



**GUANGDONG RIEYS GROUP COMPANY LTD.**

**2012 Annual Report**

**February 2013**

## **I. Important Notes, Contents & Explanation**

The Board of Directors, the Supervisory Committee as well as all directors, supervisors and senior management staff of Guangdong Rieys Group Company Ltd. (hereinafter referred to as “the Company”) warrant that this report does not contain any false or misleading statements or omit any material facts and hereby accept, individually and collectively, responsibility for the factuality, accuracy and completeness of the contents carried in this report.

Mr. Chen Hongcheng, company principal, Mr. Chen Jincai, chief of the accounting work, and Mr. Zheng Guangde, chief of the accounting organ (chief of accounting), hereby confirm that the Financial Report enclosed in this report is factual, accurate and complete.

All directors attended in person the board session for reviewing this report.

The Company plans not to distribute cash dividends or bonus shares or turn capital reserve into share capital.

## Contents

I. Important Notes, Contents & Explanation .....	2
II. Company Profile .....	6
III. Accounting & Business Highlights .....	8
IV. Report of the Board of Directors.....	12
V. Significant Events .....	24
VI. Change in Share Capital and Particulars about Shareholders .....	29
VII. Directors, Supervisors, Senior Management Staffs and Employees.....	36
X. Financial Report .....	51
XI. Documents Available for Reference .....	127

## Explanation

Term	Refers to	Contents
Company, the Company	Refers to	Guangdong Rieys Group Company Ltd.
Shenghengchang	Refers to	Puning Shenghengchang Trade Development Co., Ltd.
Risheng	Refers to	Shenzhen Risheng Chuangyuan Asset Management Co., Ltd.
Shangdi Central	Refers to	A real estate project developed by Puning Hengda Real Estate Development Co., Ltd.
Liushaxi Credit Union	Refers to	Liushaxi Credit Union of Puning Rural Credit Cooperative
CSRC	Refers to	China Securities Regulatory Commission
SZSE, the stock exchange	Refers to	Shenzhen Stock Exchange
The Company Law	Refers to	The Company Law of the People's Republic of China
The Securities Law	Refers to	The Securities Law of the People's Republic of China
Yuan	Refers to	RMB
Reporting period	Refers to	1 Jan. 2012-31 Dec. 2012

## **Warning of Significant Risks**

### **I. Risk of uncertain future earnings**

Although the Company has successfully transformed itself to a real estate developer and its “Shangdi Central” project has been completed before the end of 2012, starting to generate earnings for the Company for 2012 and 2013, the Company has now no other real estate projects going on than this one. Therefore, earnings are considered uncertain in the short run.

The Company has been proactively working on more real estate projects. Considering the macro-control over real estate, the Company adopts a prudent attitude towards choosing projects and makes risk control its primary objective. The Company will continue to work on more possible real estate projects and choose some practical ones as soon as possible.

### **II. Risk of business over-concentration**

The original garment processing business basically ended in 2012, and the operating revenues of the Company mainly came from real estate development. If the government greatly adjusts its real estate policy or the domestic economy fluctuates greatly, earnings of the Company may be affected.

It has taken quite a few years for the Company to transform itself from a garment producer to a real estate developer, so it will stick to real estate as its only business in the short run. There is always risk in the market, and just because of that, strategy is even more important. The Company will perfect its development strategy as soon as possible and then create a brand with great value through executing the strategy. In the coming future, based on the development of the main business of real estate, the Company will develop more business lines properly.

### **III. Risk of market competition**

With free access, the real estate market is becoming increasingly fair to every participant in terms of resource and opportunity. No one can survive by only relying on land, capital or scale. Quality, technological contents, industrialized degree and forward-looking have become important symbols for leading companies in this sector. Meanwhile, as consumers become more capable in real estate buying and their preference becomes clearer with the expansion of direct financing channels, the once greatly dispersed real estate sector will become increasingly concentrated and mainstream developers in major markets will start more specific competition led by brands.

As a new real estate developer, the Company is at the beginning in many aspects, with distinct advantages and disadvantages. With increasingly fierce competition, it is essential for the Company to promote talent development and improve brand management.

## II. Company Profile

### I. Basic information of the Company

Stock abbreviation	STLYB	Stock code	200168
Stock exchange listed with	Shenzhen Stock Exchange		
Chinese name of the Company	广东雷伊（集团）股份有限公司		
Abbr. of the Chinese name of the Company	雷伊		
English name of the Company (if any)	GUANGDONG RIEYS GROUP COMPANY LTD		
Abbr. of the English name of the Company (if any)	Rieys		
Legal representative of the Company	Chen Hongcheng		
Registered address	Meixin Industrial Park of Jun Bu Town, Puning, Guangdong		
Postal code for the registered address	515300		
Office address	Room 4003-4008, 40/F International Chamber of Commerce Tower, No. 3 Fuhua Road, Futian District, Shenzhen		
Postal code for the office address	518001		
Internet website of the Company	<a href="http://www.200168.com">http://www.200168.com</a>		
Email address	rieys@200168.com		

### II. For Contact

	Company Secretary	Securities Affairs Representative
Name	Xu Wei	Luo Dandan
Contact address	Room 4003-4008, 40/F International Chamber of Commerce Tower, No. 3 Fuhua Road, Futian District, Shenzhen	Room 4003-4008, 40/F International Chamber of Commerce Tower, No. 3 Fuhua Road, Futian District, Shenzhen
Tel.	0755-82250045	0755-82250045
Fax	0755-82251182	0755-82251182
E-mail	xw@200168.com	xw@200168.com

**III. About information disclosure and where this report is placed**

Newspapers designated by the Company for information disclosure	Securities Times, Ta Kung Pao (HK)
Internet website designated by CSRC for disclosing this report	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Where this report is placed	Room 4003-4008, 40/F International Chamber of Commerce Tower, No. 3 Fuhua Road, Futian District, Shenzhen

**IV. Change of the registered information**

	Registration date	Registration place	Business license No.	Registration code of taxation	Organizational code
Initial registration	17 Nov. 1997	Industrial and Commercial Administration Bureau of Guangdong Province	4400001000088	445281231131833	23113183-3
At the end of the reporting period	9 May 2012	Industrial and Commercial Administration Bureau of Guangdong Province	445200000034656	445281231131833	23113183-3
Change of the Company's main business since listing (if any)	N/A				
Changes of the controlling shareholder (if any)	N/A				

**V. Other information**

The CPAs firm hired by the Company:

Name	Asia (Group) Accounting Firm
Office address	Room 301, No. 2 of Tower B, Wudong Plaza, No. 9 Chegongzhuang Street, West City District, Beijing
Signing accountants	Wang Zilong, Chen Guozhong

Sponsor engaged by the Company to conduct consistent supervision during the reporting period

☐ Applicable ☒ Inapplicable

Financial consultant engaged by the Company to conduct consistent supervision during the reporting period

☐ Applicable ☒ Inapplicable

### III. Accounting & Business Highlights

#### I. Major accounting data and financial indicators

Does the Company adjust retrospectively or restate accounting data of previous years due to change of the accounting policy or correction of any accounting error?

☐ Yes ☒ No

	2012	2011	Increase or decrease of this year over last year (%)	2010
Operating revenues (RMB Yuan)	300,982,925.62	87,302,398.51	244.7591%	149,446,872.60
Net profit attributable to shareholders of the Company (RMB Yuan)	26,067,426.66	21,385,032.47	24.079%	-41,187,013.11
Net profit attributable to shareholders of the Company after extraordinary gains and losses (RMB Yuan)	-5,555,456.60	-18,335,439.87	-72.24%	-42,204,052.02
Net cash flows from operating activities (RMB Yuan)	54,080,052.09	4,065,824.53	1,230.1128%	93,954,939.87
Basic EPS (RMB Yuan/share)	0.08	0.07	14.2857%	-0.13
Diluted EPS (RMB Yuan/share)	0.08	0.07	14.2857%	-0.13
ROE (%)	7.74%	6.29%	1.45%	-12.53%
	As at 31 Dec. 2012	As at 31 Dec. 2011	Increase or decrease of this year-end than last year-end (%)	As at 31 Dec. 2010
Total assets (RMB Yuan)	526,645,545.47	537,999,020.83	-2.1103%	586,050,810.45
Net assets/owners' equity attributable to shareholders of the Company (RMB Yuan)	355,613,504.08	329,546,077.42	7.9101%	308,161,004.95

#### II. Differences between accounting data under domestic and overseas accounting standards

##### 1. Differences of net profit and net assets disclosed in financial reports prepared under international and Chinese accounting standards

Unit: RMB Yuan

	Net profit attributable to shareholders of the Company	Net assets attributable to shareholders of the Company
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	2012	2011	Closing amount	Opening amount
According to Chinese accounting standards	26,067,426.669	21,385,032.47	355,613,504.08	329,546,077.42
Items and amounts adjusted according to international accounting standards				

## 2. Differences of net profit and net assets disclosed in financial reports prepared under overseas and Chinese accounting standards

Unit: RMB Yuan

	Net profit attributable to shareholders of the Company		Net assets attributable to shareholders of the Company	
	2012	2011	Closing amount	Opening amount
According to Chinese accounting standards	26,067,426.66	21,385,032.47	355,613,504.08	329,546,077.42
Items and amounts adjusted according to overseas accounting standards				

## 3. Explain reasons for the differences between accounting data under domestic and overseas accounting standards

N/A

## III. Items and amounts of extraordinary gains and losses

Unit: RMB Yuan

Items	2012	2011	2010	Notes
Gains/losses on the disposal of non-current assets (including the offset part of the asset impairment provisions)	-1,627.80	-2,010,753.22	-2,710,697.90	Gain/loss on fixed asset disposal
Tax rebates, reductions or exemptions due to approval beyond authority or the lack of official approval documents	0.00	0.00	1,826.93	
Government grants recognized in the current year, except for those acquired in the ordinary course of business or granted at certain quotas or amounts according to the country's unified standards	0.00	0.00	538,714.00	
Capital occupation charges on non-financial enterprises that recorded into current gains and losses	0.00	0.00	1,994.38	
Gains due to that the investment costs for	0.00	0.00	0.00	

the Company to obtain subsidiaries, associates and joint ventures are lower than the enjoyable fair value of the identifiable net assets of the investees when making the investments				
Gain/loss on non-monetary asset swap	0.00	0.00	0.00	
Gain/loss on entrusting others with investments or asset management	0.00	0.00	0.00	
Asset impairment provisions due to acts of God such as natural disasters	0.00	0.00	0.00	
Gain/loss on debt restructuring	34,198,389.90	50,863,941.77	0.00	Gain/loss due to repaying overdue loans from Liushaxi Credit Union
Expenses for business reorganization, such as expenses for staffing, reorganization etc.	0.00	0.00	0.00	
Gain/loss on the part over the fair value due to transactions with distinctly unfair prices	0.00	0.00	0.00	
Current gains and losses of subsidies acquired from business combination under the same control as from period-begin to combination date	0.00	0.00	0.00	
Gain/loss on contingent events irrelevant to the Company's normal business	0.00	0.00	0.00	
Gains and losses on change in fair value from tradable financial assets and tradable financial liabilities, as well as investment income from disposal of tradable financial assets and tradable financial liabilities and financial assets available for sales except for effective hedging related with normal businesses of the Company	5,093.38	120,369.70	0.00	Stock investments
Reversal of provision for impairment that made impairment test independently	0.00	3,498,769.67	8,451,443.14	
Gain/loss on loans obtained by entrusting others	0.00	0.00	0.00	
Gain/loss on change of the fair value of investing real estate of which the subsequent measurement is carried out adopting the fair value method	0.00	0.00	0.00	

Effect on current gains/losses when a one-off adjustment is made to current gains/losses according to requirements of taxation, accounting and other relevant laws and regulations	0.00	0.00	0.00	
Custody fee income when entrusted with operation	0.00	0.00	0.00	
Other non-operation income and expenses other than the above	-1,249,537.38	-609,418.92	-1,906,952.42	Fines, delay charges, donations, etc.
Other gain/loss items that meet the definition of extraordinary gain/loss	0.00	0.00	0.00	
Income tax effects	1,429,558.32	12,142,358.82	2,840,792.20	
Minority interests effects (after tax)	-100,123.48	77.84	518,497.02	
Total	31,622,883.26	39,720,472.34	1,017,038.91	--

Explain the reasons if the Company classifies an item as an extraordinary gain/loss according to the definition in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Extraordinary Gains and Losses, or classifies any extraordinary gain/loss item mentioned in the said explanatory announcement as a recurrent gain/loss item

☐ Applicable ☒ Inapplicable

## IV. Report of the Board of Directors

### I. Overview

For the reporting period, the Company achieved operating revenues of RMB 300.98 million, up 244.76% when compared with RMB 87.30 million of last year; operating profit of RMB 5.48 million, down 123.12% when compared with RMB -23.70 million of last year; and net profit attributable to shareholders of the Company (without subsidiaries) of RMB 26.53 million, up 24.02% from RMB 21.39 million of last year. The operating revenues, operating profit and net profit attributable to shareholders of the Company (without subsidiaries) for the reporting period were higher than last year mainly because (1) the real estate project developed by the Company was completed and the sold part carried forward into income, generating earnings for the real estate business; (2) the Company successfully transformed from a combination of garments and real estate to the sole business of real estate; and (3) the Company proactively dealt with overdue bank loans by carrying out debt restructuring with the Shenzhen branch of China Construction Bank in 2011 and doing that again with the Liusha branch of Puning Credit Cooperative this year, which resulted in a total interest reduction and exemption about RMB 34 million.

To sum up, in 2012, according to the set objectives, the Company did a lot to develop and sell the real estate project, transform business, solve overdue bank loans, expanding financing channels, etc., which completely eliminated the delisting risk caused by the possibility of a stock price lower than the par value. Generally speaking, the Company did a good job.

### II. Main business analysis

#### 1. Overview

##### (1) Main operating revenues and costs by industry:

Industry	2012 (RMB Yuan)		2011 (RMB Yuan)	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Real estate	291,440,067.00	221,193,886.91	89,233,351.99	72,333,561.35
Garment	9,528,458.62	5,655,751.36		
Total	300,968,525.62	226,849,638.27	89,233,351.99	72,333,561.35
Internal offset			-3,068,953.48	-3,073,093.57
Total	300,968,525.62	226,849,638.27	86,164,398.51	69,260,467.78

##### (2) Main operating revenues and costs by region:

Region	2012 (RMB Yuan)		2011 (RMB Yuan)	
	Operating revenues	Operating costs	Operating revenues	Operating costs

Garment export	2,815,199.68	2,309,987.71	83,544,688.84	70,004,276.16
Domestic sale of garments	6,713,258.94	3,345,763.65	5,688,663.15	2,329,285.19
Garment processing				
Domestic sale of real estate	291,440,067.00	221,193,886.91		
Subtotal	300,968,525.62	226,849,638.27	89,233,351.99	72,333,561.35
Internal offset			-3,068,953.48	-3,073,093.57
Total	300,968,525.62	226,849,638.27	86,164,398.51	69,260,467.78

### 3. Asset breakdown, changes and reasons for the reporting period

Balance sheet items	31 Dec. 2012		31 Dec. 2011		YoY +/-%
	Amount (RMB Yuan)	Proportion in total assets (%)	Amount (RMB Yuan)	Proportion in total assets (%)	
Accounts receivable	39,654,103.48	75.30%	116,604,376.86	21.67%	-65.99%
Inventories	340,802,511.47	64.71%	289,509,255.07	34.98%	17.71%
Investing real estate	0	0	0	0	0
Long-term equity investment	0	0	0	0	0
Fixed assets	87,845,171.59	16.68%	92,277,519.10	17.15%	-4.8%
Construction in process	0	0	0	0	0
Short-term borrowings	15,099,960.00	2.86%	73,699,960.00	13.70%	-79.51%
Income statement items	2012		2011		
Selling expenses	2,897,050.38		5,746,189.73		-49.58%
Administrative expenses	22,178,714.94		25,147,160.97		-11.80%
Financial expenses	12,480,908.09		22,580,025.63		-44.72%
Income tax	11,990,093.78		3,803,097.45		215.27%

Reasons for the changes:

- (1) Accounts receivable increased due to the real estate project developed by the Company.
- (2) Inventories increased due to the real estate project developed.
- (3) Fixed assets decreased because fixed assets reaching the end of their depreciable lives were disposed and when some intangible assets were transferred, their affixed fixed assets were also transferred with them.
- (4) Short-term borrowings decreased because some bank loans were repaid.

- (5) Selling expenses decreased because the operating revenues decreased.  
 (6) Administrative expenses decreased due to cost control.  
 (7) Financial expenses decreased due to the decrease of loan principals.  
 (8) Income tax increased due to the deferred income tax adjustment caused by time difference of taxation.

#### 4. Cash flow breakdown, changes and reasons

	2012 (RMB Yuan)	2011 (RMB Yuan)	YoY +/- (%)
Net cash flows from operating activities	54,080,052.09	4,065,824.53	123.01%
Net cash flows from investing activities	-524,370.090	21,455,996.58	-102.44%
Net cash flows from financing activities	-33,600,000.00	-54,024,160.33	-37.8%
Effect of exchange rate changes on cash	-938.03	7,690.79	-112.19

Reasons for the changes:

- 1) Net cash flows from operating activities changed because the Company put in more effort for collecting payments and was paid for selling commercial houses.
- 2) Net cash flows from investing activities changed because equities of the subsidiary—Shenzhen Missk Fashion Co., Ltd.—were sold in 2011.
- 3) Net cash flows from financing activities changed due to repayment of loans.
- 4) Effect of exchange rate changes on cash changed due to the change of Renminbi exchange rate.

Review the reporting period progress of development strategies and business plans disclosed in previous periods:

In the 2011 Annual Report, the Company clearly stated that it was to focus on the following tasks:

- (1) The Company will go all out for the Shangdi Central project and create a good brand image. The Shangdi Central project was completed in the reporting period, starting to generate earnings for the Company in 2012 and 2013.
- (2) It is a primary task in 2012 to ensure sales. The whole staff of the Company will keep that in mind and try to accelerate the inflow of funds.

Under the real estate macro-control, the sale of the Shangdi Central project achieved some success and the set goal of sale was fulfilled.

- (3) It will further improve its management over real estate development costs.

Learning from the advanced management expertise and going through internal processes, the Company formulated an effective cost control plan based on its actual situation, further improving cost control.

- (4) It will proactively build up reserves for real estate projects.

Considering the macro-control over real estate, the Company adopts a prudent attitude towards choosing projects and makes risk control its primary objective. The Company will continue to work on more possible real estate projects and choose some practical ones as soon as possible.

- (5) It will continue to work towards the business adjustment target, i.e. to cut down the garment business and gradually withdraw from the garment industry.

The Company stopped garment production in the reporting period. It was determined to become a professional real estate developer.

(6) It will enhance talent training and reserve.

During the reporting period, through various channels and methods, the Company hired, trained and reserved various talents, further improving its team.

To sum up, the Company effectively executed in 2012 the work plan worked out in 2011.

State the reasons why the Company's actual business performance is 20% lower or higher than the earning forecast for the reporting period which has been publicly disclosed earlier:

☐ Applicable ☒ Inapplicable

## 2. Revenues

Explanation:

The operating revenues of the Company for the reporting period increased over last year because (1) the real estate project developed by the Company was completed and the generated income carried forward; and (2) the Company gradually gave up garment processing so as to implement the transformation strategy.

Is the Company's goods selling revenue higher than the service revenue?

☒ Yes ☐ No

Industry	Items	2012	2011	+/- (%)
Real estate	Sales volume	370	0	0%
	Output	1,023	0	0%
	Stock	653	0	0%
Garment	Sales volume	301,938	12,236,471	-97.53%
	Output	153,574	12,239,450	-98.74%
	Stock	0	148,364	0%

Reasons for any over-30% YoY movement of the data above:

☒ Applicable ☐ Inapplicable

The sales volume of garments decreased over last year because the Company cut down the garment business.

The output of garments decreased over last year because the Company cut down the garment business.

Major orders held:

☐ Applicable ☒ Inapplicable

Significant change or adjustment of the Company's products or services during the reporting period:

☐ Applicable ☒ Inapplicable

Major customers:

Total sales to the top 5 customers (RMB Yuan)	12,392,864.80
Ratio of the total sales to the top 5 customers to the annual total sales (%)	4.13%

Information about the top 5 customers:

☒ Applicable ☐ Inapplicable

Serial No.	Name of customer	Sales (RMB Yuan)	Proportion in total annual sales (%)
1	Huang Donglai	6,464,711.12	2.15%
2	Chen Miaoxian	1,733,679.00	0.58%
3	KEENZONE LIMITED	1,558,329.73	0.52%
4	Wu Weihao	1,379,275.00	0.46%
5	HONOURLINK	1,256,869.95	0.42%
Total	—	12,392,864.80	4.13%

### 3. Costs

Classified by industry:

Classified by product:

N/A

Major suppliers:

Total purchases from the top 5 suppliers (RMB Yuan)	0.00
Ratio of the total purchases from the top 5 suppliers to the annual total purchases (%)	0%

Information about the top 5 suppliers:

☐ Applicable ☒ Inapplicable

### 4. Expense

The change of the selling, administrative and financial expense, income tax and other expense data of the reporting period stayed below 30%.

### 5. R&D expenses

No such expenses for now.

### 6. Cash flows

Unit: RMB Yuan

Item	2012	2011	YoY +/- (%)
Subtotal of cash inflows from operating activities	435,156,710.61	320,412,036.86	35.8116%
Subtotal of cash outflows from operating activities	381,076,658.52	316,346,212.33	20.4619%
Net cash flows from operating activities	54,080,052.09	4,065,824.53	1,230.1128%



Subtotal of cash inflows from investing activities	17,673.38	22,862,272.68	-99.9227%
Subtotal of cash outflows from investing activities	542,044.28	1,406,276.10	-61.4553%
Net cash flows from investing activities	-524,370.90	21,455,996.58	-102.4439%
Subtotal of cash inflows from financing activities	25,000,000.00	57,928,333.00	-56.8432%
Subtotal of cash outflows from financing activities	58,600,000.00	111,952,493.33	-47.6564%
Net cash flows from financing activities	-33,600,000.00	-54,024,160.33	-37.8%
Net increase in cash and cash equivalents	19,954,743.16	-28,494,648.43	-170.02%

Reasons for any over-30% YoY movement of the data above:

☒ Applicable ☐ Inapplicable

1. Cash inflows from operating activities increased because part of the real estate project developed by the Company was sold and the corresponding earnings flowed in.
2. Net cash flows from operating activities increased because part of the real estate project developed by the Company was sold and the corresponding earnings flowed in.
3. Cash inflows from investing activities decreased because the Company only gained from its stock investments and conducted no other financing activities.
4. Cash outflows from investing activities decreased because the Company only had stock investments and no other financing activities.
5. Net cash flows from investing activities decreased because the Company only had stock investments and no other financing activities.
6. Cash inflows from financing activities decreased due to the decrease of bank loans.
7. Cash outflows from financing activities decreased due to the decrease of bank loans.
8. Net cash flows from financing activities decreased due to the decrease of bank loans.
9. Net increase in cash and cash equivalents increased because part of the real estate project developed by the Company was sold and the corresponding earnings flowed in.

