidy income		
Non-operating gain		
Less: Non-operating expense		1,200.74
<b>iv. Total profits</b>		44,301,241.70
Less: Income tax		6,645,366.38
<b>v. Net income</b>		37,655,366.38
Add: undistributed profit at beginning of year		37,655,875.32
Other changeover in		25,074,233.45
<b>vi. Profit available for dividend</b>		62,730,108.77
Less: Withdrawal legal surplus		
Withdrawal legal public welfare funds		
Withdrawal staff and workers bonus and welfare fund		
Withdrawal reserve fund		
Withdrawal reserve for business expansion		
Profits capitalized on return of investment		
<b>vii. Profit available for owners distribution</b>		62,730,108.77
Less: Preferred dividend		
Withdrawal other common accumulation fund		
Common Stock dividends payable		
Common Stock dividends change to assets		
<b>viii. Undistributed profits</b>		62,730,108.77

# The Balance Sheet

December 31st, 2008

Name of enterprise: Shenzhen Fuqi Jewelry Co., Ltd.		Monetary Unit: RMB (Yuan)	
Assets	Notes	12/31/2008	12/31/2007
Currency assets			
Cash	4-(1)	5,884,562.88	83,447,752.37
Short-term investments			
Notes receivable			
Accounts receivable	4-(2)	290,368,900.25	130,703,828.87
Advances to suppliers	4-(3)	71,466,960.55	178,339,154.81
Interest receivable			
Dividend receivable			
Other receivables	4-(4)	230,075,170.80	168,576,213.18
Inventories	4-(5)	270,578,587.58	167,916,043.34
Non-current assets due within one year			
Other current assets			
Total current assets		868,374,182.06	728,982,992.57
Non-current assets			
Available-for-sale financial assets			
Held-to-maturity investment			
Long-term account receivable			
Long-term equity investments	4-(6)	500,000.00	500,000.00
Investment real estate			
Fixed assets	4-(7)	8,636,841.31	7,376,967.05
Construction in progress			
Project goods and material			
Liquidation of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	4-(8)	257,675.00	280,155.00
Development expenditure			
Goodwill			
Long-term prepaid expense	4-(9)	4,541,542.82	
Deferred Tax Assets			
Other non-current assets			
Total non-current assets		13,936,059.13	8,157,122.05
Total assets		882,310,241.19	737,140,114.62

# The Balance Sheet (cont.)

December 31st, 2008

Name of enterprise: Shenzhen Fuqi Jewelry Co., Ltd. Monetary Unit: RMB

<b>Liabilities and Owners (Shareholders) Equity</b>	<b>Notes</b>	<b>12/31/2008</b>	<b>12/31/2007</b>
Current Liabilities			
Short-term borrowing	4-(10)	150,000,000.00	125,000,000.00
Transactional Monetary Liabilities			
Notes payable			
Accounts payable	4-(11)	29,579,773.78	295,395.97
Advances from customers			
Employee compensation payable		1,130,478.94	1,664,791.39
Tax payable	4-(12)	-21,467,613.87	-11,816,831.51
Accrued interest payable			
Dividends payable			
Other payable to government	4-(13)	15,193,944.71	16,033,000.00
Non-current liability due within one year			
Other current liabilities			
Total current liabilities		175,177,583.56	131,176,355.85
<b>Non-current liability</b>			
Long-term loans			
Bonds payable			
Long-term payables	4-(14)	266,882,050.00	266,882,050.00
Special payable			
Anticipation liabilities			
Deferred Tax liabilities			
Other non-current liabilities			
Total non-current liabilities		266,882,050.00	266,882,050.00
Total liability		442,059,633.56	398,058,405.85
<b>Owners (shareholders) equity</b>			
Paid-in capital (share capital)	4-(15)	276,351,600.00	276,351,600.00
Capital reserves			
Less : treasury stock			
Surplus reserves			
Undistributed profits		163,899,007.63	62,730,108.77
Total owners (shareholders) equity		440,250,607.63	339,081,708.77
Total liabilities and owners (shareholders) equity		882,310,241.19	737,140,114.62

(Enclosed annotation of accounting statements component)

# Income Statement

## in 2008

Name of enterprise: Shenzhen Fuqi Jewelry Co., LTD.

Monetary Unit: RMB (Yuan)

	<b>Notes</b>	<b>in 2008</b>	<b>in 2007</b>
<b>i. Revenue</b>	4-(16)	2,187,885,496.41	1,013,057,894.20
Other operating revenue		38,907,598.70	27,408,108.85
Less: cost of goods sold	4-(16)	2,079,195,259.68	978,215,969.92
Other business cost			
Tax and associate charge		2,146,259.68	1,495,757.12
Marketing expenses		4,468,937.58	2,963,218.76
Administrative expenses		9,705,517.94	5,511,270.34
Financial expenses	4-(17)	9,522,413.47	7,977,344.47
Add: Changes of fair value of assets			
Investment income			
Including: Share of profit of associates and joint ventures			
<b>ii. Operating income</b>		121,734,661.78	44,302,442.44
Add: Non-operating income		162.43	
Subsidy revenue		2,400,000.00	
Less: Non-operating expense		604,557.00	1,220.74
Including: Losses on disposal of non-current assets			
<b>iii. Total profit</b>		123,530,267.21	44,301,241.70
Less: income tax expense		22,361,368.35	6,645,366.38
<b>iv. Net income</b>		101,168,898.86	37,655,875.32
Add: undistributed profit at beginning of year		62,730,108.77	25,074,233.45
Other changeover			
<b>v. Profit available for dividend</b>		163,899,007.63	62,730,108.77
Less: Withdrawal legal surplus			
Withdrawal legal public welfare funds			
Withdrawal staff and workers bonus and welfare fund			
Withdrawal reserve fund			
Withdrawal reserve for business expansion			
Profits capitalized on return of investment			
<b>vi. Profit available for owners distribution</b>		163,899,007.63	62,730,108.77
Less: Appropriation of preference share's dividend			
Withdrawal other common accumulation fund			
Common Stock dividends payable			
<b>vii. Undistributed profits</b>		163,899,007.63	62,730,108.77