Reasons for a big difference between the operating cash flows and the net profit:

☐ Applicable ☒ Inapplicable

### III. Breakdown of main business

Unit: RMB Yuan

	Operating revenues	Operating costs	Gross profit rate (%)	Increase/decrease of operating revenues over last	Increase/decrease of operating costs over last year (%)	Increase/decrease of gross profit rate over last year
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				year (%)		(%)
Classified by industry:						
Real estate	291,440,067.00	221,193,886.91	24.1031%	0%	0%	0%
Garment	9,528,458.62	5,655,751.36	40.6436%	-88.9415%	-91.8341%	107.1725%
Internal offset						
Classified by product:						
Classified by region:						
Garment export	2,815,199.68	2,309,987.71	17.9459%	-96.6303%	-96.7002%	-10.7264%
Domestic sale of garments	6,713,258.94	3,345,763.65	50.1619%	18.0112%	43.6391%	15.0575%
Domestic sale of real estate	291,440,067.00	221,193,886.91	24.1031%	0%	0%	0%

Where the Company's accounting standard of the main business data above changed during the reporting period, give the main business data of the latest year adjusted according to the accounting standard at the end of the reporting period:

☐ Applicable ☒ Inapplicable

## IV. Asset and liability analysis

### 1. Major changes of asset items

Unit: RMB Yuan

	As at 31 Dec. 2012		As at 31 Dec. 2011		Proportion change (%)	Explain any major change
	Amount	Proportion in total assets (%)	Amount	Proportion in total assets (%)		
Monetary funds	21,555,492.79	4.093%	1,600,749.63	0.2975%	3.7955%	
Accounts receivable	29,542,060.33	5.6095%	13,966,563.54	2.596%	3.0135%	
Inventories	340,802,511.47	64.7119%	289,509,255.07	53.8122%	10.8997%	
Fixed assets	87,845,171.59	16.6801%	92,277,519.10	17.152%	-0.4719%	

### 2. Major changes of liability items

Unit: RMB Yuan

	2012		2011		Proportion change (%)	Explain any major change
	Amount	Proportion in total assets (%)	Amount	Proportion in total assets (%)		

Short-term borrowings	15,099,960.00	2.8672%	73,699,960.00	13.6989%	-10.8317%	
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## V. Core competitiveness analysis

The core competitiveness of the Company remained unchanged during the reporting period.

## VI. Investment analysis

### 1. Analysis to main subsidiaries and stock-participating companies

Particulars about main subsidiaries and stock-participating companies:

Company name	Company variety	Industry	Main products/services	Registered capital	Total assets (RMB Yuan)	Net assets (RMB Yuan)	Operating revenues (RMB Yuan)	Operating profit (RMB Yuan)	Net profit (RMB Yuan)
Shenzhen Rieys Industrial Co., Ltd.	Subsidiary	Trade	Investment and import & export	50,000,000	44,906,636.07	43,955,845.57	0.00	-1,115,232.70	-1,001,234.79
Puning Tianhe Textile Manufactory Co., Ltd.	Subsidiary	Manufacture	Production and sale of garments, knitted dyed cloth, etc.	65,100,000 (HKD)	368,613,090.59	236,667,692.32	9,528,458.62	-9,616,440.39	-1,133,364.52
Tianrui (HK) Trading Co., Ltd.	Subsidiary	Trade	Trade	1(USD)	63,971,476.86	-26,905,055.82	0.00	-836,375.99	-836,422.71
Puning Hengda Real Estate Development Co., Ltd.	Subsidiary	Real estate	Real estate development (operate with the valid qualification certificate)	26,000,000	380,273,189.97	167,817,707.91	291,440,067.00	37,692,023.89	28,152,598.16

Explain particulars about main subsidiaries and stock-participating companies:

N/A

Subsidiaries acquired or disposed during the reporting period:

☐ Applicable ☒ Inapplicable

## **VII. Entities controlled by the Company for special purposes**

N/A

## **VIII. Outlook of the Company's future development**

The recent years have seen increasingly stricter macro-control over real estate confining to some degree development, sale, funds, land reserve, etc. However, due to many factors such as the on-going urbanization, the rigid demand for better housing, inflow of foreign funds and the money supply, the Company still holds an optimistic attitude towards the future of the real estate industry.

Primary goals of the Company in 2013:

1. Continue to sell the Shangdi Central project to ensure earnings for 2013.
2. Find subsequent development projects as soon as possible and prepare well and reserve some land properly.
3. Properly handle the rest of the overdue loans, gradually recover its financing capability in the banking system and adopt various financing channels and methods to further ensure its operation.
4. Further improve the internal control mechanism and prepare well for the internal control audit report.
5. Continue to work on talent and brand development.
6. Considering that many companies with A-shares and/or B-shares have started to deal with the B-share issue, indicating the B-share reform as the order of the day, the Company will continue to pay attention to and study the relevant developments and work out a practical solution for B-shares.

## **IX. Explanation of the Board of Directors concerning the “non-standard audit report” issued by the CPAs firm for the reporting period**

N/A

## **X. Explain change of the accounting policy, accounting estimate and measurement methods as compared with the financial reporting of last year**

The accounting policy, accounting estimate and measurement methods remained the same as compared with the financial reporting of last year.

## **XI. Explain retrospective restatement due to correction of significant accounting errors in the reporting period**

N/A

## **XII. Explain change of the consolidation scope as compared with the financial reporting of last year**

The subsidiary Shenzhen Missk Fashion Co., Ltd. sold on 28 Apr. 2011 was deconsolidated for 2012.

### XIII. Profit/dividend distribution

Formulation, execution or adjustment of the Company's profit distribution policy, especially the cash dividend policy, during the reporting period:

1. Pursuant to the spirit of the Notice on Further Implementing Matters Related to Cash Dividends of Listed Companies (ZJF [2012] No. 37) issued by CSRC, as well as the Notice on Further Implementing Regulations Related to Dividends of Listed Companies (GDZJ [2012] No. 91) issued by Guangdong CSRC, the Company amended the article about the profit distribution policy in its Articles of Association, further specified the cash dividend policy and worked out the Plan of Returns for Shareholders for the Coming Three Years (2012-2014) and the Management Rules for Dividends. The said amendments to the Company's Articles of Association and the relevant rules and plans were reviewed and approved first by the 3<sup>rd</sup> Session of the 5<sup>th</sup> Board of Directors for 2012 and then by the 1<sup>st</sup> Special Shareholders' General Meeting for 2012.
2. The Company amended the article about the profit distribution policy in its Articles of Association and further specified the cash dividend policy: (1) specifying for the Board of Directors and the Shareholders' General Meeting the decision-making procedure and mechanism concerning profit distribution, especially cash dividend distribution; (2) stating the specific conditions, decision-making procedure and mechanism to adjust the established profit distribution policy, especially the cash dividend policy; (3) specifying measures to sufficiently get opinions from independent directors and minority shareholders; and (4) further specifying the specific contents, standard/ratio, form, interval and specific conditions of the Company's profit distribution, especially cash dividend distribution. The existing cash dividend policy of the Company consistently adheres to the principle of attaching great importance to rational returns for investors and at the same time considering the sustainable development of the Company. Taking into account the Company's development status, operating status, earnings and capital needs for project investment, the distribution policy is consistent, stable and rational. Meanwhile, the Company gives rational returns to investors through cash dividends and/or turning capital reserve into share capital, providing an opportunity for investors to share the economic growth with the Company and enabling investors to form stable return expectations.
3. In terms of cash dividend distribution, the Company has been, since its listing, always in compliance with the regulation that "under the condition of a positive retained profit, the profit cumulatively distributed in cash in the recent three years shall not be less than 30% of the average annual distributable profit achieved in the recent three years".

Reasons:

The Company did not distribute profit in the reporting period.

The Company's preplans or plans for profit distribution and turning capital reserve into share capital for the recent three years (including the reporting year):

The Company did not distribute profit for the recent three years.

Cash dividend distribution of the Company over the recent three years:

Unit: RMB Yuan

Year	Amount of cash dividend (tax included)	Net profit attributable to shareholders of listed companies under the consolidated statement in the year	Ratio in net profit attributable to shareholders of listed companies under the consolidated statement (%)
2012	0.00	26,067,426.66	0%
2011	0.00	21,385,032.47	0%
2010	0.00	-41,187,013.11	0%

The Company (including its subsidiaries) made profit in the reporting period and the retained profit of the Company (without

subsidiaries) was positive, but it did not put forward a preplan for cash dividend distribution:

☐ Applicable ☒ Inapplicable

#### XIV. Particulars about researches, visits and interviews received in this reporting period

Time of reception	Place of reception	Way of reception	Visitor type	Visitor	Main discussion and materials provided by the Company
4 Jan. 2012	Office of the Company	By phone	Individual	Investor	Debt restructuring
5 Jan. 2012	Office of the Company	By phone	Individual	Investor	Debt restructuring
15 Mar. 2012	Office of the Company	By phone	Individual	Investor	Could the Company remove “ST”?
13 Apr. 2012	Office of the Company	By phone	Individual	Investor	Time for disclosure of the annual report
18 May 2012	Office of the Company	By phone	Individual	Investor	Could the Company remove “ST”? How’s the operation?
6 Jul. 2012	Office of the Company	By phone	Individual	Investor	Sale of real estate
24 Jul. 2012	Office of the Company	By phone	Individual	Investor	Was there the risk of delisting?
26 Jul. 2012	Office of the Company	By phone	Individual	Investor	B-share market
31 Jul. 2012	Office of the Company	By phone	Individual	Investor	Risk of delisting
9 Aug. 2012	Office of the Company	By phone	Individual	Investor	B-share solution
21 Aug. 2012	Office of the Company	By phone	Individual	Investor	Progress of significant events
4 Sept. 2012	Office of the Company	By phone	Individual	Investor	Progress of significant events
25 Sept. 2012	Office of the Company	By phone	Individual	Investor	Time for resumption of share trading? How’s the operation?
18 Oct. 2012	Office of the Company	By phone	Individual	Investor	Time for resumption of share trading? How’s the operation?
19 Oct. 2012	Office of the	By phone	Individual	Investor	Progress of significant

	Company				events and operation of the Company
22 Oct. 2012	Office of the Company	By phone	Individual	Investor	Time for resumption of share trading? B-share solution?
28 Nov. 2012	Office of the Company	By phone	Individual	Investor	Was a B-share reform possible? Time for resumption of share trading?
10 Dec. 2012	Office of the Company	By phone	Individual	Investor	Time for resumption of share trading?
18 Dec. 2012	Office of the Company	By phone	Individual	Investor	Time for resumption of share trading, progress of significant events
27 Dec. 2012	Office of the Company	By phone	Individual	Investor	The Company's operation, time for share trading resumption

## **V. Significant Events**

### **I. Significant lawsuit or arbitration**

☐ Applicable ☒ Inapplicable

There was no significant lawsuit or arbitration during the reporting period.

Media's questions

☐ Applicable ☒ Inapplicable

There was no media's question during the reporting period.

### **II. Bankruptcy or reorganization events**

Inapplicable

### **III. Implementation situation and influence of equity incentive plan of the Company**

Inapplicable

### **IV. Particulars about significant contracts and their fulfillment**

#### **1. Particulars about trusteeship, contract and lease**

##### **(1) Trusteeship**

Explanation on the trusteeship

Inapplicable

The trusteeship whose profits reaching more than 10% of the total profits of the Company in the reporting period

☐ Applicable ☒ Inapplicable

##### **(2) Contract**

Explanation on the contract

Inapplicable

The contract whose profits reaching more than 10% of the total profits of the Company in the reporting period

☐ Applicable ☒ Inapplicable

##### **(3) Lease**

Explanation on the lease

Inapplicable

The lease whose profits reaching more than 10% of the total profits of the Company in the reporting period

☐ Applicable ☒ Inapplicable

#### **2. Guarantees provided by the Company**

Unit: RMB Ten Thousand



Guarantees provided by the Company for external parties (excluding those for subsidiaries)								
Guaranteed party	Disclosure date of relevant announcement on the guarantee amount	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not
Puning Huafengqiang Trade Co., Ltd.	12 Oct. 2012	3,000		2,500	Mortgage	Five years from the independent contract (loan contract) coming into effect	No	No
Total external guarantee line approved during the reporting period (A1)		3,000		Total actual occurred amount of external guarantee during the reporting period (A2)		2,500		
Total external guarantee line that has been approved at the end of the reporting period (A3)		3,000		Total actual external guarantee balance at the end of the reporting period (A4)		2,500		
Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclosure date of relevant announcement on the guarantee amount	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not
Total guarantee line approved for the subsidiaries during the reporting period (B1)		0		Total actual occurred amount of guarantee for the subsidiaries during the reporting period (B2)		0		
Total guarantee line that has been approved for the subsidiaries at the end of the reporting period (B3)		0		Total actual guarantee balance for the subsidiaries at the end of the reporting period (B4)		0		
Total guarantee amount provided by the Company (total of the above-mentioned two kinds of guarantees)								
Total guarantee line approved during the reporting period		3,000		Total actual occurred amount of guarantee during the		2,500		

(A1+B1)		reporting period (A2+B2)	
Total guarantee line that has been approved at the end of the reporting period (A3+B3)	3,000	Total actual guarantee balance at the end of the reporting period (A4+B4)	2,500
Proportion of total guarantee amount (A4+B4) to the net assets of the Company		7.0301%	
Of which:			
Amount of guarantee for shareholders, actual controller and related parties (C)		0	
Amount of debt guarantee provided for the guaranteed party whose asset-liability ratio is not less than 70% directly or indirectly (D)		0	
Part of the amount of the total guarantee over 50% of net assets (E)		0	
Total amount of the above three guarantees (C+D+E)		0	
Explanation on possible bearing joint responsibility of liquidation due to immature guarantee		Naught	
Explanation on provision of guarantees for external parties in violation of the prescribed procedure		Naught	

Explanation on particulars about the guarantees by complex ways.

Inapplicable

### (1) Illegal external guarantee

Unit: RMB Ten Thousand

Guaranteed party	Relationship with the Company	Illegal guarantee amount (RMB 0'000)	Proportion in the net assets at period-end (%)	Type of guarantee	Guarantee period	Illegal guarantee amount up to the disclosure of annual report (RMB 0'000)	Proportion in the net assets at period-end (%)	Predicted releasing way	Predicted released amount (RMB 0'000)	Predicted releasing date (month)
Total		0	0%	--	--	0	0%	--	--	--

### 3. Other significant contract

Name of	Name of	Book	Appraisal	Name of	Base date	Pricing	Trading	Related-pa	Relationsh	Execution
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company entering into the contract	the counter company entering into the contract	value of the assets involved in the contract (RMB 0'000) (if any)	value of the assets involved in the contract (RMB 0'000) (if any)	appraisal agency (if any)	for appraisal (if any)	principle	price (RMB 0'000)	erty transaction or not	ip	situation up to the period-end
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## V. Performance of commitments

**1. Commitments made by the Company or shareholders holding over 5% of the Company's shares in the reporting period, or such commitments carried down into the reporting period**

## VI. Particulars about engagement and disengagement of CPAs firm

CPAs firm engaged at present

Name of domestic CPAs firm	ASIA (Group) Accounting Firm
Remuneration of domestic CPAs firm (RMB 0'000)	55
Consecutive years of the audit services provided by domestic CPAs firm	Four years
Name of the certified public accountants from the domestic CPAs firm	Wang Zilong and Chen Guozhong
Name of overseas CPAs firm (if any)	Naught
Remuneration of overseas CPAs firm (RMB 0'000) (if any)	0
Consecutive years of the audit services provided by overseas CPAs firm (if any)	Naught
Name of the certified public accountants from the overseas CPAs firm (if any)	Naught

Reengage the CPAs firm at current period or not?

☐ Yes ☒ No

Particulars on engaging the audit firm for the internal control, financial adviser or sponsor

☐ Applicable ☒ Inapplicable

## VII. Explanation of the Supervisory Committee and Independent Directors (if applicable) on the "Non-standard Audit Report" issued by the CPAs firm during the reporting period

Inapplicable

## VIII. Punishment and rectification

Name	Type	Reason	Punishment type for the	Conclusion (if any)	Disclosure date	Disclosure index
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			investigation			
Guangdong Rieys Group Company Ltd	Other	Rectification on the problems found in the on-site investigation	Other	Rectified	23 Oct. 2012	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>

Explanation on the rectification:

During 20 Aug. 2012 and 24 Aug. 2012, according to the Method of On-site Investigation for Listed Companies from CSRC, the Guangdong Bureau of CSRC (hereinafter referred to as “Guangdong Bureau”) sent an investigation team to conduct the on-site investigation towards the corporate governance and information disclosure of the annual report, etc. since the year of 2011, and the Company received the Notification on Results of the On-site Investigation (hereinafter referred to as “Notification”) from Guangdong Bureau on 24 Sept. 2012. Then the Company paid special attention to the problems found in the on-site investigation by Guangdong Bureau, with an attitude of serious & conscientious, standard & efficient and timely rectification, it integrated its actual situation and convened a board session, at which deeply analyzed the problems and seriously found the reason and flaw, made feasible rectification measures, clearly defined the person in charge of the rectification and relevant rectification period, and finally formed the Rectification Plan on Problems Found from the On-site Investigation in 2012 for Guangdong Rieys Group Company Ltd. (for details please refer to the announcement No. 2012-039 disclosed on Securities Times and Hong Kong Ta Kung Pao dated 23 Oct. 2012) .

Particulars about the directors, supervisors, senior management staffs and shareholders holding over 5% shares of the Company involving in illegal trading the Company’s stocks and the Company has disclose to recover the illegal income

☐ Applicable ☒ Inapplicable

#### **IX. Particulars about trading suspension and termination faced after the disclosure of annual report**

Inapplicable

#### **X. Explanation on other significant events**

Inapplicable

#### **XI. Significant events of the subsidiaries of the Company**

Inapplicable

#### **XII. Particulars about issuing corporate bonds by the Company**

Inapplicable

## VI. Change in Share Capital and Particulars about Shareholders

### I. Particulars about the changes in share capital

	Before the change		Increase/decrease (+, -)					After the change	
	Amount	Proportion (%)	Issuance of new shares	Bonus shares	Capitalization of public reserve fund	Others	Subtotal	Amount	Proportion (%)
I. Shares subject to trading moratorium	164,025,000	51.48%	0	0	0	0	0	164,025,000	51.48%
1. Shares held by the State	0	0%	0	0	0	0	0	0	0%
2. Share held by state-owned corporation	0	0%	0	0	0	0	0	0	0%
3. Shares held by other domestic corporation	164,025,000	51.48%	0	0	0	0	0	164,025,000	51.48%
Among which: shares held by domestic corporation	164,025,000	51.48%	0	0	0	0	0	164,025,000	51.48%
Shares held by domestic natural persons	0	0%	0	0	0	0	0	0	0%
4. Shares held by foreign investors	0	0%	0	0	0	0	0	0	0%
Among which: Shares held by foreign corporation	0	0%	0	0	0	0	0	0	0%
Shares held by foreign natural persons	0	0%	0	0	0	0	0	0	0%
5. Share held by senior management staff	0	0%	0	0	0	0	0	0	0%
II. Shares not subject to trading moratorium	154,575,000	48.52%	0	0	0	0	0	154,575,000	48.52%
1. Renminbi ordinary shares	0	0%	0	0	0	0	0	0	0%
2. Domestically listed foreign shares	154,575,000	48.52%	0	0	0	0	0	154,575,000	48.52%
3. Overseas listed foreign shares	0	0%	0	0	0	0	0	0	0%

4. Others	0	0%	0	0	0	0	0	0	0%
III. Total shares	318,600,000	100%	0	0	0	0	0	318,600,000	100%

Reason for the changes in share capital

Inapplicable

Approval for changes in share capital

☐ Applicable ☒ Inapplicable

Transfer for changes in share capital

Inapplicable

Effects of changes in share capital on the basic EPS, diluted EPS, net assets per share attributable to common shareholders of the Company and other financial indexes over the last year and last period

☐ Applicable ☒ Inapplicable

Other contents that the Company considers necessary or required by the securities regulatory authorities to disclose

Inapplicable

## II. Issuance and listing of securities

## III. Shareholders and actual controller

### 1. Total number of shareholders and their shareholding

Unit: share

Total number of shareholders at the reporting period		14,241	Total number of shareholders on the fifth trading day before the disclosure date of the annual report				13,491	
Particulars about shares held by shareholders with a shareholding percentage over 5%								
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total shares held at the period-end	Increase /decrease during the reporting period	Number of non-tradable shares held	Number of tradable shares held	Pledged or frozen shares	
							Status of shares	Number of shares
Puning Shenghengchang Trade Development Co., Ltd	Domestic non-state-owned corporation	36.99%	117,855,000	0	117,855,000	0		0
Shenzhen Risheng Chuangyuan Asset Management Co.,	Domestic non-state-owned corporation	10.68%	34,020,000	0	34,020,000	0		0

Ltd.								
Shantou Lianhua Industrial Co., Ltd.	Domestic non-state-owned corporation	3.81%	12,150,000	0	12,150,000	0		0
Su Youhe	Domestic natural person	4.62%	7,146,255	+181,9892	0	7,146,255		0
Shanghai Wanguo Securities (HK) Limited	Overseas corporation	1.36%	2,094,769	+1,580,769	0	2,094,769		0
Zheng Suxian	Domestic natural person	1.1%	1,706,500	-14,618	0	1,706,500		0
Luo Donghui	Overseas natural person	0.93%	1,441,200	0	0	1,441,200		0
Xu Hai	Domestic natural person	0.87%	1,350,400	-142,801	0	1,350,400		0
Ngai Kwok Pan	Overseas natural person	0.74%	1,145,816	0	0	1,145,816		0
Cai Hanchuan	Domestic natural person	0.71%	1,097,737	+184,437	0	1,097,737		0
Strategic investor or general corporation becoming a top ten shareholder due to placing of new shares (if any)		Inapplicable。						
Explanation on associated relationship or/and persons acting in concert among the above-mentioned shareholders:		There existed related relationship among Puning Shenghengchang Trade Development Co., Ltd. and Shenzhen Risheng Chuangyuan Asset Management Co., Ltd., which belonged to action-in-concert promulgated by Measures for the Administration of Disclosure of Information on the Change of Shareholdings in Listed Companies. The Company did not know whether there existed related relationship among other shareholders.						
Particulars about shares held by the top ten shareholders holding shares not subject to trading moratorium								
Name of shareholder		Number of tradable shares held at the year-end (Note 4)				Type of shares		
						Type	Number	
Su Youhe		7,146,255				Domestically listed foreign shares	7,146,255	
Shanghai Wanguo Securities (HK) Limited		2,094,769				Domestically listed foreign shares	2,094,769	
Zheng Suxian		1,706,500				Domestically	1,706,500	

		listed foreign shares	
LUO DONG HUI	1,441,200	Domestically listed foreign shares	1,441,200
Xu Hai	1,350,400	Domestically listed foreign shares	1,350,400
Wei Guobin (NGAI KWOK PAN)	1,145,816	Domestically listed foreign shares	1,145,816
Cai Hanchuan	1,097,737	Domestically listed foreign shares	1,097,737
Chen Jiansheng	1,017,797	Domestically listed foreign shares	1,017,797
Ke Zhongfeng	828,800	Domestically listed foreign shares	828,800
Han Liang	741,458	Domestically listed foreign shares	741,458
Explanation on associated relationship or/and persons acting in concert among the top ten tradable shareholders and between the top ten tradable shareholders and the top ten shareholders	Unknown		
Explanation on shareholders participating in the margin trading business (if any)	Naught		

## 2. Particulars about the controlling shareholder

### Corporation

Name of controlling shareholder	Legal representative / company principal	Date of establishment	Organization code	Registered capital	Business scope
Puning Shenghengchang	Ma Chanying	14 May	74122232-1	98,000,000	Sales of hardware,



Trade Development Co., Ltd		1997			electric, building materials, electronic products and auto parts; import and export goods, technology import and export (except for projects prohibited by laws and administrative regulations; projects prohibited by laws and administrative regulations can be operated with permission)
Shares held by the controlling shareholder in other listed companies by holding or shareholding during the reporting period	Inapplicable				

Change of the controlling shareholder during the reporting period

☐ Applicable ☒ Inapplicable

### 3. Particulars about the actual controller

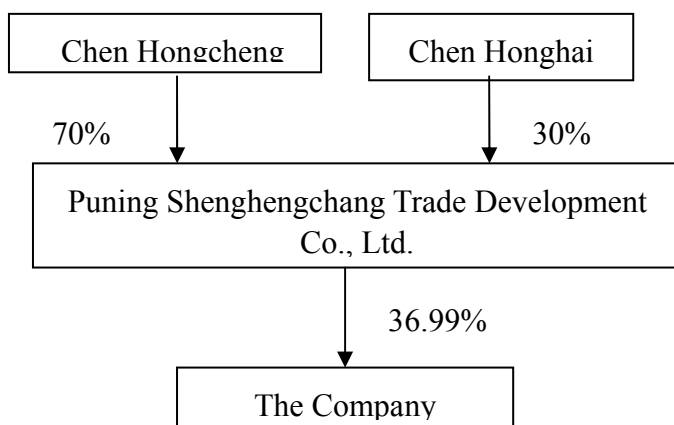
Natural person

Name of the actual controller	Nationality	Whether gain the right of residence in other countries or regions or not
Chen Hongcheng	China	No
Occupation and position over the five years	At present he is Chairman of the Board and legal representative of the Company, the standing commissar of political consultative conference of Puning, Guangdong, the deputy of the National People's Congress of Jieyang City and Guangdong Province, Vice Chairman of Costume Association of Guangdong Province and Vice Chairman of Costume Association of Shenzhen City, Director of Puning Shenghengchang Trade Development Co., Ltd. (the controlling shareholder) over the long term. He has ever been the deputy of the People's Congress of Jieyang City and Guangdong Province.	
Particulars on his controlling listed companies over the past ten years	Naught	

Change of the actual controller during the reporting period

☐ Applicable ☒ Inapplicable

The ownership and controlling relationship between the actual controller of the Company and the Company is detailed as follows:



The actual controller controls the Company via trust or other ways of asset management

☐ Applicable ☒ Inapplicable

#### 4. Particulars about other corporate shareholders' share holding over 10% of shares

Name of corporate shareholder	Legal representative / company principal	Date of establishment	Organization code	Registered capital	Business scope or management activities
Shenzhen Risheng Chuangyuan Asset Management Co., Ltd.	Ma Chanying	8 Sept. 2000	72470265-7	25000000	To invest and initiate industries (the detailed project till further declared); domestic commerce, material supply and marketing industry (excluding monopoly commodities); investment consultation and information consultation (excluding projects limited by laws and administration regulations; certification shall be gained for the above mentioned limited projects)

#### **IV. Particulars on shareholding increase scheme during the reporting period proposed or implemented by the shareholders and act-in-concert persons**

##### Explanation on other situations

On 10 Jan. 2013, the Company's actual controller Mr. Chen Hongcheng made the commitments as follows: he and his act-in-concert person, with the confidence in the Company's development prospect, planned to increase the shareholding in the Company by the controlled account within 12 months since the first shareholding increase day in the future, with an increasing proportion not over 2% of the total share capital of the Company. The time of commitment on shareholding increase was near the window period, and the stock price continued to rise to daily limit, so the shareholding increase commitment has not been implemented. The Company's actual controller will fulfill his commitment at a proper time in the future. (for details please refer to the announcement No. 2013-002 disclosed on Securities Times and Hong Kong Ta Kung Pao dated 14 Jan. 2012) .

## VII. Directors, Supervisors, Senior Management Staffs and Employees

### I. Changes in shareholding of directors, supervisors and senior management staffs

Name	Office title	Tenure status	Sex	Age	Start date	Ending date	Shares held at the year-begin (share)	Amount of shares increased at the reporting period (share)	Amount of shares decreased at the reporting period (share)	Amount of shares held at the period-end (share)
Chen Hongcheng	Chairman of the Board	Current	Male	55	28 Dec. 2012	28 Dec. 2015	0	0	0	0
Ding Lihong	Vice Chairman of the Board	Current	Male	42	28 Dec. 2012	28 Dec. 2015	0	0	0	0
Chen Honghai	Director	Current	Male	58	28 Dec. 2012	28 Dec. 2015	0	0	0	0
Chen Xuewen	Director	Current	Female	33	28 Dec. 2012	28 Dec. 2015	0	0	0	0
Liu Yong	Independent Director	Current	Male	36	28 Dec. 2012	3 June 2014	0	0	0	0
Su Jianlong	Independent Director	Current	Male	49	28 Dec. 2012	3 June 2014	0	0	0	0
Cai Shaohe	Independent Director	Current	Male	52	28 Dec. 2012	28 Dec. 2015	0	0	0	0
Yan Mingfei	Chairman of the Supervisory Committee	Current	Male	45	28 Dec. 2012	28 Dec. 2015	0	0	0	0
Huang Yanfang	Supervisor	Current	Female	47	28 Dec. 2012	28 Dec. 2015	0	0	0	0
Li Ning	Staff Representative Supervisor	Current	Male	44	28 Dec. 2012	28 Dec. 2015	0	0	0	0

Zhou Yuhua	CFO	Former	Male	45	30 Sept. 2011	28 Dec. 2012	0	0	0	0
Chen Jincai	CFO	Current	Male	61	28 Dec. 2012	28 Dec. 2015	0	0	0	0
Xu Wei	Secretary of the Board	Current	Male	36	28 Dec. 2012	28 Dec. 2015	0	0	0	0

## II. Post-holding situation

Main working experience of current directors, supervisors and senior management staffs over the past five years:

Chairman of the Board and President Mr. Chen Hongcheng, was born in 1958; bachelor degree. At present he is the standing commissar of political consultative conference of Puning, Guangdong, the deputy of the National People's Congress of Jieyang City and Guangdong Province, Vice Chairman of Costume Association of Guangdong Province and Vice Chairman of Costume Association of Shenzhen City, Director of Puning Shenghengchang Trade Development Co., Ltd. (the controlling shareholder) over the long term. He has ever been the deputy of the National People's Congress of Jieyang City and Guangdong Province.

Vice Chairman of the Board Mr. Ding Lihong was born in 1971 and graduated from junior college. He ever took post of Vice President of the Company and Chairman of the Board of Shenzhen Shenghengchang Industrial Co., Ltd..

Director Mr. Chen Honghai was born in 1954 and graduated from university; he acts as Director of Puning Shenghengchang Trade Development Co., Ltd. (the controlling shareholder) over the long term.

Director Ms. Chen Xuewen, born in 1980, graduated from the department of law of Guangdong Institute of Public Administration. Now she concurrently acts as Chairman of Shenzhen Missk Fashion Co., Ltd. She has served as Chairman and legal representative of Shenzhen Shenghengchang Industrial Co., Ltd.; as well as Chairman and legal representative in Shenzhen Risheng Investment Co., Ltd..

Independent Director Mr. Liu Yong, born in 1977, CPA, graduated from bachelor of the accounting major of Hunan College of Finance & Economics. Now he is partner of Shenzhen Pinghai Certified Public Accountants.

Independent Director Mr. Su Jianlong, born in 1964, post doctorate, acts as Chairman of the Board of Shenzhen China Energy Conservation and Environmental Protection Co., Ltd. now. He successively held the posts of General Manager in Bio-Treat Technology Limited (listed on Singapore Exchange Mainboard), of General Manager of Shenzhen Zhongxing Environmental E&T Ltd, of General Manager of Anhui Guo Zhen Environmental Protection Co., Ltd., Deputy General Manager of General Water of China Company Limited, of General Manager of Yuanshui Technology (Beijing) Co., Ltd., of Chairman of the Board of General Water of China (Shenzhen) Co., Ltd., of CMO and Chief Senior Advisor of China National Environmental Protection Corporation.

Independent Cai Shaohe, born in 1961, diploma of postgraduate, is a CPA and certified tax agent. He is Vice President of Shantou Institute of Certified Public Accountants and Guangdong Alpha Animation and Culture Co., Ltd, as well as member of National Committee of the Chinese People's Political Consultative Conference of Chenghai District, executive committee member of Chenghai Federation of Industry and Commerce (Chamber of Commerce), standing directors of Accounting Academy of Chenghai District and Chenghai Association of Enterprises with foreign investment. He once acted as chief accountant and chief of finance of Chenghai state-owned Wine Factory, Vice Superintendent and Superintendent in Chenghai Auditor' Firm and Chief Accountant of Shantou Fengye Certified Public Accountants Co., Ltd, as well as independent director of the Company and Guangdong Orient Zirconic Ind Sci & Tech Co., Ltd..

Chairman of the Supervisory Committee Mr. Yan Mingfei was born in 1968, bachelor degree and engineer. Now he is in charge of general manager of Shantou Lianzhihua Information and Technology Co., Ltd. He took the post of assistant engineer of Shantou Teye Power Development Co., Ltd. and engineer of Shantou Special Economic Region Talents Exchange Center.

Supervisor Ms. Huang Yanfang, born in 1966, bachelor degree, she has engaged in enterprise financial work for many years. Now she serves in financial dep. of the Company.

Supervisor Mr. Li Ning, born in 1969, college degree, he now acts as Deputy General Manager of Administration and HR Department of the Company. He ever acted as Supervisor of the Company, General Manager of Dongguan Riseview Knitting Co., Ltd..

Chief Financial Officer, Mr. Chen Jincai, born in 1952, junior college education. He ever acted as Vice Chief and Chief of Financial Department of Shenhua (Group) Limited, Vice GM and CFO in Guanlan Golf, Chief Accountant and Chief of Financial Department in Shenzhen S.E.Z. Real Estate(Group)Co.,Ltd., etc.

Secretary of the Board Mr. Xuwei, born in 1977, graduated from Zhongnan University of Economics and Law, is a bachelor holder of economics and law. He once acted as Securities Affairs Representative and Secretary of the Board and Supervisor of the Company, General Manager of Securities Affairs and Secretary to the Chairman of the Board of Directors in ABest Department Store Supermarket.

Post-holding in shareholders' units

☐Applicable ☒Inapplicable

Post-holding in other units

☒Applicable ☐Inapplicable

Name of the person holding any post in other units	Name of other unit	Position in other unit	Beginning date of office term	Ending date of office term	Receives payment from other unit?
Chen Xuewen	Shenzhen Missk Fashion Co., Ltd.	Chairman of the Board			Yes
Liu Yong	Shenzhen Pinghai Certified Public Accountants	Partner			Yes
Su Jianlong	Shenzhen China Energy Conservation and Environmental Protection Co., Ltd.	Chairman of the Board			Yes
Cai Shaohe	Shantou Fengye Certified Public Accountants Co., Ltd	Chief Accountant			Yes
Yan Mingfei	Shantou Lianzhihua Information and Technology Co., Ltd.	General Manager			Yes
Notes to post-holding in other units	Naught				

### III. Remuneration for directors, supervisors and senior management staffs

Decision-making procedure, determining basis and actual payment for the remuneration of directors, supervisors and senior management staffs

In accordance with the proposal on setting down remuneration of senior executives examined and passed at the 1<sup>st</sup> meeting of the 2<sup>nd</sup> Board of Director for the year 2002 and Proposal on Adjusting Allowance of Directors, Independent Director and Supervisors examined and passed at the annual Shareholder' General Meeting 2007, directors and independent directors of the Company drew their annual allowance of RMB 50,000 (tax included) respectively from the Company; supervisors of the Company received the annual allowance of RMB 15,000 (tax included) respectively. The Company reimbursed the reasonable charges according to the actual situation which independent directors attended the meeting of the Board, shareholders' general meeting or exercise their functions and powers in accordance with the relevant laws and regulations and Articles of Association.

Remuneration of the directors, supervisors and senior management staffs of the Company during the reporting period

Name	Position	Sex	Age	Tenure status	Total remuneration gained from the Company (Yuan)	Total remuneration gained from shareholder's unit (Yuan)	Actual remuneration gained at the period-end
Chen Hongcheng	Chairman of the Board, President	Male	55	Current	244,779.20	0.00	244,779.20
Ding Lihong	Vice Chairman of the Board	Male	42	Current	50,000.00	0.00	50,000.00
Chen Honghai	Director	Male	58	Current	50,000.00	0.00	50,000.00
Chen Xuewen	Director	Female	33	Current	50,000.00	0.00	50,000.00
Cai Shaohe	Director	Male	52	Current	50,000.00	0.00	50,000.00
Liu Yong	Director	Male	36	Current	50,000.00	0.00	50,000.00
Su Jianlong	Director	Male	49	Current	50,000.00	0.00	50,000.00
Yan Mingfei	Chairman of the Supervisory Committee	Male	45	Current	15,000.00	0.00	15,000.00
Huang Yanfang	Supervisor	Male	47	Current	130,709.20	0.00	130,709.20
Li Ning	Supervisor	Male	44	Current	107,081.20	0.00	107,081.20
Xu Wei	Secretary of the Board	Male	36	Current	122,209.20	0.00	122,209.20
Zhou Yuhua	Chief Finance Officer	Male	45	Former	98,400.00	0.00	98,400.00
Total	--	--	--	--	1,018,178.80	0.00	1,018,178.80

Particulars about the equity incentives awarded for the directors, supervisors and senior management of the Company

☐ Applicable ☒ Inapplicable

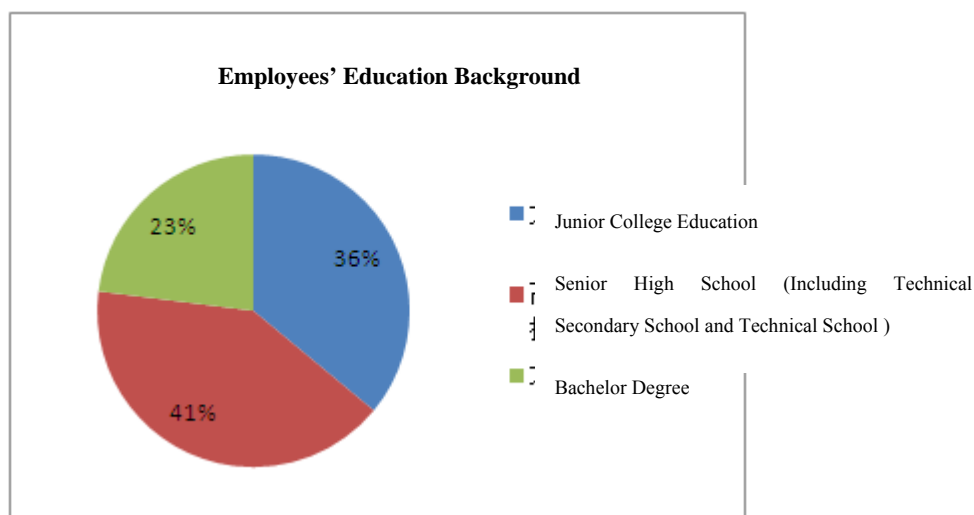
#### IV. Changes in engagement and dismissal of Directors, Supervisors and Senior Management Staffs within the reporting period

Name	Position	Type	Date	Reason
Zhou Yuhua	Chief Finance Officer	Leaving the office	28 Dec. 2012	Personal reason

#### V. About employees

As at 31 Dec. 2012, the Company and its subsidiaries controlled by the Company had about 143 in-service staffs in total. Among them, 41 production personnel, 14 salespersons, 24 technicians, 6 QC, 11 financial personnel and 18 administrative personnel; 4 persons with senior professional titles, and 9 persons with middle professional titles, and 16 persons with preliminary professional titles. The Company did not bear expenses of retirees at present.

Employees' education background are listed as follows:





## VIII. Corporate Governance

### I. Basic information of corporate governance

In the reporting period, the Company strictly in line with requirements of Company Law, Securities Laws and other relevant laws and regulations as well as requirement of a modern enterprise system, continued to perfected corporate governance structure, established and perfected internal management and control system, consistently dug in convene of corporate governance activities, so as to standardizing operation of the Company and promoting corporate governance level of the Company. During the reporting period, the Company's overall operation was standard and independent, and the information disclosure is standard, and the actuality of the corporate governance of the Company was in accordance with requirements of documentary files on corporate governance of listed companies issued by CSRC.

Progress of corporate governance activities, promulgation and implementation of Registration System for Information Insiders

In order to perfect the Company's management system for inside information, do well the management work on the confidentiality of inside information and the registration of inside information, effectively prevent inside trading and other securities lawbreaking behaviors, and further protect the principle of fairness in information disclosure, the Company promulgated the Registration System for Information Insiders in accordance with the requirements of relevant laws and rules such as Company Law, Securities Law and Administrative Rules on Information Disclosure for Listed Companies and the Stock Listing Rules of Shenzhen Stock Exchange as well as by integrating the actuality of the Company. For details, please refer to the Announcement on Registration System for Information Insiders of Guangdong Rieys Group Company Ltd. published on <http://www.cninfo.com.cn> dated 3 Mar. 2010.

During the reporting period, the Company recorded the name list of information insiders before the disclosure of inside information and the time of insiders knowing the inside information truthfully and completely, then it timely reported relevant File of Information Insiders to CSRC and Shenzhen Stock Exchange. Moreover, the Company made self-examination on particulars about information insiders trading the Company's stocks, and found no information insider manipulating insider information for trading the Company's shares before the Company disclosed significant and sensitive information that might affect its share price. And the Company received no investigation and punishment from regulatory authority as well as any problems to rectify.

Whether it exists any difference between the corporate governance and the Company Law and relevant rules of CSRC or not?

☐ Yes ☒ No

There is no difference between the corporate governance and the Company Law and relevant rules of CSRC.

Progress of corporate governance activities, promulgation and implementation of Registration System for Information Insiders

In order to perfect the Company's management system for inside information, do well the management work on the confidentiality of inside information and the registration of inside information, effectively prevent inside trading and other securities lawbreaking behaviors, and further protect the principle of fairness in information disclosure, the Company promulgated the Registration System for Information Insiders in accordance with the requirements of relevant laws and rules such as Company Law, Securities Law and Administrative Rules on Information Disclosure for Listed Companies and the Stock Listing Rules of Shenzhen Stock Exchange as well as by integrating the actuality of the Company. For details, please refer to the Announcement on Registration System for Information Insiders of Guangdong Rieys Group Company Ltd. published on <http://www.cninfo.com.cn> dated

3 Mar. 2010. During the reporting period, the Company recorded the name list of information insiders before the disclosure of inside information and the time of insiders knowing the inside information truthfully and completely, then it timely reported relevant File of Information Insiders to CSRC and Shenzhen Stock Exchange. Moreover, the Company made self-examination on particulars about information insiders trading the Company's stocks, and found no information insider manipulating insider information for trading the Company's shares before the Company disclosed significant and sensitive information that might affect its share price. And the Company received no investigation and punishment from regulatory authority as well as any problems to rectify.

## II. Particulars about annual shareholders' general meeting and special shareholders' general meeting held during the reporting period

### 1. Particulars about annual shareholders' general meeting held during the reporting period

Session	Convening date	Name of proposal	Resolution	Disclosure date	Disclosure index
2011 Annual Shareholders' General Meeting	10 May 2012	1. Annual Work Report of the Board 2011 ; 2. Annual Work Report of the Supervisory Board 2011; 3. Annual Financial Statement Report 2011; 4. Annual Profit Distribution Plan 2011; 5. Annual Report and Its Abstract 2011; 6. Proposal on Engaging the Financial Audit Firm for 2012 and Deciding the Audit Remuneration; 7. Proposal on Changing the Name of the Company and Revising the Articles of Association.	All the proposals are approved at the session	11 May 2012	Announcement on Resolutions Made at the 2011 Annual Shareholders' General Meeting of Guangdong Rieys Group Company Ltd. (Announcement No.: 2012-017) was published on Securities Times , Hong Kong Ta Kung Pao and <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>

### 2. Particulars about special shareholders' general meeting held during the reporting period

Session	Convening date	Name of proposal	Resolution	Disclosure date	Disclosure index
The First Special Shareholders'	14 Aug. 2012	1. Proposal on Revision of the	All the proposals are approved at the	15 Aug. 2012	Announcement on Resolutions Made at

General Meeting for 2012		Articles of Association of Guangdong Rieys Group Company Ltd.; 2. Management System on Dividends of Guangdong Rieys Group Company Ltd.; 3. The Shareholders' Return Plan of the Company for the Next Three Years (From 2012 to 2014)	session		the First Special Shareholders' General Meeting for 2012 of Guangdong Rieys Group Company Ltd. (Announcement No.: 2012-024) was published on Securities Times, Hong Kong Ta Kung Pao and <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
The Second Special Shareholders' General Meeting for 2012	28 Dec. 2012	1. Proposal on Electing Directors by Cumulative Voting System; (1) Proposal on Electing Mr. Chen Hongcheng as the Director of the Sixth Board of Directors; (2) Proposal on Electing Mr. Chen Honghai as the Director of the Sixth Board of Directors; (3) Proposal on Electing Ms. Chen Xuewen as the Director of the Sixth Board of Directors; (4) Proposal on Electing Mr. Ding Lihong as the Director of the Sixth Board of Directors; (5) Proposal on Electing Mr. Cai Shaohe as the Independent Director of the Sixth Board of	All the proposals are approved at the session	29 Dec. 2012	Resolutions Made at the Second Special Shareholders' General Meeting for 2012 of Guangdong Rieys Group Company Ltd. (Announcement No.: 2012-057) was published on Securities Times, Hong Kong Ta Kung Pao and <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>

		Directors; (6) Proposal on Electing Mr. Su Jianlong as the Independent Director of the Sixth Board of Directors; (7) Proposal on Electing Mr. Liu Yong as the Independent Director of the Sixth Board of Directors; 2. Proposal on Electing Supervisors by Cumulative Voting System; (1) Proposal on Electing Mr. Yan Mingfei as the Supervisor of the Sixth Supervisory Committee; (2) Proposal on Electing Ms. Huang Yanfang as the Supervisor of the Sixth Supervisory Committee.			
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### III. Performance of the Independent Directors during the Reporting Period

#### 1. Particulars about the independent directors attending the board sessions and the shareholders' general meetings

Particulars about the independent directors attending the board sessions						
Name of independent directors	Due presence (times)	Presence in person (times)	Presence by telecommunication (times)	Entrusted presence (times)	Absence (times)	Failing to present in person for two consecutive sessions or not
Liu Yong	9	9	5	0	0	No
Su Jianlong	9	8	5	1	0	No
Cai Shaohe	9	9	5	0	0	No
Presence of independent directors in		3				

shareholders' general meeting (times)	
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Explanation on failing to present in person for two consecutive sessions

Inapplicable

## 2. Particulars about independent directors propose objection on relevant events

Whether independent directors propose objection on relevant events or not?

☐ Yes ☒ No

The independent directors didn't propose objection on relevant events during the reporting period.

## 3. Other explanation on performance of independent directors

Whether the advices of independent directors for the Company were adopted or not?

☒ Yes ☐ No

Explanation on the advices of independent directors for the Company being adopted or not adopted

In 2012, the Company's independent directors performed their duties as diligently and faithfully, and listened to the report of relevant personnel on the related-party transactions, external guarantees, engagement of senior management staffs and company development strategies, etc.; besides, they issued their opinion and exercised their authorities, as well as supervised and checked the information disclosure of the Company; moreover, they issued their independent and fair opinion on reengagement of the audit firm, related-party transactions, external guarantees and engagement of senior management staffs, etc. and other events that need their opinion, so as to actively and effectively perform their duties and further protect the legal interest of the Company and the minority shareholders.

## IV. Performance of the Special Committees under the Board during the reporting period

(I) Duty performance of the Audit Committee under the Board:

1. Examination and review of financial statements of the Company by the Audit Committee under the Board

(1) The Audit Committee of the Board of Directors reviewed the Financial Statements compiled by the Company before the CPAs' entry for the yearly audit of the Company, believing that, the statements was in line with the Accounting Standard for Business Enterprises published by the State, and truly reflected the Company's financial status, operating results and cash flows in 2012, so it was permitted that ASIA (Group) Accounting Firm carried out the annual audit for the year 2012 on the basis of the said statements.

(2) After the accounting firm had issued the preliminary audit opinion, the Audit Committee reviewed the related financial statements and believed that: the Financial Statements of the Company after the audit adjustment items were in compliance with the basic situation of the Company. The Audit Committee thus agreed to the preliminary audit opinion issued for the 2012 Annual Financial Report.

(3) After the accounting firm had issued the 2012 Annual Audit Report for the Company, the Audit Committee once again reviewed the Financial Report and agreed to the audit result issued by the accounting firm for the Company's 2012 annual financial statements. And the Audit Committee also agreed to submit the said audit report to the Board of Directors for review.

2. The Audit Committee urged the accounting firm concerning the annual audit.

Before the entry of the CPAs, the Audit Committee, the Financial Department of the Company and the accounting

firm discussed together to decide the schedule for the audit of the Company's 2012 Financial Report. After the entry of the CPAs, according to the said audit schedule determined through discussion with the accounting firm, the Audit Committee of the Board of Directors conducted face-to-face communication with accountants from the accounting firm and assigned specialized personnel to follow up the annual audit by telephone and e-mail, urging the accounting firm to submit the audit report within the time limit agreed upon.

### 3. Summary report on 2012 annual audit conducted by accounting firm

The Audit Committee under the Board of Directors were of the opinion that: ASIA (Group) Accounting Firm launched and accomplished the Company's 2012 annual audit in strict compliance with audit regulations and rules, with sufficient audit time, professional accountants and a strong sense of risk. The audit report issued thoroughly presented the Company's financial status, operating results and cash flows in the year 2012, with the audit conclusion factually reflecting the actual situation of the Company.

### 4. It was approved to reengage an audit agency for the year 2013.

The Audit Committee proposed to reengage ASIA (Group) Accounting Firm as the audit agency for the Company's 2013 annual audit.

### (II) Summary of duty performance of Remuneration & Appraisal Committee

The Remuneration & Appraisal Committee under the Board of Directors believes that: Remuneration for the Company's directors, supervisors and senior executives in the year 2012 is determined according to relevant resolutions made by the Shareholders' General Meeting and rules of the Company, which is in compliance with the operation status of the Company in the year.

### (III) Duty performance of Nomination Committee under the Board

The Nomination Committee gave full play to independent audit and advising during the re-election of directors and supervisors as well as election and engagement of senior management staffs for the Company, which ensured an open, just and fair election.

### (IV) Duty performance of Strategic Committee under the Board

During the reporting period, the Strategic Committee under the Board made research and discussion on the development strategies and proposed the revision opinion.

## **V. Performance of the Supervisory Committee**

Whether the Supervisory Committee finds the Company existing risks or not in the supervisory activities during the reporting period?

☐ Yes ☒ No

The Supervisory Committee has no objection on the supervised events during the reporting period

## **VI. Particulars about the Company's "five-separation" from the controlling shareholder in respect of business, personnel, assets, organization and financing**

The Company totally kept separation from the controlling shareholder in respect of business, personnel, assets, organization and financing that it owned an independent and complete business as well as self-operation capability.

1. In respect of business, the Company owned an integrated business structure and independent operation, it doesn't depend on any shareholder or other party; besides, it exist no horizontal competition or any obviously unfair related-party transaction between the Company and its controlling shareholder, actual controller and other enterprises controlled by it, nor any event that the controlling shareholder directly or indirectly intervened the operation of the Company.

2. In respect of personnel, in terms of labor, personnel and salary management, the Company and the controlling shareholder were independent from each other. Such senior management staff as Chairman of the Board, General Manager, Deputy General Managers all drew remuneration from the Company, and they did not take any post in the controlling shareholder and its subsidiaries.

3. In respect of assets, separated from the controlling shareholder, the Company owned independent production and operation site, integrated assets structure, independent production system, auxiliary production systems and ancillary facilities, land use right and ownership of house, etc., and independent procurement and sales system. Besides, it owned complete controlling right on all the assets, there was no illegal occupation of assets and funds by the controlling shareholder, actual controller or their controlling enterprises that did any harm to the interest of the Company.

4. In respect of organization, the Company has set up a perfect organization that was independent from the controlling shareholder or its functional departments.

5. In respect of financing, the Company owned independent financial department with independent accountants, established independent accounting system and financial management system, independently made the financial decision. Besides, it opened independent bank account and paid tax independently.

## **VII. Particulars on horizontal competition**

The Company didn't exist any situation on involving in the same or similar business with its actual controller Mr. Chen Hongcheng or its controlling shareholder Puning Shenghengchang Trade Development Co., Ltd, so there was no horizontal competition between them.

## **VIII. Performance appraisal and incentive system for senior management staffs**

During the reporting period, the Company's senior management staffs seriously performed their duties in strict accordance with the Company Law, Articles of Association and relevant laws and rules, actively implemented the resolutions made in the Company's shareholders' general meeting and the board sessions, continued to strengthen the internal management under the correct direction of the Board of Directors, and well completed the tasks of the year. During the reporting period, the Company hasn't established a perfect remuneration appraisal system, so in order to further perfect the Company's system construction and promote the continuous development of the Company, the Remuneration Committee under the Board of the Company has promulgated the Remuneration Appraisal System for Directors and Senior Management Staffs, which will be implemented after being reviewed and approved by the Board of Directors.

## IX. Internal Control

### I. Construction of internal control of the Company

The Company has set up a perfect internal control system in accordance with regulations of relevant laws and rules and relevant industrial standards as well as by integrating the actuality of the Company, moreover, it also conducted the control measures according to the system so as to ensure the legal operation and scientific decision-making of the Board of Directors, the Supervisory Committee and the Shareholders' General Meeting, with the details as follows:

1. The Company has set up perfect control structure and made the control procedures among various levels, so as to ensure the orders of the Board of Directors and senior management staffs to execute strictly. The Company clearly defined the target, duties and power of each department and position, and built corresponding authorization, inspection and progressively accountability system, so as to ensure performing relevant functions within the authorization range.
2. In accordance with the requirements of the Company Law, Accounting Law, Enterprise Accounting Standards and other relevant national tax laws as well as other supplementary regulations, the Company made suitable accounting system, accounting voucher, accounting book and the processing procedures for financial report, and implemented the accountability system for accountants, as well as built up a strict accounting control system.
3. The Company promulgated the Management System on External Investment, so as to clearly define the basic principle and decision-making procedures of external investment.
4. The Company promulgated the Management System on External Guarantee, making detailed stipulations on the guaranteed object, approval authority, decision-making procedure and safe measures, etc. for the external guarantee behaviors.
5. The Company promulgated the Management System on Related-party Transactions, clearly defining the recognition of related parties, the scope of related-party transactions and decision-making procedures as well as the execution and disclosure of related-party transactions, so as to regulate the trading behaviors with the related parties.
6. The Company promulgated the Internal Reporting System on Significant Information, Accountability System for Significant Mistakes in Annual Report Information Disclosure and Registration System for Information Insiders, clearly defining the basis principle, content, procedure and transfer, duty allocation, way and file management of information disclosure, and the range, confidential measures and accountability of information insiders.
7. The Company promulgated the Administration on Raised Funds, clearly defining the storage, approval on use, change in use and supervision of the raised funds
8. The Company built up the internal control on financial report on the basis of Enterprise Accounting Standards, Standard of Interior Accounting Control—Basic Standard (Trial) and other regulations.
9. The Company promulgated the Internal Audit System, making clear stipulations and requirements on the internal audit work of the Company. The Audit Department is directly under the Board of Directors, it, led by the Audit Committee under the Board, conducted the audit work according to annual audit work plan and implemented routine or special internal control examination. Besides, it timely found problems in the operating activities through internal audit, raised rectification advices, implemented rectification measures, so as to enhance the validity of internal control management and further prevent the operating risks and financial risks.



## II. Announcement from the Board to the responsibility of internal control

The Board of Directors of the Company has overall appraised the validity of the internal control of the Company, and believes that: the Company has set up a sound and perfect internal control management system, which is reasonable, complete and valid, as well as in line with relevant regulations and requirements of relevant laws and rules and the actuality of the Company. Besides, such system can meet the requirements of the management of the Company and the needs of the development of the Company, and provide reasonable guarantee on preparing real and fair financial statements, as well as guarantee the healthy operation of various business of the Company and the implementation of national laws & rules and the internal rules of the Company. Moreover, all the management systems on internal control have been executed effectively.

## III. Basis on establishing the internal control for financial report

The internal control for financial report is decided according to the Company Law, Accounting Law, Enterprise Accounting Standards, Basic Rules for Enterprise Internal Control and relevant regulatory documents from the regulatory authorities. During the reporting period, the internal control on the financial report of the Company exist no significant deficit.

## IV. Self-appraisal report on internal control

Particulars about significant deficits of internal control found during the reporting period in the self-appraisal report on internal control	
No significant deficits were found during the reporting period.	
Disclosure date of the Self-appraisal Report on Internal Control	5 Mar. 2013
Disclosure index of the Self-appraisal Report on Internal Control	Securities Times , Hong Kong Ta Kung Pao and <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>

## V. Audit report on internal control

☐ Applicable ☒ Inapplicable

Whether the CPAs firm issues an Audit Report on Internal Control with non-standard opinion or not?

☐ Yes ☒ No

Whether the Audit Report on Internal Control from the CPAs firm is in consistent with the Self-appraisal Report from the Board or not?

☒ Yes ☐ No

## VI. Establishment and execution of rules of accountability for significant mistakes in annual report information disclosure

The Company has already formulated Rules of Accountability for Significant Mistakes in Annual Report

Information Disclosure, relevant disclosure personnel strictly did well relevant work to avoid significant errors. In the reporting period, the execution of the system was well implemented, and there was not any amendment of significant accounting errors or complement of significant information omit, etc..

## X. Financial Report

### I. Auditor's Report

Type of audit opinion	Standard Unqualified Audit Opinion
Date for signing the auditor's report	1 Mar. 2013
Name of audit firm	ASIA (Group) Accounting Firm
Document No. of the auditor's report	YTS Zi (2013) No. 117

## GUANGDONG RIEYS GROUP COMPANY LTD.

For the period from 1 Jan. 2012 to 31 Dec. 2012

Independent Auditor's Report and Financial Statements

	Contents	Page
I.	Independent Auditors' Report	1-2
II.	Financial Statements of Guangdong Rieys Group Company Ltd. and Notes	
	1. The Company's and Consolidated statement of financial position	3-6
	2. The Company's and Consolidated statement of profit or loss and other comprehensive income	7-8
	3. The Company's and Consolidated statement of cash flows	9-10
	4. The Company's and Consolidated statement of changes in equity	11-14
	5. Notes to Financial Statements	15-70

\*Confidential\*

Ya-Kuai-Shen-Zi (2013) No. 117

# **Independent Auditor's Report**

## **All shareholders of Guangdong Rieys Group Company Ltd.:**

We have audited the accompanying consolidated financial statements of Guangdong Rieys Group Company Ltd. (the Company) and its subsidiaries, which comprise the consolidated and the Company's statement of financial position, the consolidated and the Company's statement of profit or loss and other comprehensive income, the consolidated and the Company's statement of cash flows, the consolidated and the Company's statement of changes in equity for the year ended 31 December 2012, and notes to the financial statements.

## **I. Management's responsibility for the consolidated financial statements**

Management of the Company is responsible for the preparation and fair presentation of these financial statements. These responsibilities include: (1) giving a true and fair view in accordance with the Chinese Accounting Standards for Business Enterprises; and (2) for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **II. Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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**

In our opinion, the consolidated financial statements of the Company have been prepared according to the Chinese Accounting Standards for Business Enterprises in all material aspects, which give a true and fair view of the financial position of Guangdong Rieys Group Company Ltd. and its subsidiaries as at 31 December 2012, and of their financial performance and cash flows for the year then ended.

Asia-Pacific (Group) Certified  
Public Accountants Co., Ltd.

Certified Public Accountant of China:

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Certified Public Accountant of China:

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Beijing, China

1.Mar.2013

## Consolidated Statement of Financial Position

for the year ended 31 Dec. 2012

Prepared by Guangdong Rieys Group Company Ltd.

Expressed in Renminbi Yuan

Items	Note V	Closing balance	Opening balance
Current Assets:			
Cash and bank balances	(1)	21,555,492.79	1,600,749.63
Settlement reserves/provisions			
Deposit in banks and other financial institutions			
Financial assets at fair value through profit or loss	(2)		12,580.00
Notes receivables			
Trade receivables	(3)	29,542,060.33	13,966,563.54
Advance payment	(5)	1,401,124.90	75,651,517.03
Premiums receivables			
Reinsurance premiums receivables			
Receivable reinsurance contract reserves			
Interest receivables			
Dividend receivables			
Other receivables	(4)	8,712,918.25	26,986,296.29
Financial assets purchased under agreements to resell			
Inventories	(6)	340,802,511.47	289,509,255.07
Non-current assets maturing within one year			
Other current assets			
Total current assets		402,014,107.74	407,726,961.56
Non-current assets:			
Entrusted loans and advances granted			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term trade receivables			
Long-term equity investments			
Investing properties			
Property, plant and equipment	(7)	87,845,171.59	92,277,519.10
Construction in progress			
Materials held for construction	(8)	54,526.00	54,526.00
Disposal of property, plant and equipment			
Production/Productive biological assets			
Oil-gas assets			
Intangible assets	(9)	27,720,177.33	28,393,365.57
R&D expenses			
Goodwill			
Long-term deferred expenses		434,160.00	627,120.00
Deferred tax assets	(10)	8,577,402.81	8,919,528.60
Other non-current assets			
Total non-current assets		124,631,437.73	130,272,059.27
Total assets		526,645,545.47	537,999,020.83

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

## Consolidated Statement of Financial Position (Continued)

for the year ended 31 Dec. 2012

Expressed in Renminbi

Prepared by Guangdong Rieys Group Company Ltd.

Yuan

Items	Note V	31.Dec.2012	31.Dec.2011
Current liabilities:			
Short-term borrowings	(12)	15,099,960.00	73,699,960.00
Borrowings from Central Bank			
Customer bank deposits and due to banks and other financial institutions			
Borrowings from banks and other financial institutions			
Financial liabilities at fair value through profit or loss			
Notes payables			
Trade payables	(13)	30,877,322.71	10,754,430.15
Advances from customers	(14)	28,576,119.48	14,393,199.24
Financial assets sold for repurchase			
Handling charges and commissions payables			
Accrued payroll	(16)	730,461.85	769,812.94
Current tax liabilities	(17)	44,779,973.52	4,404,960.44
Interest payables	(18)	13,756,401.18	35,818,609.17
Dividend payables			
Other payables	(15)	32,816,218.09	64,116,263.43
Reinsurance premiums payables			
Insurance contract reserves			
Payables for acting trading of securities			
Payables for acting underwriting of securities			
Long-term liabilities due within one year			
Other current liabilities			
Total current liabilities		166,636,456.83	203,957,235.37
Non-current liabilities:			
Long-term borrowings			
Bonds payables			
Long-term payables			
Specific payables			
Estimated liabilities			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities			
Total liabilities		166,636,456.83	203,957,235.37
Capital and reserves			
Share capital	(19)	318,600,000.00	318,600,000.00
Capital surplus	(20)	52,129,496.58	52,129,496.58
Less: Treasury stock			
Specific reserves			
Surplus reserves	(21)	86,036,260.20	86,036,260.20
General risk reserve			
Retained earnings	(22)	-101,152,252.70	-127,219,679.36
Foreign exchange difference			
Total equity attributable to owners of the Company		355,613,504.08	329,546,077.42
Non-controlling interests		4,395,584.56	4,495,708.04

Total equity		360,009,088.64	334,041,785.46
Total liabilities and owners' (or shareholders') equity		526,645,545.47	537,999,020.83

Legal representative:                      Chief of the accounting work:    Chief of the accounting department:

Consolidated Statement of Profit or Loss    and Other Comprehensive  
Income

for the year ended 31 Dec. 2012

Expressed in Renminbi

Prepared by Guangdong Rieys Group Company Ltd.

Yuan

Items	Note V	Year ended 31.Dec.2012	Year ended 31.Dec.2011
I. Total operating revenue		300,982,925.62	87,302,398.51
Including: Revenue	(23)	300,982,925.62	87,302,398.51
Interest income			
Premium income			
Handling charge and commission income			
II. Total operating cost		295,977,846.76	121,440,059.33
Including: Cost of sales	(23)	226,849,638.27	70,327,838.42
Interest expenses			
Handling charge and commission expenses			
Surrenders			
Net claims paid			
Net amount withdrawn for the insurance contract reserve			
Expenditure on policy dividends			
Reinsurance premium			
Business Business taxes and associate charges	(24)	26,778,102.50	333,805.21
Distribution expenses		2,897,050.38	5,746,189.73
Administrative expenses		22,178,714.94	25,147,160.97
Finance costs	(25)	12,480,908.09	22,580,025.63
Asset impairment losses	(26)	4,793,432.58	-2,694,960.63
Add: Gain/(loss) from change in fair value (“-” for loss)			-7,659.00
Gain/(loss) from investment (“-” for loss)	(27)	5,093.38	10,438,719.43
Including: share of profits in associates and joint ventures			
Foreign exchange gains (“-” for loss)			
III. Operating profit (“-” for loss)		5,010,172.24	-23,706,600.39
Add: non-operating income	(28)	34,199,792.82	51,082,412.10
Less: non-operating expense	(39)	1,252,568.10	2,765,968.47
Including: loss from non-current asset disposal			
IV. Total profit (“-” for loss)		37,957,396.96	24,609,843.24
Less: Income tax expense	(30)	11,990,093.78	3,803,097.45
V. Net profit (“-” for loss)		25,967,303.18	20,806,745.79
Attributable to owners of the Company		26,067,426.66	21,385,032.47
Minority shareholders' income		-100,123.48	-578,286.68
VI. Earnings per share			
(I) basic earnings per share	(31)	0.08	0.07
(II) diluted earnings per share	(31)	0.08	0.07
VII. Other comprehensive income			
VIII. Total comprehensive incomes			



Attributable to owners of the Company			
Attributable to minority shareholders			

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

Consolidated Statement of Cash Flows

for the year ended 31 Dec. 2012

Expressed in Renminbi

Prepared by Guangdong Rieys Group Company Ltd.

Yuan

Items	Note V	Year ended 31.Dec.2012	Year ended 31.Dec.2011
I. Operating activities:			
Receipts from customers/Cash generated from operations		313,145,446.55	149,110,827.90
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 deposits 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 borrowings from banks and other financial institutions			
Net increase of funds in repurchase business			
Tax refunds received		7,900,000.00	8,986,428.37
Other cash received relating to operating activities	(32)1	114,111,264.06	162,314,780.59
Subtotal of cash inflows from operating activities		435,156,710.61	320,412,036.86
Payments to suppliers		199,917,910.09	166,981,671.03
Net increase of customer lendings and advances			
Net increase of funds deposited in the central bank and amount due from banks			
Cash for paying claims of the original insurance contracts			
Cash for paying interest, handling charges and commissions			
Cash for paying policy dividends			
Payments to employees		4,931,065.64	12,722,916.17
Income taxes paid		1,796,824.60	5,939,522.36
Other cash payment relating to operating activities	(32)2	174,430,858.19	130,702,102.77
Subtotal of cash outflows from operating activities		381,076,658.52	316,346,212.33
Net cash generated by operating activities		54,080,052.09	4,065,824.53
II. Investing activities:			
Proceeds from disposal of investment property		17,673.38	4,826,247.66
Proceeds from return on investments			422,423.68
Net cash received from disposal of property, plant and equipment, intangible assets and other long-term assets			329,515.00
Net cash inflow on disposal of subsidiary/ and associate			0.00
Other cash flows from investing activities			17,284,086.34
Subtotal of cash inflows from investing activities		17,673.38	22,862,272.68
Payment for property,plant and equipment, intangible assets		542,044.28	1,406,276.10

and other long-term assets			
Payment for investment/property		0.00	
Net increase of pledged loans		0.00	
Net cash paid to acquire subsidiaries and other business units		-	
Other cash payments relating to investing activities		-	
Subtotal of cash outflows from investing activities		542,044.28	1,406,276.10
Net cash =generated by investing activities		-524,370.90	21,455,996.58
III. Financing Activities:			
Cash received from capital contributions		0.00	0.00
Including: Cash received from minority shareholder investments by subsidiaries			
Proceeds from loans and borrowings			4,798,333.00
Cash received from issuance of bonds			
Other cash received relating to financing activities	(32)3	25,000,000.00	53,130,000.00
Subtotal of cash inflows from financing activities		25,000,000.00	57,928,333.00
Repayment of loans and borrowings		58,600,000.00	84,800,040.00
Dividends and interest paid			1,482,453.33
Including: dividends or profit paid by subsidiaries to minority shareholders			
Other cash payments relating to financing activities			25,670,000.00
Sub-total of cash outflows from financing activities		58,600,000.00	111,952,493.33
Net cash used in financing activities		-33,600,000.00	-54,024,160.33
IV. Effects of exchange rate changes on balance of cash held in foreign currencies		-938.03	7,690.79
V. Net increase in cash and cash equivalents		19,954,743.16	-28,494,648.43
Add: Cash and cash equivalents at the beginning of the year		1,600,749.63	30,095,398.06
VI. Cash and cash equivalents at the end of the year		21,555,492.79	1,600,749.63

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

## Consolidated Statement of Changes in Equity

Prepared by Guangdong Rieys Group Company  
Ltd.

for the year ended 31 Dec. 2011

Expressed in Renminbi  
Yuan

Items	for the year ended 31 Dec. 2011								
	Equity attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Capital surplus	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained earnings		
I. Balance at the end of the previous year	318,600,000.00	52,129,496.58			86,036,260.20		-148,604,711.83	3,837,843.82	311,998,888.77
Add: 1. Change of accounting policy									
2. Correction of errors in previous periods									
3. Other									
II. Balance at the beginning of the year	318,600,000.00	52,129,496.58			86,036,260.20		-148,604,711.83	3,837,843.82	311,998,888.77
III. Increase of amount in the year (“-” means decrease)							21,385,032.47	657,864.22	22,042,896.69
(I) Net profit							21,385,032.47	-578,286.68	20,806,745.79
(II) Other comprehensive incomes net of income tax									
Subtotal of (I) and (II)							21,385,032.47	-578,286.68	20,806,745.79
(III) Capital paid in and reduced by owners								1,236,150.90	1,236,150.90
1. Capital paid in by owners								1,312,142.43	1,312,142.43
2. Recognition of share-based payments									
3. Others								-75,991.53	-75,991.53
(IV) Profit distribution									
1. Appropriations to surplus reserves									
2. Appropriations to general risk provisions									
3. Dividends									
4. Other									
(V) Internal carry-forward of owners' equity									
1. Increase of share capital transferred from capital surplus									
2. Increase of share capital transferred from surplus reserves									
3. Surplus reserves for making up losses									
4. Other									

(VI) Specific reserve									
1. Withdrawn for the period									
2. Used in the period									
IV. Closing balance	318,600,000.00	52,129,496.58			86,036,260.20		-127,219,679.36	4,495,708.04	334,041,785.46

Legal representative:  
department:

Chief of the accounting work:

Chief of the accounting

Consolidated Statement of Changes in Equity (Continued)

Prepared by Guangdong Rieys Group Company Ltd.

for the year ended 31 Dec. 2012

Expressed in Renminbi Yuan

Items	for the year ended 31 Dec. 2012								
	Equity attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Capital surplus	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained earnings		
I. Balance at the end of the previous year	318,600,000.00	52,129,496.58			86,036,260.20		-127,219,679.36	4,495,708.04	334,041,785.46
Add: 1. Change of accounting policy									
2. Correction of errors in previous periods									
3. Other									
II. Balance at the beginning of the year	318,600,000.00	52,129,496.58			86,036,260.20		-127,219,679.36	4,495,708.04	334,041,785.46
III. Increase of amount in the year (“-” means decrease)							26,067,426.66	-100,123.48	25,967,303.18
(I) Net profit							26,067,426.66	-100,123.48	25,967,303.18
(II) Other comprehensive incomes net of income tax									
Subtotal of (I) and (II)							26,067,426.66	-100,123.48	25,967,303.18
(III) Capital paid in and reduced by owners									
1. Capital paid in by owners									
2. Recognition of share-based payments									
3. Others									
(IV) Profit distribution									
1. Appropriations to surplus reserves									
2. Appropriations to general risk provisions									
3. Dividends									

4. Other									
(V) Internal carry-forward of owners' equity									
1. Increase of share capital transferred from capital surplus									
2. Increase of share capital transferred from surplus reserves									
3. Surplus reserves for making up losses									
4. Other									
(VI) Specific reserve									
1. Withdrawn for the period									
2. Used in the period									
IV. Closing balance	318,600,000.00	52,129,496.58			86,036,260.20		-101,152,252.70	4,395,584.56	360,009,088.64

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

## Statement of Financial Position of the Company

for the year ended 31 Dec. 2012

Prepared by Guangdong Rieys Group Company Ltd.

Expressed in Renminbi Yuan

Items	Note XI	31.Dec.2012	31.Dec.2011
Current Assets:			
Cash and bank balances		7,628,811.81	1,338,922.68
Financial assets at fair value through profit or loss			12,580.00
Notes receivable			
Trade receivables	(1)		
Advances to suppliers/Advance payment			
Interest receivable			
Dividend receivable			
Other receivable	(2)	94,265,296.12	139,930,122.27
Inventories			
Non-current assets maturing within one year			
Other current assets			
Total current assets		101,894,107.93	141,281,624.95
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term trade receivable			
Long-term equity investment	(3)	243,312,508.68	243,312,508.68
Investing properties			
Property, plant and equipment		83,619,246.08	87,099,643.70
Construction in progress			
Materials held for construction		54,526.00	54,526.00
Disposal of property, plant and equipment			
Production/Productive biological assets			
Oil-gas assets			
Intangible assets		27,720,177.33	28,393,365.57
R&D expense			
Goodwill			
Long-term deferred expenses			
Deferred tax assets		2,466,835.50	2,390,839.13
Other non-current assets			
Total non-current assets		357,173,293.59	361,250,883.08
Total assets		459,067,401.52	502,532,508.03

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

## Statement of Financial Position of the Company

for the year ended 31 Dec. 2012

Prepared by Guangdong Rieys Group Company Ltd.

Expressed in Renminbi Yuan

Items	Note XI	31.Dec.2012	31.Dec.2011
Current liabilities:			
Short-term borrowings		15,099,960.00	58,699,960.00
Financial liabilities at fair value through profit or loss			
Notes payables			
Trade payables		19,442.64	19,442.64

Advances from customers			
Accrued payroll		159,511.60	160,277.69
Current tax liabilities		2,686,106.07	1,476,139.73
Interest payables		13,756,401.18	28,205,955.32
Dividend payables			
Other payables		186,273,159.74	173,882,257.74
Long-term liabilities due within one year			
Other current liabilities			
Total current liabilities		217,994,581.23	262,444,033.12
Non-current liabilities:			
Long-term borrowings			
Bonds payables			
Long-term payables			
Specific payables			
Estimated liabilities			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities			
Total liabilities		217,994,581.23	262,444,033.12
Capital and reserves			
Share capital		318,600,000.00	318,600,000.00
Capital surplus		52,129,496.58	52,129,496.58
Less: Treasury stock			
Specific reserves			
Surplus reserves		86,036,260.20	86,036,260.20
General risk reserve			
Retained earnings		-215,692,936.49	-216,677,281.87
Total equity		241,072,820.29	240,088,474.91
Total liabilities and owners' (or shareholders') equity		459,067,401.52	502,532,508.03

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

## The Company Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 Dec. 2012

Prepared by Guangdong Rieys Group Company Ltd.

Expressed in Renminbi Yuan

Items	Notes	Year ended 31.Dec.2012	Year ended 31.Dec.2011
Revenue	(4)	14,400.00	1,138,000.00
Less: Cost of sales	(4)		1,067,370.64
Business taxes and associate charges		806.4	62,590.00
Distribution expenses			90,000.00
Administrative expenses		10,623,369.48	13,510,129.37
Finance costs		10,006,516.25	22,593,837.51
Asset impairment losses		303,985.48	41,174.16
Add:Gain/(loss) from change in fair value("+"for loss)			-7,659.00
Investment income("+"for loss)	(5)	5,093.38	120,369.70

Including:share of profits in associates and jointventures			-
II. Operating profit (“-” for loss)		-20,915,184.23	-36,114,390.98
Add: Non-operating income		24,101,932.97	51,022,627.50
Less: Non-operating expense		1,068,150.00	1,294,288.30
Including: loss from non-current asset disposal			-
III. Total profit (“-” for loss)		2,118,598.74	13,613,948.22
Less: Income tax expense		1,134,253.36	2,657,976.98
IV. Net profit (“-” for loss)		984,345.38	10,955,971.24
V. Earnings per share			-
(I) basic earnings per share			-
(II) diluted earnings per share			-
VI. Other comprehensive incomes			
VII. Total comprehensive incomes		984,345.38	10,955,971.24

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

## Statement of Cash Flows of the Company

for the year ended 31 Dec. 2012

Prepared by Guangdong Rieys Group Company Ltd.

Expressed in Renminbi Yuan

Items	Notes	Year ended 31.Dec.2012	Year ended 31.Dec.2011
I. Cash flows from operating activities:			
Cash received from sale of commodities and rendering of service		14,400.00	126,000.00
Tax refunds received			
Other cash received relating to operating activities		150,086,185.79	104,099,059.99
Subtotal of cash inflows from operating activities		150,100,585.79	104,225,059.99
Cash paid for goods and services			
Cash paid to and for employees		747,447.23	1,333,742.87
Taxes paid		863,120.48	1,059,262.24
Other cash payment relating to operating activities		123,609,102.33	92,264,474.40
Subtotal of cash outflows from operating activities		125,219,670.04	94,657,479.51
Net cash flows from operating activities		24,880,915.75	9,567,580.48
II. Cash flows from investing activities:			
Cash received from disposal of investments		17,673.38	5,000,001.00
Cash received from return on investments			120,369.72
Net cash received from disposal of property, plant and equipment, intangible assets and other long-term assets			52,000.00
Net cash received from disposal of subsidiaries or other business units			
Other cash received relating to investing activities			17,284,086.34
Subtotal of cash inflows from investing activities		17,673.38	22,456,457.06
Cash paid to acquire property, plant and equipment, intangible assets and other long-term assets		8,700.00	12,700.00
Cash paid for investment			



Net cash paid to acquire subsidiaries and other business units			
Other cash payments relating to investing activities			
Subtotal of cash outflows from investing activities		8,700.00	12,700.00
Net cash flows from investing activities		8,973.38	22,443,757.06
III. Cash Flows from Financing Activities:			
Cash received from capital contributions			
Cash received from borrowings			
Other cash received relating to financing activities		25,000,000.00	53,130,000.00
Subtotal of cash inflows from financing activities		25,000,000.00	53,130,000.00
Repayment of borrowings		43,600,000.00	84,800,040.00
Cash paid for interest expenses and distribution of dividends or profit			1,482,453.33
Other cash payments relating to financing activities		-	25,670,000.00
Sub-total of cash outflows from financing activities		43,600,000.00	111,952,493.33
Net cash flows from financing activities		-18,600,000.00	-58,822,493.33
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
V. Net increase in cash and cash equivalents		6,289,889.13	-26,811,155.79
Add: Cash and cash equivalents at year-begin		1,338,922.68	28,150,078.47
VI. Cash and cash equivalents at the end of the year		7,628,811.81	1,338,922.68

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

# Statement of Changes in Equity of the Company

Prepared by Guangdong Rieys Group Company Ltd.

for the year ended 31 Dec. 2011

Expressed in Renminbi  
Yuan

Items	for the year ended 31 Dec. 2011							
	Share capital	Capital surplus	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained earnings	Total equity
I. Balance at the end of the previous year	318,600,000.00	52,129,496.58			86,036,260.20		-227,633,253.11	229,132,503.67
Add: 1. Change of accounting policy								
2. Correction of errors in previous periods								
3. Other								
II. Balance at the beginning of the year	318,600,000.00	52,129,496.58			86,036,260.20		-227,633,253.11	229,132,503.67
III. Increase of amount in the year (“-” means decrease)							10,955,971.24	10,955,971.24
(I) Net profit							10,955,971.24	10,955,971.24
(II) Other comprehensive incomes net of income tax								
Subtotal of (I) and (II)							10,955,971.24	10,955,971.24
(III) Capital paid in and reduced by owners								
1. Capital paid in by owners								
2. Recognition of share-based payments								
3. Others								
(IV) Profit distribution								
1. Appropriations to surplus reserves								
2. Appropriations to general risk provisions								
3. Dividends								
4. Other								
(V) Internal carry-forward of owners’ equity								
1. Increase of share capital transferred from capital surplus								
2. Increase of share capital transferred from surplus reserves								
3. Surplus reserves for making up losses								
4. Other								
(VI) Specific reserve								
1. Withdrawn for the period								
2. Used in the period								
IV. Closing balance	318,600,000.00	52,129,496.58			86,036,260.20		-216,677,281.87	240,088,474.91

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

Statement of Changes in Equity of the Company (Continued)

Prepared by Guangdong Rieys Group Company Ltd.

for the year ended 31 Dec. 2012

Expressed in Renminbi  
Yuan

Items	for the year ended 31 Dec. 2011							
	Share capital	Capital surplus	Less: treasury stock	Specific reserve	Surplus reserve	General risk reserve	Retained earnings	Total equity
I. Balance at the end of the previous year	318,600,000.00	52,129,496.58			86,036,260.20		-216,677,281.87	240,088,474.91
Add: 1. Change of accounting policy								0.00
2. Correction of errors in previous periods								0.00
3. Other								0.00
II. Balance at the beginning of the year	318,600,000.00	52,129,496.58			86,036,260.20		-216,677,281.87	240,088,474.91
III. Increase of amount in the year (“-” means decrease)							984,345.38	984,345.38
(I) Net profit							984,345.38	984,345.38
(II) Other comprehensive incomes net of income tax								
Subtotal of (I) and (II)							984,345.38	984,345.38
(III) Capital paid in and reduced by owners								
1. Capital paid in by owners								
2. Recognition of share-based payments								
3. Others								
(IV) Profit distribution								
1. Appropriations to surplus reserves								
2. Appropriations to general risk provisions								
3. Dividends								
4. Other								
(V) Internal carry-forward of owners’ equity								
1. Increase of share capital transferred from capital surplus								
2. Increase of share capital transferred from surplus reserves								
3. Surplus reserves for making up losses								
4. Other								

(VI) Specific reserve								
1. Withdrawn for the period								
2. Used in the period								
IV. Closing balance	318,600,000.00	52,129,496.58			86,036,260.20		-215,692,936.49	241,072,820.29

Legal representative:

Chief of the accounting work:

Chief of the accounting department:

# **GUANGDONG RIEYS GROUP COMPANY LTD**

## **Notes to the Financial Statements**

For the year ended 31 Dec.2012

### **I. Reporting entity**

Guangdong Rieys Group Company Ltd. (hereinafter referred to as “the Company”) is a listed company promoted by five enterprises including Puning Haicheng Industrial Co., Ltd(which changed its name to Shenzhen Shenghengchang Industrial Co., Ltd when it relocated to Shenzhen, and then its name changed to Guangzhou Shenghengchang Investment Co., Ltd in 2007, in 2008 this company was renamed to Guangzhou Shenghengchang Trade Development Co., Ltd, on 28 Jan.2010 this company was renamed to Puning Shenghengchang Trade Development Co., Ltd.), an original Sino-foreign cooperated enterprise of Hongxing Company. Under the approval of Guangdong Economic System Reform Committee (1997) No. 113 on 17 Nov.1997 after joint stock system restructure based on Puning Hongxing Textile and Apparel Production Factory Co., Ltd., which originally was a Sino-foreign joint venture. The registered capital of the Company is 80,000,000 when established, which was divided into 80,000,000 shares of RMB1.00 each.

In March 1999, with the approval of the Shareholders' General Meeting, the Company declared a Bonus Issue of 3.5 shares per 10 shares based on the total number of shares accrued in the register as at 31 Dec.1998 (80 million shares), making the registered capital increased to 108,000,000 shares.

The Company issued 60,000,000 shares of foreign invested stock domestically listed (“Stock B”) for foreign investors on 17 Oct.2000, and issued 9,000,000 shares of Stock B for exercise of over-allotment options during the period from 27 Oct.2000 to 22 Nov.2000 in accordance with approval of ZJFXZ (2000) No. 133 issued by China Securities Regulatory Commission on 29 Sep.2000. The registered capital of the Company increased to RMB 177,000,000 after issuance of Stock B, which was divided into 177,000,000 shares of RMB1.00 each. The registered capital of the Company increased to 318,600,000 after years of bonus distribution and transfer increase in paid-in capital, which was divided into 318,600,000 shares of RMB1.00 each.

As at 31 Dec. 2012, the Company's total share capital was 318,600,000 shares, including 164,025,000 non-tradable corporate shares (representing 51.48% of total shares and 154,575,000 domestic listed foreign shares (stock B) (representing 48.52% of total shares).

The Company and its subsidiaries (hereinafter referred to as "the Group")'s main scopes of business are manufacture, process and sales of various kinds of clothes including suit, fashion clothing, uniform, and knit goods, sales of industrial material for production, hardware, chemical product, daily necessities, furniture, arts and crafts and agricultural product and etc. (excluding commodities for exclusive sales, special control or monopolization), real estate development and various kinds of investment.

## **II. Significant accounting policies**

### **1 Basis for the preparation**

The Company carried out recognition and measurement and prepared the financial statements on the basis of the going-concern assumption, according to transactions and events that actually occurred, and in accordance with the requirements of "Accounting Standards for Business Enterprises - Basic Standards" and other accounting standards.

### **2 Statement of compliance**

The financial statements prepared by the Company meet the requirements of "Accounting Standards for Business Enterprises - Basic Standards" issued by the Ministry of Finance of P.R. China on 15 Feb.2006 and 38 special accounting standards, as well as application guidance of the accounting standards for business enterprise, interpretation of the accounting standards for business enterprise and other relevant regulations (hereafter referred as "Accounting Standard for Business Enterprise"), and truly and fairly reflect the financial conditions, operation results and cash flows of the Company.

In addition, the Group's financial statements also comply with the disclosure requirements on financial statements and notes thereof in "Compilation Rules for Information Disclosures by Companies That Offer Securities to the Public No.15 - General Rules for Financial Reports" (hereinafter referred to as "the No. 15 ") amended by China Securities Regulatory Commission (hereinafter referred to as "SFC") in 2010.

### **3 Fiscal year**

The fiscal year of the Company is the solar calendar year, which is from January 1 to December 31.

#### **4 Presentation currency**

The presentation currency of the Company is RMB.

#### **5 Accounting treatment for business combinations under identical control and not under identical control**

##### **1. Business combination under identical control**

Business combination under identical control refers to that parties involved in the merger are subject to the ultimate control of the same party or same multi parties before & after the merger and such control is not temporary.

Assets and liabilities acquired by merging parties in a business combination are measured at the book value of the combined parties at the merge date. Upon any difference between book value of net assets obtained by merging parties and book value the merging price they pay (or the aggregate nominal amount of issued shares), it should adjust the capital surplus (share premium), and if capital surplus (share premium) isn't sufficient to dilute, then adjust retained earnings. Merger date refers the date that the merging parties actually gain the control of the combined parties.

##### **2. Business combination not under identical control**

Business combination not under identical control refers to that parties involved in the merger are not subject to the ultimate control of the same party or same multi parties before & after the merger.

Costs of the combination paid by the purchasers are the sum of assets paid to obtain the control of the combined parties, liabilities incurred or assumed, the fair value of equity securities issued at the purchase date, and various direct costs occurred in the business combination. The difference between the fair value of its assets paid and the book value thereof is accrued to current profit or loss. Purchase date refers to the date that the purchasers actually gain the control of the purchased parties.

The purchasers allocate the costs of combination on the purchase date, and confirm the fair values of identifiable assets, liabilities and contingent liabilities of the purchased parties they obtain. The difference that costs of combination exceed the fair value of identifiable assets of the purchased parties obtained in the merger will be recognized as goodwill; the difference that costs of combination are less than the fair value of identifiable assets of the purchased parties obtained in the merger will be accrued in current profit or loss.

## **6 Preparation of the consolidated financial statements**

The combined scope of consolidated financial statements includes the Company and its subsidiaries. Subsidiary's operating results and financial position are included in the consolidated financial statements from the controlled date until the end date.

As for subsidiary obtained by the Company through business combination under identical control, in the preparation of current consolidated financial statements, it will be deemed that the combined subsidiary is incorporated into the consolidation scope when the ultimate controlling party of the Company implements the control right, and the beginning balance of consolidated financial statements and comparative statements will be adjusted accordantly.

As for subsidiary obtained by the Company through business combination not under identical control, in the preparation of current consolidated financial statements, the financial statements of such subsidiary will be adjusted based on the fair value of the identifiable assets and liabilities determined at the purchase date, and since the purchase date, the consolidated subsidiary will be incorporated into the consolidation scope.

If the accounting period or accounting policy adopted by subsidiary and parent company are not consistent, a necessary adjustment shall be made to the financial statements of subsidiary in accordance with the accounting period or accounting policy of parent company when the consolidated financial statements are prepared. All major transactions, balances and unrealized profit or loss among enterprises within the consolidation scope will be offset in the preparation of consolidated financial statements.

Interests and income attributable to minority shareholders of subsidiary will be listed separately respectively under the Shareholders' Equity in the Consolidated Statement of financial position and under the Net Profit in the Consolidated Income Statement.

If the losses attributable to the non-controlling interests exceed the share of minority shareholders enjoyed in the ownership interest of the subsidiary, in addition to the part that the minority shareholders have the obligation and the ability to take, the balance will offset against the shareholders' equity of parent company. If the subsidiary makes a profit subsequently, before making up the loss attributed to relevant minority shareholders beard by shareholders' equity of parent company, all the profits are attributable to shareholders' equity of parent company.



## **7 Standard for cash and cash equivalent**

In preparing the statement of cash flows, the cash equivalents of the Company include the investments with short period (it usually expires within three months from the purchase date), characteristics of high liquidity, being readily convertible to a known amount of cash and being subject to an insignificant risk of changes in value.

## **8 Transactions of foreign currencies and conversion of financial statements in foreign currencies**

1. Foreign currency transactions are converted into RMB for recording purpose at the exchange rate on the first day of the period when the transaction occurs.

Adjustments are made to foreign currency accounts in accordance with the exchange rate prevailing on the reporting date. Value of non-currency item accrued at fair value by foreign currency is adjusted in accordance with the exchange rate prevailing on fair value confirm date. Conversion differences arising from those specific borrowings are to be capitalized as part of the cost of the construction in progress in the period before the PPE being acquired and constructed has not yet reached working condition for its intended use. Conversion differences arising from other accounts are charged to finance costs.

2. In statement of financial position, assets and liabilities items are converted into RMB at the exchange rate prevailing on the consolidated statement of financial position date. Owner's equity items (excluding undistributed profit item) are converted into RMB at the exchange rate when the transaction occurs. In statement of profit or loss and other comprehensive income, revenue and expenses items are accrued by the proper method and the approximate rate when the transaction occurs. Translation difference occurred for above reason is disclosed in the consolidated statement of financial position as a separate item.

## **9 Financial instruments**

1. Classification of financial instruments

Based on the purposes of obtaining the financial assets and assuming the liabilities, the Company's management classifies the financial instruments into: the financial assets or financial liabilities that are calculated in the fair values and whose changes are accrued to current profit or loss, including financial assets and liabilities directly designated to be calculated in the fair values and whose changes are accrued to current profit or loss; the held-to-maturity investments; loans and receivables; available-for-sale financial assets; and

other financial liabilities, etc.

## 2. Confirmation basis and measurement of financial instruments

(1) The financial assets (or financial liabilities) that are calculated in the fair values and whose changes are accrued to current profit or loss

The fair values (excluding cash dividends that have been declared but have not been distributed and bond interests that have exceeded the expiry dates but have not been drawn) are deemed as the initial confirmation amount on acquisition. Relevant transaction expenses are charged to profit or loss of the period.

The interests or cash dividends obtained during the holding period are recognized as investment income. Change of fair values is charged to profit or loss of the period at the year end.

Difference between the fair value and initial book value is recognized as investment income upon disposal. Adjustment is made to gain or loss from changes in fair values.

### (2) Held-to-maturity investments

The sum of fair values (excluding bond interests that have exceeded the expiry dates and have not been drawn) and relevant transaction expenses are deemed as the initial confirmation amount.

During the holding period, interest income is recognized as investment income based on the amortized cost and actual interest rate (if the difference between the actual interest rate and the nominal interest rate is tiny, calculation is based on the nominal interest rate). The actual interest rates are determined upon acquisition and remain unchanged during the expected holding period or a shorter period applicable.

Difference between the amount received and book value of the investment is charged to profit or loss of the period upon disposal.

If the Company sells or re-classifies a significant proportion of held-to-maturity investments prior to maturity (large amount refers to the total amount relative to such investments prior to the sale or re-classification), then the Company will re-classify the rest of such type of investment as available-for-sale financial assets, and the Company will not re-classify any financial assets as held-to-maturity in the current accounting period or following two fiscal years, excluding: the sale date or re-classification date is near to the maturity or redemption date of such investment (such as three months before maturity), and the market interest rate changes have no significant effect on the fair value of the investment; all the initial principal of such investment is nearly recovered according to the periodic payments or early repayment under the contract, resell or re-classify the remaining; sale or re-classification is caused by independent matters the Company

can't control, not expected to recur and difficult to predict reasonably.

### (3) Receivables and loans

Receivables primarily are the amount receivable formed from sales of goods or service provision of the Company and other claims, which initial recognition amount will be confirmed according to the contract or agreement price receivable from the purchasers. For recovery or disposal of loans and receivables, the difference between the price obtained and the book value of loans and receivables is charged to current profit or loss.

Loans are mainly loans issued by financial companies. For loans issued by financial institutions according to the current market conditions, the initial recognition amount will be confirmed according to the principal of loans issued and related transaction expenses. Interest income recognized during the holding period of the loan will be calculated at the actual rate. Real interest rate will be determined upon obtaining loans, and will be unchanged within the expected duration of the loan or applicable shorter period. If the difference between real interest rate and the contract interest rate is small, then the income will be calculated at the contract interest rate.

### (4) Available-for-sale financial assets

The sum of fair values (excluding cash dividends that have been declared but have not been distributed and bond interests that have exceeded the expiry dates but have not been drawn) and relevant transaction expenses is deemed as the initial confirmation amount.

The interests and cash dividends generated during the holding period are accrued to investment income. At year end, available-for-sale financial assets are calculated in the fair values and the changes in fair values are accrued to the capital reserves (other capital reserves).

Difference between the amount received and the book value of the financial assets is recognized as investment gain or loss upon disposal. At the same time, the accumulated changes in fair value previously recognized in the owners' equity are transferred into investment gain or loss.

### (5) Other financial liabilities

The sum of fair values and relevant transaction expenses is deemed as the initial confirmation amount. The subsequent calculation adopts the amortized cost method. Method for determining fair value: directly refer to quotations in active markets (or using valuation techniques, etc.).(For using valuation techniques, it should disclose relevant valuation assumptions in accordance with various types of financial assets or financial

liabilities, including prepayment rates, expected credit loss rate, interest rate or discount rate.)

### 3. Confirmation and measurement of transform of financial assets

The Company should terminate recognizing these financial assets when the transform occurs and almost all risk and return of the financial assets ownership have been transferred to the transferee; The Company should not terminate recognizing this financial assets if almost all risk and return of the financial assets ownership have been remained.

Essence is more important than form when judging whether the transform meets the requirements of the financial assets termination recognition conditions mentioned above. The Company divides the transform of financial assets into entire transfer and partial transfer.

(1) If the transfer of an entire financial asset satisfies the conditions for stopping recognition, the difference between the amounts of the following two items shall be recorded in current profit or loss:

①The book value of the transferred financial asset;

②The sum of consideration received from the transfer, and the accumulative amount of the changes in the fair values originally recorded in the owners' equities (in the case that the financial asset involved in the transfer is an available-for-sale financial asset).

(2) For partial transfers of financial assets that meet the recognition conditions of termination in recognition, the book value of the whole financial assets are spitted into the derecognized portion and the ex-derecognized portion according to their respective relative fair values (under this situation, the retained service assets are deemed as a part of the exterminated financial assets), and the difference between the following two items shall be recorded in the current profit or loss:

①Book value of the derecognized portion;

②The sum of the consideration of the derecognized portion and the accumulated changes in fair value previously recognized in the owners' equity related to the derecognized portion (in the case that the assets transferred are available-for-sale financial assets).

For transfers of financial assets that do not meet the conditions of termination in recognition, the financial assets remain recognition and the consideration received is recognized as financial liabilities.

(3) Derecognized financial liabilities

If the existing obligations of financial liabilities have been discharged in whole or in part, then the Company will derecognize such financial liability or part thereof.

If all or part of the financial liabilities is derecognized, the difference between the book value of the derecognized financial liabilities and payment will be charged into current profit or loss.

#### 4. Confirmation of fair values of financial assets and financial liabilities

For financial assets or financial liabilities measured at fair value by the Company, the Company will use all or part of the quotations in the market (or use valuation techniques) as their fair values.

##### (1) Impairment of available-for-sale financial assets:

If at the year end the fair values of the available-for-sale financial assets decline significantly, or the trend of the decline is expected to be non-temporary after consideration of all relevant factors, the assets are deemed impaired and impairment loss is recognized together with the amount transferred from the accumulated decreases in fair values previously recognized in the owners' equity.

##### (2) Impairment of held-to-maturity financial assets and loans:

For held-to-maturity investments and loans, if there is objective evidence on the incidence of impairment, then the impairment loss will be calculated and recognized according to the difference between the book value and the present value of estimated future cash flows.

## **10 Receivables**

If there is objective evidence at the year end to indicate that impairment exists in accounts receivables (including accounts receivables, notes receivables, other receivables, long-term receivables, etc.), their carrying amount should be decreasingly recorded as recoverable amount. The decreased amount should be recognized as impairment loss of assets and be recorded into current profit or loss.

Prepayment's risk characteristics are subject to the nature of prepayment, if the prepayment is for the purchase of goods or equipment, then before the agreed delivery date, or not settled but delivered, no provision for bad debts; if the other party of the contract fails to deliver and overdue more than one year after the contract data, provision for bad debts will be made according to the risk characteristics of receivables. For prepayment paid for the construction project, if not fully pay the whole price and the ownership of the construction project is expected to be obtained, no provision for bad debts.

For intra-group receivables, provision for bad debts will be made according to expected bad debt losses may

occur.

Conduct impairment testing separately on accounts receivable with relatively higher individual price at end of the period. If there is objective evidence to indicate that impairment exists, recognize impairment loss and provide for bad and doubtful debts in accordance with the difference between its future cash flow and carrying amount.

Individual material receivables are the top five largest receivables or sum of receivables which account for 10% of ending balance of accounts receivable. For individual receivables not material at end of the period, the Company can conduct impairment testing separately; for receivables without impairment through separate testing (including receivables material and not material), the Company will categorize them into the receivables groups with similar risk factors, and assigns a certain percentage of the end of the period balance of the receivable groups to determine the impairment loss and make provision for bad debts.

Except the receivables provided impairment loss separately, the Company set the provision rate in accordance with the actual loss percentage of the same or similar credit risk group by aging divided in the previous years and the real circles as follows:

Aging	Appropriation proportion of receivables (%)
0 - 1 year	2
1 - 2 years	10
2 - 3 years	50
3 - 5 years	80
Over 5 years	100

## 11 Inventory

### 1. Inventory classification

Inventory is classified to:

- (1) Real estate development products: completed development products, development products in construction, and products to be developed.
- (2) Non-real estate products: raw materials, products in production, stock merchandise, delivery commodity,

commission processing materials, etc.

## 2. Inventory valuation

Inventories are valued at the lower of cost and net realizable value.

Real estate development product costs include land cost, construction costs and other costs. Borrowing costs meet the capitalization conditions are also included in real estate development product costs. Non-real estate development product costs include purchase cost, process cost and other costs.

The inventory is calculated using weighted average method when delivered.

## 3. Confirmation of net realizable value of inventory and Recording method of provision for inventory devaluation

At the end of the year, after overall check of the inventory, draw or adjust provision for inventory devaluation according to the lower of the cost of inventory and net realizable values of inventory.

In normal operation process, net realizable values of commodities inventories for direct sales including finished goods, commodities and materials for sales are determined by the estimated selling prices minus the estimated selling expenses and relevant taxes and fees; In normal operation process, net realizable values of materials that need further processing are determined by the estimated selling prices of the finished goods minus estimated cost to completion, estimated selling expenses and relevant taxes. For the inventory held to implement sales contract or work contract, its net realizable value is calculated on the basis of contract price. For the balance of inventory beyond the amount of the sales contract, its net realizable value is calculated on the basis of general selling price.

Provision for inventory devaluation is provided for based on individual inventory item at end of the period. For inventory that has large quantity and low unit price, the provision for inventory devaluation is provided for based on categories of the inventory. For inventory related to the products manufactured and sold in the same district, with same or similar use or purpose, and difficult to account for separately from other items, the provision for inventory devaluation is provided for on a consolidated basis.

When the factors that influence the decreased bookkeeping of inventory value have disappeared, switch back from the provision for inventory devaluation amount that previously appropriated and the amount that switched back is charged to profit or loss of current period.

## 4. System of stock inventories

Perpetual inventory system is applied.

#### 5. Amortization for low cost and short lived articles and package materials

For low cost and short lived articles, use step-amortization method ;

For package materials, use lump-sum amortization method.

### **12 Investment in subsidiaries, associates, joint-ventures and other.**

#### 1. Confirmation of initial investment cost

##### (1) Investment recognized in enterprise mergers

In case the investment are obtained under identical control:

If the Company pays cash, transfers non-monetary assets or bears liabilities as the consideration for the merger, the book value of the shares of the net assets of the merging party on merging day should be deemed as the initial investment cost of long-term equity investment.

The difference between the initial investment cost of investment and paid cash, transferred non-cash assets and book values of liabilities will be supplemented by the capital reserve; in case the capital reserve is not enough, the remaining gains will be adjusted. In case the Company issues the equity securities as the merger consideration, the book value share on the merging date to obtain the owners' equities of the merging party will be deemed as the initial investment cost of long-term equity investment. If the book value amount of the issued shares is deemed as the capital, the difference between the initial investment cost of investment and the book value amount of the issued shares will be supplemented by the capital reserve; in case the capital reserve is not enough, the remaining gains will be adjusted. All direct expenses related to the enterprise merger, including the auditing expense, evaluation expense, legal service expense, etc. will be accrued to the current profit or loss.

In case the investment are made to obtain the equities of the merging enterprises which are not under identical control, the consolidation cost determined according to 'Accounting Standard for Business Enterprises No. 20 – Business Combinations' on the purchase date will be deemed as the initial investment cost.

##### (2) Other types of long-term equity investment

In case the investment is made by cash payment, the actual payment amount will be deemed as the initial



investment cost.

In case the investment is made by issuing the equity securities, the fair values of issued equity securities will be deemed as the initial investment cost.

For the investment made by the investors, the values agreed in the investment contracts or agreements (deducting the cash dividends or profits that have been declared but have not been dismissed) will be deemed as the initial investment cost, except that the contracts or agreements provide that the values are not fair.

In case the investment is made by exchanging the non-currency assets, and this exchange has the commercial substance and the fair values of exchanged assets can be reliably calculated, the fair values of assets surrendered will be deemed as the initial investment cost, unless there is conclusive evidence that the fair values of assets received are more reliable; for exchange of non-currency assets that do not satisfy the above conditions, the sum of book value of assets surrendered and relevant taxes payable will be deemed as the initial investment cost.

In case the investment is made by the mode of liability restructure, the fair values of the obtained equities will be deemed as the initial investment cost.

## 2. Judgment criteria of joint control and significant influence in the invested companies

If, in accordance with provisions in the contracts, the Company enjoys joint control over certain economic activities only when taking part in significant financial and operational decisions with investors in need of share of control who unanimously agree, the Company is deemed to enjoy joint control with other parties over the invested companies. If the Company is authorized to take part in decision making with regard to the financial and operational policies, but is unable to control or control jointly with other parties over the invested company, the Company is deemed to be able to exercise significant influence over the invested companies.

## 3. Subsequent measurement and profit & loss recognition

When the Company is able to exercise significant influence or joint control, the difference of cost of initial investment in excess of the proportion of the fair value of the net identifiable assets in the invested companies is not adjusted against the initial cost of long-term equity investment. The difference of cost of initial investment in short of the proportion of the fair value of the net identifiable assets in the invested companies is charged into the current profit or loss statement. .

The Company's long-term equity investments in subsidiaries are accounted for by the cost method and

adjusted according to the equity method when preparing consolidated financial statements. When the Company has neither joint control nor significant influence in the invested companies, there is no quotation available on the active market, and the fair value of the investment cannot be reliably measured, the investment is accounted for under the cost method.

When the Company has joint control or significant influence over the invested companies, the investment is accounted for under the equity method.

For profit or loss of internal transactions occurred among the Company and joint ventures, the proportion attributable to the Company will be calculated according to shareholdings and offset in the application of equity method.

Recognition of share of losses of the invested companies under the equity method is treated in the following steps: First, reduce the book value of the long-term equity investment. Second, when the book value is insufficient to cover the share of losses, investment losses are recognized up to a limit of book values of other long-term equity which form net investment in substance by reducing the book value of long term receivables, etc. Finally, after all the above treatments, if the Company is still responsible for any additional liabilities in accordance with the provisions stipulated in the investment contracts or agreements, provisions are recognized and charged into current investment loss according to the liabilities estimated.

If the invested company achieve profit in subsequent periods, the treatment is in the reversed steps described above after deduction of any unrecognized investment losses, i.e., reduce book value of provisions recognized, restore book values of other long-term equity which form net investment in substance, and in long-term equity investment, and recognize investment income at the same time.

Treatment of other equity changes except for net profit or loss in the invested companies: For other equity changes except for net profit or loss in the invested companies, if the proportion of investments remain unchanged, the Company calculates the proportion it shall enjoy or bear and adjust book value of long-term equity investment, and increase or decrease capital reserves – other capital reserves at the same time.

#### 4. Impairment testing and impairment provision methods

(1) In case the cost method is used to calculate the long-term equity investments which are not quoted in the active market or whose fair values cannot be reliably calculated, the depreciation loss will be determined based on the difference between the book values and current values determined by the discounting of future cash flow in line with the current market return rate of similar financial assets.

(2) For other long-term equity investments, in case the calculation results of receivable amounts indicate that the receivable amount of this investment is less than their book values, the difference will be confirmed as the asset depreciation losses.

Once the depreciation loss of investment is confirmed, they will not be reversed.

### **13 Investment properties**

Investment properties refer to properties held to earn rentals or for capital appreciation, or both, including leased land use right and those held and ready to transfer after value added, and leased buildings.

The Company uses the cost model to measure existing investment properties. For investment properties and rental assets measured at the cost model, they will be implemented the same depreciation policy similar to property, plant and equipment, land use right for rental will be implemented the same amortization policy to intangible assets; for those with the indication of impairment, the recoverable amount can only be estimated, and if recoverable amount is lower than its book value, the corresponding impairment loss should be confirmed.

### **14 Property, plant and equipment**

#### **1. Recognition standard of property, plant and equipment**

Property, plant and equipment (hereinafter referred as PPE), tangible assets that are held for use in the production or supply of services, for rental to others, or for administrative purposes; they have useful lives over one fiscal year. And they shall be recognized only when both of the following conditions are satisfied:

- (1) It is probable that economic benefits associated with the assets will flow to the enterprise; and
- (2) The cost of the PPE can be measured reliably.

#### **2. Initial measurement of PPE**

PPE are recorded at the actual cost on acquisition.

(1) The cost of PPE purchased includes purchase price, related tax, transportation expenses, loading and unloading expenses, installment expenses and specialist service expenses attributable to the assets that arise before the assets are completed and put into use.

(2) Where payment for the purchase price of a PPE is deferred beyond normal credit terms, such that the arrangement is in substance of a financing nature, the cost of the fixed asset shall be determined based on

the present value of the purchase price, The difference between the purchase price and its present value shall be recognized in profit or loss over the period of credit. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

(3) For PPE formed through obtaining them by the debtor paying for debt in debt restructure, recognize its recording value as fair value of the PPE, and record the difference between the carrying amounts of debt restructure and the PPE used for paying debt into current profit or loss.

(4) In the circumstance of the non-monetary assets exchange has commercial nature and fair value of surrendered or received assets can be measured reliably, recording value of received assets should be recognized as fair value of surrendered assets unless there is clear evidence to indicate that fair value of received assets is more reliable; for non-monetary assets exchange which doesn't meet the requirement of premise mentioned above, cost of received assets should be recognized as carrying amount and related tax expenses payable of surrendered assets and should not be recognized as profit or loss.

(5) Recording value of PPE obtained by absorbing and consolidated by enterprise under identical control should be recognized as carrying amount of the consolidated party; recording value of PPE obtained by absorbing and consolidated by enterprise under different control should be recognized as fair value.

(6) Recording value of financing leasehold should be recognized as fair value of leasing assets and present value of lowest leasing payment when leasing occurs whichever is lower.

### 3. Depreciation method of PPE

Depreciation of PPE is provided for on a straight-line basis, the depreciation rate is recognized in accordance with category, estimated useful life and estimated residual rate of PPE.

PPE renovations expenses that meet the criteria of capitalization are depreciated on an individual basis over the interval of two renovations or remaining useful life of the PPE, whichever is shorter (2-5 years).

For PPE leased through finance lease, if it can reasonably determine that the ownership of the leased assets will be obtained when the lease period expires, provision for depreciation will be made in useful life of leased assets; if it can't reasonably determine that the ownership of the leased assets will be obtained when the lease period expires, provision for depreciation will be made in the lease period and useful life of leased assets, whichever is shorter.

PPE renovations expenses that meet the criteria of capitalization are averagely amortized according to the period between the two renovations, remaining lease period and the useful life of PPE, whichever is short.

Estimated useful life and annual depreciation rate of PPE by categories are as follows:

Category	Expect service life (year)	Expect residual value rate	Annual depreciation rate
Buildings and installations	35	5%	2.71%
Machines and equipment	10	5%	9.50%
Vehicles	8	5%	11.88%
Office equipment and others	5	5%	19.00%

## 15 Construction in progress

### 1. Classification of construction in progress

The Construction in progress will be calculated based on the classification of proposed projects.

### 2. Transfer time of construction in progress to PPE

For the construction in progress, all expenses occurring before they are ready for the use will be the book values as the PPE. In case the construction in progress has been ready for use but the final accounts for completion have not been handled, from the date when such projects has been ready for use, the Company will evaluate the values and determine the costs based on the project budgets, prices or actual costs of projects, etc. and the depreciation amount will also be withdrawn; when the final accounts for completion are handled, the Company will adjust the originally evaluated values subject to the actual costs, but will not adjust the withdrawn depreciation amount.

## 16 Borrowing costs

### 1. Confirmation principle of capitalization of borrowing costs

In case the borrowing costs occurring in the Company may directly be attributable to the construction and productions of assets complying with the capitalization conditions, they will be capitalized and accrued to the relevant capital costs; other borrowing costs will be confirmed as the expenses based on the actual amount at the time of occurrence and accrued to the current profit or loss.

The assets complying with the capitalization conditions mean the assets such as PPE, investment real estates and inventory, etc. that need a long time of construction and production activities before they are

ready for use or for sales.

The borrowing costs begin to be capitalized under the following circumstances:

- (1) The asset payment have been made which include the payment such as the paid cashes, transferred non-currency assets or borne liabilities with the interests to construct or produce the assets complying with the capitalization conditions;
- (2) The borrowing costs have occurred;
- (3) The necessary construction or production activities to make the assets ready for use or sales have been launched.

In case during the construction or production period the assets complying with the capitalization conditions are abnormally suspended and the suspension period exceeds 3 months continuously, the capitalization of borrowing costs will also be suspended.

The capitalization of borrowing costs for the assets that have been constructed or produced and are ready for use or sales will be stopped.

When parts of the purchased assets or assets whose production satisfies the capitalization conditions are completed respectively and can be used individually, the capitalization of the borrowing costs of these parts will be stopped.

## 2. Capitalization period of borrowing costs

The capitalization period means the period from the moment that the borrowing costs start to be capitalized to the moment that the capitalization is stopped, which does not include the period that the capitalization of borrowing costs is suspended.

## 3. Calculation method about capitalization amount of borrowing costs

The interest expenses for special loans (after the deduction of interest income generated by the unused loan capitals or the investment return obtained from the temporary investments) and auxiliary expenses will be capitalized before the assets complying with the capitalization conditions are ready for the expected use or sales.

The interest amount of general loans to be capitalized will be determined by multiplying the weighted average amount of the asset payment by which the accumulated assets exceed the special loans with the capitalization rate of general loans. The capitalization rate will be determined based on the weighted average

interest rate of general loans.

In case the loans have the discounts or premiums, the Company will adjust the interest amount in each period based on the amortized discount and premium amount in each accounting period in accordance with the actual interest rate method.

## **17 Intangible assets**

### **1. Calculation method of intangible assets**

When acquiring, the intangible assets are generally recorded according to actual cost.

(1) For those the price of intangible assets deferred paid exceed normal credit condition so substantively has financing character, the cost of intangible assets is confirmed on the basis of present value of purchasing price.

(2) For intangible assets formed through obtaining them by the debtor paying for debt in debt restructure, recognize its recording value as fair value of the intangible assets, and record the difference between the carrying amounts of debt restructure and the intangible assets used for paying debt into current profit or loss; in the circumstance of the non-monetary assets exchange has commercial nature and fair value of surrendered or received assets can be measured reliably, recording value of received assets should be recognized as fair value of surrendered assets unless there is clear evidence to indicate that fair value of received assets is more reliable; for non-monetary assets exchange which doesn't meet the requirement of premise mentioned above, cost of received assets should be recognized as carrying amount and related tax expenses payable of surrendered assets and should not be recognized as profit or loss.

(3) Recording value of intangible assets obtained by absorbing and consolidated by enterprise under identical control should be recognized as carrying amount of the consolidated party; recording value of PPE obtained by absorbing and consolidated by enterprise under different control should be recognized as fair value.

### **2. Useful life and amortization of intangible assets**

(1) Estimation of useful life for intangible assets with finite useful life:

At end of each year, the Company will recheck the useful life of intangible assets with the definite useful life and amortization method will be rechecked.

According to the re-check, the useful life and amortization method of the intangible assets at the end of the year are not different from those estimated before.

(2) Amortization of intangible assets:

In case their useful life is limited, the intangible assets are amortized evenly over the period in which they produce economic profit for the Company; in case it is impossible to evaluate the useful life when the intangible assets bring the benefits to enterprises, it will be deemed that the useful life of such intangible assets is uncertain and amortization is not applicable.

**18 Long-term deferred expenses to be amortized**

Long-term deferred expenses to be amortized will be averagely amortized in the benefit period, including:

1. Prepaid rentals for operating leased PPE will be averagely amortized according to the term stipulated in the lease contract.
2. PPE improvement expenses for operating leased, long-term deferred expenses will be averagely amortized according to the remaining lease period and the useful life of leased assets, whichever is shorter.

**19 Impairment of PPE, construction in progress, intangible assets, goodwill and other long-term non-financial assets**

For long-term non-financial assets such as PPE, construction in progress, intangibles, etc., the Company assesses whether signs of possible impairment exist at end of each year. Impairment tests are performed on goodwill arises from business combinations and intangibles with uncertain useful life regardless of whether signs of possible impairment exist.

For assets with signs of impairment, recoverable amounts are estimated:

- (1) When there are signs of possible impairment on assets, the Company estimates the recoverable amount of the assets on an individual basis.
- (2) If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group to which the asset belongs.
- (3) Recoverable amounts are determined as the fair value of the assets after netting off costs of disposal, and the current value of projected future cash flows generated by the assets, whichever is higher.

When the recoverable amount of an asset is lower than the book value of the asset, the book value of the asset is reduced to its recoverable amount. The amount reduced is recognized as impairment loss on assets in the current profit or loss statement, and provision for impairment loss on assets is recorded at the same



time. Future depreciation or amortization of assets is adjusted after recognition of impairment loss so that the adjusted book value of the assets (less estimated residual value) is amortized systematically over their remaining useful life.

Impairment loss on long-term non-financial assets such as PPE, construction in progress, intangibles, etc. shall not be reversed once recognized.

When there are signs of possible impairment on assets, the Company estimates the recoverable amount of the assets on an individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group to which the asset belongs.

## **20 Provisions**

### **1. Recognizing principles:**

When businesses related to external security, pending litigation or arbitration, product quality assurance, retrenchment plan, contract of loss, reconstruction obligation, disposing obligation of PPE and other contingencies satisfy all the following conditions, the Company will recognize them as liabilities:

- (1) The obligation is the present obligation of the Company;
- (2) The performance of such obligation is likely to lead to an outflow of economic benefits;
- (3) The amount of the obligation can be reliably measured.

### **2. Measurement methods**

Provisions shall be initially measured according to the best estimated amount required to be paid when current obligations are fulfilled.

When determining the best estimated amount, it should take full consideration of the risks, uncertainties and time value of money related to contingencies.

Best estimated amount is handled under the following circumstances:

- (1) If the amount required is in a continuous range, and the likelihood of various outcomes within the scope is same, then the estimated amount is determined according to the median of the range, which is the average amount of upper and lower caps.
- (2) If the amount required isn't in a continuous range, or there isn't such a continuous range but the likelihood of various outcomes within the scope isn't same, such as the contingency involves a single item, then the best

estimated amount is determined in accordance with the amount with most likelihood; if the contingency involves several items, then the best estimated amount is determined according to various possible outcomes and associated probabilities.

If expenses required to settle all or part of estimated debt are expected to be compensated by a third party, then the amount of compensation will be separately recognized as an asset upon basically being identified to be received, and the amount of compensation recognized will not exceed the book value of projected liabilities.

## **21 Revenue**

### **1. Sale of goods**

Revenue from the sale of goods is recognized when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods; the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of income can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the enterprise; and the relevant amount of revenue and costs can be measured reliably.

Real estate sales will be confirmed the realization of revenue thereof upon the complete and acceptance of real estate, meeting the delivery terms of sales contract, and obtaining the proof of payment made by the purchasers according to the agreement under the contract on delivering real estate (usually after receiving the first phase of sales contract payment and confirming the payment arrangements of the remaining).

### **2. Rendering of service**

In case on the preparation date of statement of financial position the results about service transaction can be reliably evaluated, the labor income will be confirmed by the completion percentage method. The completed percentage of service transactions is determined by the measurement of finished work (or the proportion of services performed to date to the total services to be performed, or the proportion of costs incurred to date to the estimated total costs).

The Company will determine the total amount of rendering of service based on the prices in contracts and agreements that have been received or will be receivable, except that such prices are not fair. On the statement of financial position date, the current labor incomes will be determined based on the amount after the total labor income amount multiplied by the completion progress deducts the accumulated labors in the

past accounting periods. At the same time, the current labor costs will be carried forward based on the amount after the estimated total labor cost multiplied by the completion progress deducts the accumulated labor costs in the past accounting periods.

In case the service transaction results on the preparation date of statement of financial position cannot be reliably evaluated, they will be determined in the following methods:

(1) In case the labor costs that have occurred can be compensated, the labor costs will be confirmed based on such labor costs and the same amounts will be settled as the labor costs.

(2) In case the labor costs that have occurred cannot be compensated, such labor costs will be accrued to the current profit or loss and will not be confirmed as the labor costs.

### 3. Transferring use right

In case the economic benefits related to the transaction will probably flow into the enterprise and the revenue amounts can be measured reliably, the Company recognizes the revenue amount by the following means:

(1) The interest income amount will be calculated and determined based on the use time of currency capital from the Company by others and actual interest rate.

(2) The income amount of use expenses will be calculated and determined subject to the charging time and method agreed in the relevant contracts and agreements.

### 4. Government grants

Government grants refer to monetary assets or non-monetary assets obtained free by a company from the government, but not include the capital invested by government as a business owner. Government grants are classified to government grants related to assets and government grants related to income.

Government grants will be recognized upon meeting both of the following two conditions:

(1) The company can meet the conditions attached to government grants;

(2) The company can receive government grants.

Government grants related to assets are recognized as deferred income and are averagely distributed in the life of relevant assets, and recorded to current profit or loss. Government grants related to income are handled under the following circumstances:

(1) If such grants are used to compensate for relevant costs and losses of the company during later periods, they will be recognized as deferred income and recorded to current profit or loss upon recognizing related

costs;

(2) If such grants are used to compensate for relevant costs and losses occurred of the company, they will be directly recorded into current profit or loss.

## **22 Deferred tax assets / deferred tax liabilities**

Corporate income tax will be calculated by liability method of the statement of financial position.

The company's tax base will be determined upon the company obtains the assets or liabilities; on the statement of financial position date, take the statement of financial position as the basis, and if the book value of related assets or liabilities are different from the tax bases provided by tax laws, it will calculate and confirm the deferred income tax assets or deferred income tax liabilities occurred in accordance with the provisions of tax laws, which effect will be included in current income tax expense.

The company is subject to the limit of the amount of taxable income likely to be used to offset temporary difference, thus confirms the deferred income tax asset produced by the deductible temporary difference.

In addition to the cases specified under income guidelines that no need to confirm the deferred income tax liabilities, the company should recognize related deferred income tax liabilities for all taxable temporary differences.

## **23 Operating lease and finance lease**

If the terms of the lease will be transferred to the lessee substantially together with all the risks and rewards related to the ownership of leased assets, then the lease is a finance lease, and other lease is operating lease.

### **1. The Company is a lessor**

In finance lease, at the lease beginning date, the Company takes the minimum lease receipt and the initial direct costs as the entry value of finance lease receivable, and records the unguaranteed residual value; and the difference between the sum of minimum lease receipt, initial direct costs and unguaranteed residual value and its present value is recognized as unrealized finance income. For unrealized finance income at each period during the lease term, it will use the effective interest method to confirm the current financing income.

For rent in operating lease, the Company will use the straight-line method to recognize profit or loss in each period during the lease term. Initial direct costs occurred will be recorded into current profit or loss.

## 2. The Company is a lessee

In finance lease, at the lease beginning date, the Company will take the lower of the fair value of the leased assets and the present value of minimum lease payment as the entry value of leased assets, and take the minimum lease payment as the entry value of long-term payables, and their difference will be as unrecognized finance cost. Initial direct costs are included in the value of leased assets. For unrecognized finance income each period during the lease term, it will use the effective interest method to confirm the current financing cost.

The Company uses depreciation policy consistent with its own PPE to make provision for depreciation of leased assets.

For rent in operating leases, the Company will use the straight-line method to record it into the cost of relevant assets or current profit or loss in each period during the lease term; and initial direct costs occurred will be through current profit or loss.

Rent in operating leases will be recorded into the cost of relevant assets or current profit or loss in each period during the lease term.

## 24 Alternation of key accounting policies, accounting estimates and previous errors

There are no changes of key accounting policies, accounting estimates and correction of material accounting errors and relevant effects in 2012.

## III. Taxation

### Main type of tax and tax rate of the Company

Type of tax	Tax rate	Taxable basis
VAT	17%	Sales
Business tax	5%	Rental income
Corporate income tax	25%	Taxable income

1. The Company implements the uniform tax rebate policy of export, i.e. the export is exempt from VAT and the input-VAT of goods is refunded with refund rate according to relevant rules before export in accordance with the requirements of tax law.

2. Since 1 Jan.2008, other subsidiaries of the Company has adopted the applicable income tax rate of 25%,

except for those company established in the below-mentioned districts.

Companies established in Shenzhen Special Economic Zone are entitled to preferential corporate income tax policy during five-year transitional period, i.e. since 1 Jan. 2008, applicable corporate income tax rate of 18%, 20%, 22%, 24% and 25% are adopted from 2008 to 2012 respectively.

Companies established in Hong Kong SAR are entitled to a profits tax rate of 16.5%.

## IV. Business combination and the consolidated financial statements

The Company adopts the Accounting Policies for Business Enterprises No. 33 – Consolidated Financial Statements issued in M. 2006. All subsidiaries under the Company's control and main body with special objectives are included in the scope of consolidation.

The consolidated financial statements are prepared by the parent company based on the individual financial statements of the parent company as well as the subsidiaries included in the scope of consolidation, with reference made to other relevant information and after adjustment to the long-term investments in subsidiaries' equity under equity method. The internal equity investment and the owner's equity of subsidiaries, internal investment income and profit distribution of subsidiaries, internal transactions, internal claims and liabilities will be offset upon consolidation.

The accounting policies adopted by subsidiary and parent company are consistent. (If they are not consistent, a necessary adjustment have be made to the financial statements of subsidiary in accordance with the accounting policy of parent company when the consolidated financial statements are prepared.)

### 1 Status of subsidiaries

#### 1. Subsidiaries obtained through the establishment or investment

Name	Type	Place of Registration	Nature	Registered capital (Million)	Scope of business
Shenzhen Rieys Industrial Co., Ltd.	Limited company	Shenzhen	Trading	50.00	Investment and import & export trading
Puning Tianhe Garment Manufacturing Factory Co., Ltd.	Limited company	Puning	Manufac ture	65.10 (HKD)	Production and sales of clothes and knitting colorized cloth

Name	Actual investment as at 31 Dec.2012 (Million)	Balance of net investment in subsidiaries in substance	Share-hol dings (%)	Voting-ri ghts (%)	Whether consolidated
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Shenzhen Rieys Industrial Co., Ltd.	45.00		90.00	90.00	Yes
Puning Tianhe Garment Manufacturing Factory Co., Ltd.	65.10 (HKD)		100.00	100.00	Yes

## 2. Subsidiaries obtained through business consolidation not under common control

Name	Type	Place of Registration	Nature	Registered capital	Scope of business
Tianrui (HK) Trading Co., Ltd.	Limited company	Hong Kong	Trading	1(USD)	Trading
Puning Hengda Real Estate Development Co., Ltd.	Limited company	Puning	Property development	26 Million RMB	Property development (operate with valid qualification certificate)

Name	Actual investment as at 31 Dec.2012	Balance of net investment in subsidiaries in substance	Share-holdings (%)	Voting-rights (%)	Whether consolidated
Tianrui (HK) Trading Co., Ltd.	1(USD)		100.00	100.00	Yes
Puning Hengda Real Estate Development Co., Ltd.	146.6 Million RMB		100.00	100.00	Yes

## 3. Non-controlling interests and gains & losses attributed to non-controlling interests

Name of subsidiaries	Non-controlling interests	Gains & losses attributed to non-controlling interests	Balance of the owner's equity of parent company after deducting the share of current losses of NCI over the share of owner's equity enjoyed by such NCI in the subsidiary in the period beginning	Method to obtain subsidiary
Shenzhen Rieys Industrial Co., Ltd.	4,395,584.56	-100,123.48		Establishing

## 2 Subjects newly included in current scope of consolidation and subjects no longer included in current scope of consolidation

1. Subsidiaries, subjects with special purposes and business entities which controlling right is formed by entrusted operation or lease newly included in current scope of consolidation

Naught

2. Subsidiaries, subjects with special purposes and business entities which controlling right is formed by entrusted operation or lease no longer included in current scope of consolidation

Naught

3. Business combination not under common control occurred over the current period

Naught

4. Subsidiaries reduced by sale of equity without controlling right over the current period

Naught

## V Notes to the items of consolidated financial statement

### 1 Cash and bank balances

	31 Dec.2012			31 Dec.2011		
	Foreign currency	Exchange rate	Presentation currency	Foreign currency	Exchange rate	Presentation currency
Cash						
RMB	693,639.68	1.0000	693,639.68	126,305.73	1.0000	126,305.73
USD	1.00	6.2855	6.29	1.00	6.3009	6.30
HKD	73.80	0.8109	59.84	168.70	0.8107	136.77
Subtotal			693,705.81			126,448.80
Bank balances						
RMB	20,746,442.44	1.0000	20,746,442.44	1,446,153.03	1.0000	1,446,153.03
USD	10,044.64	6.2855	63,135.59	90.87	6.3009	572.56
HKD	39,771.66	0.8109	32,248.85	31,222.41	0.8107	25,312.01
Subtotal			20,841,826.88			1,472,037.60
Other						
RMB	19,960.10	1.0000	19,960.10	2,263.23	1.0000	2,263.23
Subtotal			19,960.10			2,263.23
Total			21,555,492.79			1,600,749.63

Cash and bank balances increased by 19,954,743.16 (1,246.59%) as Puning Hengda Real Estate Development Co., Ltd. received huge amounts in sales of properties.

### 2 Financial assets at fair value through profit or loss



Item	31 Dec.2012	31 Dec.2011
Huazhi Holding (Zhejiang) Co., Ltd.		12,580.00
Total		12,580.00

The company disposed all holding shares of Huazhi Holding (Zhejiang) Co., Ltd.

### 3 Trade receivables

#### 1. In categories

Categories	31 Dec.2012				31 Dec.2011			
	Balances		Write-down		Balances		Write-down	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
Significant balances	18,679,425.00	36.89	12,529,925.94	67.08	10,253,738.28	28.97	10,253,738.28	47.85
Portfolios	31,755,095.07	62.71	8,362,533.80	26.33	25,142,569.43	71.03	11,176,005.89	52.15
Other	206,357.74	0.40	206,357.74	100.00				
Total	50,640,877.81	100.00	21,098,817.48	41.66	35,396,307.71	100.00	21,429,744.17	100.00

#### 2. Significant balances and other receivables with individually recognized provision.

Names of balances	Amounts	Write-down	%	Reason
Victoria International(USA) INC	5,425,809.98	5,425,809.98	100.00%	*
Shenzhen ITAT International Premier Brand Membership Store	206,357.74	206,357.74	100.00%	Long-term receivables
Total	5,632,167.72	5,632,167.72	100.00%	

\* Victoria International (USA) INC had applied for bankrupt thus the receivable is unlikely to recover, full amount of write-down had been made before 31 Dec.2011.

#### 3. Portfolios for balances without respective risk

Aging	31 Dec.2012			31 Dec.2011		
	Balances		Write-down	Balances		Write-down
	Amounts	%		Amounts	%	
0-1 year	23,567,601.53	74.22%	471,352.03	13,506,106.80	53.72%	270,122.14
1-2 years				397,530.20	1.58%	39,753.02
2-3 years	395,135.93	1.24%	197,567.97			
Over 3 years	7,792,357.61	24.54%	7,693,613.80	11,238,932.43	44.70%	10,866,130.73
Total	31,755,095.07	100.00%	8,362,533.80	25,142,569.43	100.00%	11,176,005.89

4. No amounts due from shareholders (holding 5% or more shares) in the year of 2012.

5. No amounts received in debt restructuring or other equivalent method in the year of 2012.

6. Top 5 amounts of balances on 31 Dec.2012.

Names of balances	Relation	Amount	Aging	Percentage in the total receivables
Victoria International(USA) INC	Customer	5,425,809.98	Over 3years	10.71%
Hongkong Jinhua Trading Company	Customer	4,224,304.63	Over 3years	8.34%
Huangdonglai	Customer	3,898,712.00	0-1 year	7.70%
Brendwood International Corp.	Customer	2,585,615.79	1-2 years	5.11%
Jinjing International Co., Ltd.	Customer	2,544,982.60	Over 3years	5.03%
Total		18,679,425.00		36.89%

**4 Other receivables**

1. In categories

Categories	31 Dec.2012				31 Dec.2011			
	Balances		Write-down		Balances		Write-down	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
Significant balances	6,163,106.00	19.49	3,493,353.00	56.68	4,306,435.56	9.52	4,306,435.56	23.59
Portfolios	25,432,987.03	80.45	19,389,821.78	76.24	40,135,689.92	88.71	13,149,393.63	72.03
Other	20,500.00	0.06	20,500.00	100.00	800,000.00	1.77	800,000.00	4.38
Total	31,616,593.03	100.00	22,903,674.78	72.44	45,242,125.48	100	18,255,829.19	100

2. Portfolios for balances without respective risk

Aging	31 Dec.2012			31 Dec.2011		
	Balances		Write-down	Balances		Write-down
	Amounts	%		Amounts	%	
0-1 year	987,397.85	3.88%	19,747.95	16,485,264.97	41.07%	329,705.30
1-2 years	1,674,024.53	6.58%	167,402.45	7,078,773.64	17.64%	1,493,605.37
2-3 years	3,004,642.64	11.81%	1,502,321.32	6,951,837.36	17.32%	3,475,918.68
Over 3 years	19,766,922.01	77.73%	17,700,350.06	9,619,813.95	23.97%	7,850,164.28
Total	25,432,987.03	100.00%	19,389,821.78	40,135,689.92	100.00%	13,149,393.63

3. No amounts due from shareholders (holding 5% or more shares) in the year ended 31 Dec.2012.

4. Top 5 amounts of balances on 31 Dec.2012.

Names of balances	Relation	Amount	Aging	Percentage in the total receivables
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Puning Shenglilai Sewing Machine Co., Ltd.	Customer	1,717,106.00	2-3years	5.43%
Puning Rieys Paper Industrial Co., Ltd.	Lessee of Land	1,276,000.00	1-3 years	4.04%
Puning Zhongxinglianfangzhi Co., Ltd.	Supplier	1,170,000.00	Over 3years	3.70%
Puningshi Lixiangchengzhiyi Co., Ltd.	Supplier	1,000,000.00	2-3 years	3.16%
Zhenzhiyun International Trading(Shanghai) Co., Ltd.	Supplier	1,000,000.00	Over 3years	3.16%
Total		6,163,106.00		19.49%

## 5 Advances to suppliers

### 1. Aging Analysis

Aging	31 Dec.2012		31 Dec.2011	
	Amounts	%	Amounts	%
0-1 year	330,540.90	23.59%	73,641,517.03	97.34%
1-2 years	1,070,584.00	76.41%	2,010,000.00	2.66%
2-3 years				
Over 3 years				
Total	1,401,124.90	100.00%	75,651,517.03	100.00%

### 2. Top 5 amounts of balances on 31 Dec.2012.

Names of balances	Relation	Amount	Date of occurred	Reason
Puning Yongmao Building Material Trade Co., Ltd.	Supplier	716,893.00	2011	Contract performing
Puningshi Suoye advertisement designation Co., Ltd.	Advertisement Supplier	353,691.00	2011	Contract performing
Guangdong Xinwang Trading Co., Ltd.	Supplier	313,150.00	2012	Contract performing
Puningshi Jinwangda Computer Co., Ltd.	Supplier	17,390.90	2012	Contract performing
Total		1,401,124.90		

### 3. No amounts due from shareholders (holding 5% or more shares) in the year ended 31 Dec.2012.

## 6 Inventories

### 1. Categories

Categories	31 Dec.2012		31 Dec.2011	
	Amounts	Write-down	Amounts	Write-down
Raw material			1,633,596.00	723,540.76
Goods ready for sale			913,254.63	773,977.35

Working in progress			1,245,439.22	
Goods delivered			1,739,916.13	
Property under development			285,474,567.20	
Completed property for sale	340,802,511.47			
Total	340,802,511.47		291,006,773.18	1,497,518.11

## 2. Write-down

Categories	31 Dec.2011	Increases	Decreases		31 Dec.2012
			Reversal	Other	
Raw material	723,540.76			723,540.76	
Goods ready for sale	773,977.35			773,977.35	
Total	1,497,518.11			1,497,518.11	

Puning Tianhe Garment Manufacturing Factory Co., Ltd. sold entire goods and materials thus all write-down reversed in 2012.

## 7 Property, plant and equipment

### 1. Initial costs

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Buildings and installations	119,088,227.16			119,088,227.16
Machines and equipment	2,540,931.00		961,450.00	1,579,481.00
Vehicles	6,184,899.10	525,268.23	793,632.00	5,916,535.33
Office equipment and others	1,392,320.58	235,994.28	88,503.00	1,539,811.86
Total	129,206,377.84	761,262.51	1,843,585.00	128,124,055.35

The company disposed some idle machines and vehicles with an initial costs of 1,843,585.00.

The company purchased some vehicles and equipment in the year ended 31 Dec.2012.

Pledged property, plant and equipment amounts to 69,042,704.76

### 2. Accumulated depreciation

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Buildings and installations	32,016,820.06	3,492,909.96	15,042.84	35,494,687.18
Machines and equipment	1,703,186.40	135,491.84	913,377.50	925,300.74
Vehicles	2,676,754.24	639,288.10	647,936.85	2,668,105.49
Office equipment and others	532,098.04	266,256.48	84,077.85	714,276.67
Total	36,928,858.74	4,533,946.38	1,660,435.04	39,802,370.08

### 3. Impairment

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Buildings and installations				
Machines and equipment		473,301.24		473,301.24
Vehicles				
Office equipment and others		3,212.44		3,212.44
Total		476,513.68		476,513.68

4. Net book value

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Buildings and installations	87,071,407.10	-3,492,909.96	-15,042.84	83,593,539.98
Machines and equipment	837,744.60	-608,793.08	48,072.50	180,879.02
Vehicles	3,508,144.86	-114,019.87	145,695.15	3,248,429.84
Office equipment and others	860,222.54	-33,474.64	4,425.15	822,322.75
Total	92,277,519.10	-4,249,197.55	183,149.96	87,845,171.59

5. No property, plant and equipment leased in 2012.

6. Fully depreciated property, plant and equipment still in use

Categories	Initial costs	Accumulated depreciation	Net book value
Vehicles	620,000.00	589,000.00	31,000.00
Office equipment and others	23,512.00	22,336.40	1,175.60
Total	643,512.00	611,336.40	32,175.60

7. Pledged property, plant and equipment

Categories	Initial costs	Accumulated depreciation	Net book value
Buildings and installations	49,454,692.66	12,387,356.82	37,067,335.84
Machines and equipment	19,588,012.10	18,608,611.49	979,400.61
Total	69,042,704.76	30,995,968.31	38,046,736.45

The initial costs of PPE under mortgage or guarantee on 31 Dec.2011 is 69,042,704.76, please refer to

Note. VIII. 1

**8 Materials held for construction**

Categories	31 Dec.2011		Increases	Decreases	31 Dec.2012	
	Amounts	Write-down			Amounts	Write-down
Gravel and other	54,526.00		5,217,570.00	5,217,570.00	54,526.00	

There was an incurred 5,217,570.00. This is because Materials hold for construction is used.

**9 Intangible assets**

1. Initial costs

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Right to the Use of State-owned Land	33,659,416.00			33,659,416.00
Computer software	373,115.00			373,115.00
Total	34,032,531.00			34,032,531.00

Right to the use of state-owned land that amounted to 13,863,200.00 had been pledged to China Everbright Bank (Guangzhou Branch) to obtain a loan of 40,000,000.00 which matured on 27 Sep.2009. Please refer to Note 6(4)2 for details.

Right to the Use of State-owned Land that amounted to 10,097,307.02 had been pledged to ICBC (Jieyangrongcheng Branch) to form a guarantee to Puning Huafengqiang Trade Co., Ltd from 8 Oct.2012 to 8 Oct.2017. Please refer to Note VIII.1 for details.

## 2. Accumulated amortization

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Right to the Use of State-owned Land	5,266,050.43	673,188.24		5,939,238.67
Computer software	373,115.00			373,115.00
Total	5,639,165.43	673,188.24		6,312,353.67

## 3. Net book value

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Right to the Use of State-owned Land	28,393,365.57	-673,188.24		27,720,177.33
Computer software				
Total	28,393,365.57	-673,188.24		27,720,177.33

Impairment test on 31 Dec.2012 revealed no impairment needed for intangible assets in the year ended 31 Dec.2012.

## 10 Deferred tax asset

### 1. Deferred tax asset

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Impairment	8,919,528.60	342,362.19	684,487.98	8,577,402.81
Total	8,919,528.60	342,362.19	684,487.98	8,577,402.81

### 2. Temporary differences with no recognized deferred tax asset.

Categories	31 Dec.2012	31 Dec.2011
Deductible temporary differences	1,094,388.32	
Unused tax losses		
Total	1,094,388.32	

### 3. Temporary differences of recognized deferred taxation asset

Categories	Temporary differences
Impairment	34,309,611.24
Unused tax losses	
Total	34,309,611.24

## 11 Impairment

Categories	31 Dec.2011	Increases	Decreases		31 Dec.2012
			Reversal	Written off	
Write-down of receivables	39,685,573.36	5,616,299.25	1,299,380.35		44,002,492.26
Including:					
Trade receivables	21,429,744.17	963,113.47	1,294,040.16		21,098,817.48
Other receivables	18,255,829.19	4,653,185.78	5,340.19		22,903,674.78
Write-down of inventories	1,497,518.11			1,497,518.11	-
Impairment of property, plant and equipment		476,513.68			476,513.68
Total	41,183,091.47	6,092,812.93	1,299,380.35	1,497,518.11	44,479,005.94

## 12 Short-term loan

### 1. Categories

Categories	31 Dec.2012	31 Dec.2011
Mortgage loan	15,099,960.00	36,099,960.00
Guaranteed loan		37,600,000.00
Total	15,099,960.00	73,699,960.00

Please refer to Note VI.4.b for details of pledge and guarantee.

### 2. Expired unpaid short-term loans

Bank	Amount	Rate	Purpose	Overdue reason	Expected repay date	Remark
China Everbright Bank, Guangzhou Branch	15,099,960.00	12.3255%	Replacing former loans	Financial difficulty	N/A	
Total	15,099,960.00					

In 2012, the company repaid 10,000,000.00 to China Everbright Bank, Guangzhou Branch;

In 2012, the company repaid 48,600,000.00 to Puning Association of Country Credit Union Liusha West Union, and it acquired a waiver of interest. All loan from Puning Association of Country Credit Union Liusha West Union ceased before 31 Dec.2012.

No law suit arises due to the foregoing expired loans.

## 13 Trade payables

Aging	31 Dec.2012	31 Dec.2011
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	Amount	%	Amount	%
0-1year	30,387,537.73	98.41%	10,191,972.06	94.77%
1-2years	8,326.90	0.03%	444,281.74	4.13%
2-3years	363,281.74	1.18%	20,567.65	0.19%
Over3years	118,176.34	0.38%	97,608.70	0.91%
Total	30,877,322.71	100.00%	10,754,430.15	100.00%

Trade payables increased by 20,122,892.56 due to owed the amounts to property builder.

1. No amounts due to shareholders (holding 5% or more shares) in the year of 2012.
2. No amounts due to other related party in the year of 2012.

#### 14 Advances from customers

Aging	31 Dec.2012		31 Dec.2011	
	Amount	%	Amount	%
0-1year	28,451,015.24	99.56%	14,353,378.00	99.72%
1-2years	85,283.00	0.30%		
2-3years				
Over3years	39,821.24	0.14%	39,821.24	0.28%
Total	28,576,119.48	100.00%	14,393,199.24	100.00%

Amounts due to customers increased by 14,182,920.24 due to the advances of customers.

1. No amounts due to shareholders (holding 5% or more shares) in the year of 2012.
2. No amounts due to other related party in the year of 2012.

#### 15 Other payables

Aging	31 Dec.2012	31 Dec.2011
0-1year	27,168,158.64	62,144,224.59
1-2years	3,813,448.99	790,825.00
2-3years	790,825.00	850,979.54
Over3years	1,043,785.46	330,234.30
Total	32,816,218.09	64,116,263.43

1. No amounts due to shareholders (holding 5% or more shares) in the year of 2012.
2. Please refer to Note VI.4.c for details of amounts due to other related parties

Other payables decreased 31,300,045.34(48.82) as the Company repaid much payables that received in previous years.

#### 16 Accrued payroll

Categories	31 Dec.2011	Increases	Decreases		31 Dec.2012
			Reversal	Written off	
1. Salaries and wages,	665,978.15	5,399,869.48	5,387,926.54	32,300.00	645,621.09



bonus, allowance and subsidies					
2. Employee welfare	103,834.79	53,400.00	72,394.03		84,840.76
3.Social security		304,064.15	304,064.15		
4.Public accumulation fund for housing		61,736.10	61,736.10		
5.Union fund and employee education fund					
6.Other					
Total	769,812.94	5,819,069.73	5,826,120.82	32,300.00	730,461.85

According to social insurance policy specified by local government, the Company has gradually improved the Company's specific policies and payment standards of social insurance.

#### 17 Current tax liabilities

Categories	31 Dec.2012	31 Dec.2011	Tax rate
VAT	562,009.27	-1,055,675.43	17%
Business tax	14,906,947.44	334,224.09	5%
Corporate income tax	15,267,403.16	3,770,853.31	25%
Land value increment tax	10,456,652.35		*
Other	3,586,961.30	1,355,558.47	
Total	44,779,973.52	4,404,960.44	

Land value increment tax is levied on 3.5% of revenue before actually final settlement.

Current tax liabilities increased by 40,375,013.08(916.58% of as to 31 Dec.2012) due to the recognition of revenue-related taxation before the levy.

#### 18 Interest payables

Categories	31 Dec.2012	31 Dec.2011
Interest payables of short-term loans	13,756,401.18	35,818,609.17
Total	13,756,401.18	35,818,609.17

Interest payables are the interest due to banks and other financial intermediaries.

Current interest liabilities decreased by 22,062,207.99 (61.59%) due to the interest exemption by Puning Association of Country Credit Union Liusha West Union.

Please refer to NoteX.1 for details of other unsettled interest payable

#### 19 Share capital

Categories	31 Dec.	%	Increase(+) decrease(-)	31 Dec.2012	%
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	2011		New shares issued	Bonus shares	Shares transfere d from capital surplus	Other	Subtotal		
I. Unlisted shares	164,025,000	51.48%						164,025,000	51.48%
1.Held by Promoter	164,025,000	51.48%						164,025,000	51.48%
Including:									
Held by the State									
Held by domestic corporations	164,025,000	51.48%						164,025,000	51.48%
Held by foreign corporations									
2. Held by other corporates									
3. Held by employees									
4 Preferred shares and other									
II. Listed shares	154,575,000	48.52%						154,575,000	48.52%
1. A shares									
2. B shares	154,575,000	48.52%						154,575,000	48.52%
3. Listed shares in overseas markets									
4. Other									
III. Total shares	318,600,000	100.00%						318,600,000	100.00%

## 20 Capital surplus

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Share capital premium	52,129,496.58			52,129,496.58
Total	52,129,496.58			52,129,496.58

## 21 Surplus reserve

Categories	31 Dec.2011	Increases	Decreases	31 Dec.2012
Statutory surplus reserve	49,036,260.20			49,036,260.20
Discretionary surplus reserve	37,000,000.00			37,000,000.00
Total	86,036,260.20			86,036,260.20

## 22 Retained earnings

	Amount	Rate
Retained earnings as to 31 Dec.2011 without adjustment	-127,219,679.36	
Total adjustment to Retained earnings as to 31 Dec.2012 (add +, less-)		

Retained earnings as to 31 Dec.2011 adjusted	-127,219,679.36	
Add: Profit attributable to owners of the company	26,067,426.66	
Less: Transfer to statutory surplus reserve		
Transfer to discretionary surplus reserve		
Transfer to risk reserve		
Payment of dividends		
Transfer to share capital (Bonus shares )		
Retained earnings as to 31 Dec.2012	-101,152,252.70	

Guangdong Rieys Group Company Ltd recognized a profit of 34,198,389.90 in the debt restructuring with Puning Association of Country Credit Union Liusha West Union.

Puning Hengda Real Estate Development Co., Ltd. achieved a profit of 28,152,598.16 in sales of properties.

Hereinbefore the company made a profit this year.

## 23 Revenue and cost of sales

### 1. Revenue

Item	Year ended 31 Dec.2012	Year ended 31 Dec.2011
Revenue from principal activities	300,968,525.62	86,164,398.51
Revenue from other activities	14,400.00	1,138,000.00
Cost of principal activities	226,849,638.27	69,260,467.78
Cost of other activities		1,067,370.64

### 2. Principal activities (by industry)

Industry	Year ended 31 Dec.2012		Year ended 31 Dec.2011	
	Revenue	Cost of sales	Revenue	Cost of sales
Real estate	291,440,067.00	221,193,886.91		
Textile industry	9,528,458.62	5,655,751.36	89,233,351.99	72,333,561.35
Total	300,968,525.62	226,849,638.27	89,233,351.99	72,333,561.35
Off-set internal transactions			-3,068,953.48	-3,073,093.57
Total	300,968,525.62	226,849,638.27	86,164,398.51	69,260,467.78

### 1. Principal activities (by region)

Region	Year ended 31 Dec.2012		Year ended 31 Dec.2011	
	Revenue	Cost of sales	Revenue	Cost of sales
Clothing sales(Export)	2,815,199.68	2,309,987.71	83,544,688.84	70,004,276.16
Clothing sales(Domestic)	6,713,258.94	3,345,763.65	5,688,663.15	2,329,285.19
Real estate sales	291,440,067.00	221,193,886.91		

Subtotal	300,968,525.62	226,849,638.27	89,233,351.99	72,333,561.35
Off-set internal transactions			-3,068,953.48	-3,073,093.57
Total	300,968,525.62	226,849,638.27	86,164,398.51	69,260,467.78

The total sales to Top 5 customers of the Company amounted to 12,392,864.80, accounting for 4.13% of total revenue of the Company this year.

Name	Revenue	Percent in total revenue of the Company
Huang Donglai	6,464,711.12	2.15%
Chen Miaoxian	1,733,679.00	0.58%
KEENZONE LIMITED	1,558,329.73	0.52%
Wu Weihao	1,379,275.00	0.46%
HONOURLINK	1,256,869.95	0.42%
Total	12,392,864.80	4.13%

#### 24 Business tax and surcharges

Categories	Year ended 31 Dec.2012	Year ended 31 Dec.2011	Rate
Business tax	14,572,723.35	256,900.00	5%
Urban construction and maintenance tax	1,020,090.63	47,803.44	7%、5%
Education expenses and surcharges	728,636.17	29,101.77	3%、2%
Land value increment tax	10,456,652.35		
Total	26,778,102.50	333,805.21	

#### 25 Finance costs

Categories	Year ended 31 Dec.2012	Year ended 31 Dec.2011
Interest expenses	12,481,265.24	20,528,837.42
Less:Interest incomes	6,174.27	24,742.48
Exchange losses	2,979.71	2,097,661.01
Less: Exchange gains	28,726.47	128,494.49
Commission charges	31,563.88	61,046.69
Other		45,717.48
Total	12,480,908.09	22,580,025.63

#### 26 Impairment expenses

Categories	Year ended 31 Dec.2012	Year ended 31 Dec.2011
Bad debt allowance	4,316,918.90	-2,694,960.63
Inventories allowance		
Property, plant and equipment impairment	476,513.68	

Total	4,793,432.58	-2,694,960.63
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Impairment expenses increased by 7,488,393.21 (277.87%) due to the increase of trade receivables.

## 27 Investment income

Categories	Year ended 31 Dec.2012	Year ended 31 Dec.2011
Generated from disposal of equity investments		8,060,304.49
Generated from holding financial assets at fair value through profit or loss	5,093.38	422,423.66
Other		1,955,991.28
Total	5,093.38	10,438,719.43

Investment income decreased by 10,433,625.63(99.95%) due to there was no disposal of equity investments as the previous year.

## 28 Non-operating income

Categories	Year ended 31 Dec.2012	Year ended 31 Dec.2011
1.Gains on disposal of non-current assets	869.85	7,310.23
Including:		
Gains on disposal of Property, plant and equipment	869.85	7,310.23
Gains on disposal of intangible assets		
2. Gains on debt restructuring	34,198,389.90	50,863,941.77
3. Gains on Non-monetary transactions		
4. Donations		40,000.00
5. Government grants		32,674.00
6.Other	533.07	138,486.10
Total	34,199,792.82	51,082,412.10

Other incomes decreased by 16,882,619.28(33.05%) because the amount of waiver of interests in 2012 is less than the previous amount of them.

## 29 Non-operating expense

Categories	Year ended 31 Dec.2012	Year ended 31 Dec.2011
1.Losses on disposal of non-current assets	2,497.65	2,018,063.46
Including:		
Losses on disposal of Property, plant and equipment	2,497.65	2,018,063.46
Losses on disposal of intangible assets		
2. Losses on debt restructuring		
3. Losses on Non-monetary transactions		

4. Donations	1,060,000.00	670,000.00
5. Loss of assets		
6. Fines	36,808.37	67,155.96
7. Other	153,262.08	10,749.05
<b>Total</b>	<b>1,252,568.10</b>	<b>2,765,968.47</b>

### 30 Income tax expense

Categories	Year ended 31 Dec.2012	Year ended 31 Dec.2011
Current tax	11,647,967.99	1,330,029.09
Deferred tax	342,125.79	2,473,068.36
<b>Total</b>	<b>11,990,093.78</b>	<b>3,803,097.45</b>

### 31 Calculations of ROE, basic EPS and diluted EPS

Profit of year ended 31 Dec.2012	Weighted average ROE	EPS	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	0.0761	0.0818	0.0818
Net profit attributable to ordinary shareholders after deducting non-recurring gain or loss	-0.0162	-0.0174	-0.0174

The above data is calculated using the following formulae:

Weighted average return on net asset

$$\text{Weighted average return on net asset} = P_0 / (E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0 \pm E_k \times M_k \div M_0)$$

Where:  $P_0$  is net profit attributable to ordinary shareholders of the Company or net profit attributable to ordinary shareholders of the Company after deducting non-recurring gain or loss;  $E_0$  is the year beginning equity attributable to ordinary shareholders of the Company;  $E_i$  is increased equity attributable to ordinary shareholders of the Company which arises from new issuance of shares or conversion of debt instruments to stocks in the reporting period;  $E_j$  is reduced equity attributable to ordinary shareholders of the Company due to stock repurchase or cash dividend in the reporting period;  $M_0$  is the number of months of the reporting period;  $M_i$  is the number of accumulative months from the next month that equity is increased to the year end of the reporting period;  $M_j$  is the number of months from the next month that equity is decreased to the year end of the reporting period;  $E_k$  is the change of equity resulting from other transactions or events and attributable to ordinary shareholders;  $M_k$  is the number of accumulative months from the next month that other change of equity occurs to the year end of the reporting period.

Basic earnings per share

$$\text{Basic earnings per share} = P_0 \div S$$

$$S = S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$$

$$S = S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$$

Where:  $P_0$  is net profit attributable to ordinary shareholders of the Company or net profit attributable to ordinary shareholders of the Company after deducting non-recurring gain or loss;  $S$  is weighted average number of ordinary shares outstanding;  $S_0$  is the total number of shares at the beginning of the year;  $S_1$  is the number of increased shares as a result of capitalization of reserves or scrip dividend during the reporting period;  $S_i$  is the number of increased shares as a result of new issuance of shares or conversion of debt instruments to stocks during the reporting period;  $S_j$  is the number of reduced shares as a result of stock repurchase;  $S_k$  is the number of consolidated shares in the reporting period;  $M_0$  is the number of months of the reporting period;  $M_i$  is the number of accumulative months from the next month that the number of shares is increased to the year end of the reporting period;  $M_j$  is the number of accumulative months from the next month that the number of shares is decreased to the year end of the reporting period.

(If the Company have any dilutive potential ordinary shares <issuance of convertible bonds, stock options, warrants and other dilutive potential ordinary shares>, they should be adjusted respectively and attributable to net profit of reporting period of ordinary shareholders and weighted average common shares outstanding, and by which calculate the diluted earnings per share)

Diluted earnings per share =  $P1 / (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{weighted average number of increased ordinary shares arising from warrants, stock options and convertible debts})$

Where:  $P1$  is net profit attributable to ordinary shareholders of the Company or net profit attributable to ordinary shareholders of the Company after deducting non-recurring gain or loss, and after the consideration of the effects of dilutive potential ordinary shares, make adjustment according to relevant provisions of "Accounting Standards of Enterprises".

In calculating the diluted earnings per share, the Company has taken into consideration the effects of all dilutive potential ordinary shares on net profit attributable to the Company's common shareholders or net profit attributable to the Company's common shareholders after deducting non-recurring profit or loss as well as weighted average number of shares, until the diluted earnings per share reach the lowest amount.

(1) During period from statement of financial position date to the date approved to issue the financial report, if the occurred stock dividend, reserve capitalization, share split or share consolidation impact the number of outstanding ordinary shares or potential common shares but without influent the amount of owner's equity, it should recalculate the earnings per share each comparative period at adjusted number of shares.

(2) If business combination under identical control occurred during the reporting period, and the merging parties issue new shares as the price in the merger date, when calculate basic earnings per share for the reporting period, such new shares should be treated as outstanding common shares issued at the beginning of merge (weight average by weight of 1). When calculating of basic earnings per share during the comparison period, such shares should be treated as outstanding common shares issued at the beginning of comparison period. When calculating the earnings per share after deducting non-recurring profit or loss at the end of reporting period, the new shares issued by the merging parties on the merger date will be weighted from the month next to the combined date. When calculating the earnings per share after deducting non-recurring

profit or loss during the comparison period, the new shares issued by the merging parties on the merger date will not be weighted (the weight is 0). For the occurrence of business combination under identical control at the reporting period, and the merging parties issue new shares as the price in the merger date, when calculating the diluted earnings per share in the reporting period and comparison period, it should be treated according to the principles on calculation of basic earnings per share.

(3) In the reporting period, if the company realizes the unlisted companies to list indirectly through share issue to purchase assets or other means and which composing a reverse purchase, then when calculating earnings per share of the reporting period:

Weighted average number of ordinary shares in reporting period = weighted average number in the month from reporting period beginning to purchase date + weighted average number from the next month to purchase date to reporting period end

Weighted average number in the month from reporting period beginning to purchase date = weighted average number of purchaser (subsidiary in law) × exchange ratio in Purchase Agreement × number of cumulative months from year beginning to purchase date ÷ number of months of reporting period

Weighted average number in the next month to purchase date to reporting period end = weighted average number of acquirer (parent company in law) × number of cumulative months from the next month to purchase date to reporting period end ÷ number of months of reporting period

In the reporting period, if the company realizes the unlisted companies to list indirectly through share issue to purchase assets or other means, then when calculating earnings per share of the comparison period:

Weighted average number of common shares in comparison period = Purchaser (subsidiary in law) × exchange ratio in Purchase Agreement

## 32 Note to statement of cash flows

### 1. Other proceeds from operating activities

Item	Amount
Proceeds from other corporations	33,100,000.00
Other proceeds from operating activities(excluding sales)	81,011,264.06
Total	114,111,264.06

### 2. Other payments in operating activities

Item	Amount
Payments to other corporations	56,046,636.92
Payments to auditor or other services provider	723,440.83
Other payments in operating activities	117,660,780.44
Total	174,430,858.19

### 3. Other proceeds from financing activities

Item	Amount
Proceeds from Puning Huafengqiang Trade Co., Ltd.	25,000,000.00



Total	25,000,000.00
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### 33 Supplementary information for statement of cash flows

#### 1. Indirect method of reporting cash flows from operating activities.

Item	Year ended 31 Dec.2012	Year ended 31 Dec.2011
1.Reconciliation of profit to cash flows from operating activities:		
Profit for the year	25,967,303.18	20,806,745.79
Add: Impairment loss	6,033,866.38	-3,206,136.77
Depreciations of tangible non-current assets	4,841,996.38	5,733,742.04
Amortizations of intangible assets	673,188.24	893,606.44
Amortizations of long-term deferred expenses	192,960.00	358,411.00
Loss in disposal of property, plant and equipment, intangible assets, and other non-current assets. ("-" for gains)	1,627.80	2,010,753.22
Loss in scrapping property, plant and equipment. ("-" for gains)		
Loss in changes in fair value of related items ("-" for gains)		7,659.00
Finance costs ("-" for gains)	12,481,265.24	22,556,832.21
Loss in investing ("-" for gains)	-5,093.38	-10,438,719.43
Decreases in deferred tax assets ("-" for increase)	342,125.79	-2,842,885.60
Increases in deferred tax liabilities ("-" for decrease)		
Decreases in inventories ("-" for increase)	-51,293,256.40	-94,172,597.46
Decreases in operating receivables ("-" for increase)	-272,288,981.67	-106,846,583.65
Increases in operating payables ("-" for decrease)	326,955,175.90	213,460,425.12
Other	177,874.63	-44,255,427.38
Net cash flows generated by operating activities	54,080,052.09	4,065,824.53
2. Significant investing and financing activities without cash flows		
Liabilities transferring to capital		
Convertible bond matured in 12 months		
Property, plant and equipment acquired in a Finance lease		
3.Net increase in cash and cash equivalents:		
Closing balance of cash	21,555,492.79	1,600,749.63

Less: Opening balance of cash	1,600,749.63	30,095,398.06
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	19,954,743.16	-28,494,648.43

2. Acquisition or disposal of subsidiaries and other entities in Year ended 31 Dec.2012

Item	Year ended 31 Dec.2012	Year ended 31 Dec.2011
I.Acquisition of subsidiaries and other entities		
1. Considerations of acquisition of subsidiaries and other entities		
2.Cash and cash equivalents paid in acquisition of subsidiaries and other entities		
Less: Cash and cash equivalents held by subsidiaries and other entities acquired		
3. Net cash flows generated in acquisition of subsidiaries and other entities		
4. Net assets of subsidiaries acquired		
Current assets		
Non-current assets		
Current liabilities		
Non-current liabilities		
II.Disposal of subsidiaries and other entities		
1.Considerations of disposal of subsidiaries and other entities		1.00
2.Cash and cash equivalents received from disposal of subsidiaries and other entities		1.00
Less: Cash and cash equivalents held by subsidiaries and other entities disposed		173,753.34
3. Net cash flows generated in disposal of subsidiaries and other entities		-173,752.34
4. Net assets of subsidiaries disposed		-9,372,445.92
Current assets		14,837,373.32
Non-current assets		1,860,083.59
Current liabilities		26,069,902.83
Non-current liabilities		

3. Composition of cash and cash equivalents

Item	31 Dec.2012	31 Dec.2011
I. Cash	21,555,492.79	1,600,749.63
Including:		
Cash	693,705.81	126,448.80
Bank balances	20,841,826.88	1,472,037.60
Other deposits	19,960.10	2,263.23
II. Cash equivalents		
Including:		
Bond matured in less than 3 months		
III. Closing balance of cash and cash equivalents on	21,555,492.79	1,600,749.63
Including:		
Cash and cash equivalents under restriction held by parent company or subsidiaries.		

## VI. Related party

### 1 Parent company of the company

Name of parent company	Relation ship	Type of enterprise	Registered place	Legal representative	Business nature
Puning Shenghengchang Trade Development Co., Ltd.	Parent	Limited company	No. 212, Build 46, Qiao Guan Village, Liu Sha North Street, Puning	Ma Chanying	Trading

Name of parent company	Registered capital (RMB million)	Shares holding of the Company (%)	Voting right of the Company (%)	Ultimate controller	Organization Code
Puning Shenghengchang Trade Development Co., Ltd.	98	36.99%	36.99%	Chen Hongcheng	74122232-1

Note: Puning Shenghengchang Trade Development Co., Ltd., Shenzhen Risheng Chuangyuan Asset Management Co., Ltd. and Shantou Lianhua Industrial Co., Ltd. are controlled by the same family, thus constitute concerted action under *Disclosure of Information on the Change of Shareholdings in Listed Companies*.

### 2 Subsidiaries

Please refer to IV.1 for details.

### 3 Other related parties

Name	Relationship
Shenzhen Risheng Chuangyuan Asset Management Co., Ltd.	Holding 10.68% shares of the Company, controlled by Chen Hongcheng's family

Shantou Lianhua Industrial Co., Ltd.	Holding 3.81% shares of the Company, controlled by Chen Hongcheng's family
Shanghai Hong Yi Property Limited	Controlled by Chen Hongcheng's family
Chen Xuewen, Ma Chanying	Direct relatives of Cheng Hongcheng, and Ma Chanying is the legal representative of the parent company and Shenzhen Risheng Chuangyuan Asset Management Co., Ltd.
Chen Meixiang	Direct relatives of Cheng Hongcheng
Ding Lihong	Vice-Board chairman of the Company, relative of Cheng Hongcheng

#### 4 Related party transactions

##### 1. Purchasing goods, providing and accepting services

No transaction under this category exist in this year.

##### 2. Guarantee between related parties

Guarantee	Secured party	Bank issuing loan	Loan balance (Million)	Maturity date of guarantee	Guarantee has been fully performed or not
Chen Hongcheng, Chen Xuewen, Ding Lihong, Dongguan Jinjing Textile Co., Ltd., Puning Shenghengchang Trade Development Co., Ltd., Puning Tianhe Garment Manufacturing Factory Co., Ltd., Shantou Lianhua Industrial Co., Ltd., Shenzhen Rieys Industrial Co., Ltd., Shenzhen Risheng Chuangyuan Asset Management Co., Ltd., Shanghai Hong Yi Property Limited	Guangdong Rieys (Group) Company Limited	Guangzhou Branch of China Everbright Bank	15.09996	27 Sep. 2009	No

As mentioned in Note V (7) (9), the Company took factory dormitory, machinery & equipment and right to the use of state-owned Land as collateral, meanwhile Ma Chanying took the two of her properties as collateral, in order to obtain the above bank loans for the Company

#### 5 Balances due to related parties

Name	31 Dec.2012	31 Dec.2011
Other payables		
Shenzhen Risheng Chuangyuan Asset Management Co., Ltd.,		48,406,636.92
Chen Xuewen		8,630,000.00
Total		57,036,636.92

## **VII Contingent liabilities and contingent assets**

No contingent liabilities and contingent assets need to be disclosed.

## **VIII. Commitments**

### **1 Assets mortgage and guarantee**

1.

In order to support Puning Huafengqiang Trade Co., Ltd. to obtain maximum loan contract, the Company guaranteed its real estate to Jieyang Rongcheng Branch, Industrial and Commercial Bank of China Co., Ltd. (hereinafter referred to as ICBC, Rongcheng Branch) in 2012. The maximum guarantee contract (GDZ(2012) No. 5013 issued by ICBC, Rongcheng Branch) detailed that the guarantee contract was from 8 Oct. 2012 to 8 Oct. 2017, the estimated value of the collateral is 50.13 million. Besides, Puning Huafengqiang Trade Co., Ltd. provided counter guarantee for the Company with 25 million cash which was borrowed from ICBC Rongcheng Branch.

2.

In order to obtain 40 million from Guangzhou Branch, China Everbright Bank, the Company mortgaged its dormitory, machinery and equipment as well as land usufruct, and the maturity date of the loan was 27 Sep. 2009. Please see Note VI (4) 2 for details. The loan was overdue currently.

The initial cost of the assets mentioned in the aforesaid was 93,003,211.78 with the net value of 57,312,698.31.

## **IX. Events after the reporting period**

The Company has no events after the reporting period need to be disclosed.

## **X. Other significant events**

### **1 Particulars on the progress of debt restructuring with Liusha West Union, Puning Rural Credit Cooperatives**

As at 30 Nov. 2012, the principal amount of the Company's outstanding borrowings to Liusha West Union, Puning Rural Credit Cooperatives (hereinafter referred to as Puning RCC) was 48.1 million (including the Company's wholly-owned subsidiary's outstanding borrowings of 15 million) and the corresponding interest. In Dec. 2012, the Company and the Tianhe subsidiary contracted the 'Interest Waiver Agreement' with Puning RCC, which stipulated: if the Company and the Tianhe subsidiary amortize the entire loan principal of 48.1 million before 31 Dec. 2012, Puning RCC agrees to waive all the outstanding loan interest, all the overdue loan interest and all the outstanding interest penalty of the Company and the Tianhe subsidiary; however, if

they fail to pay the principal, the above waiver of interest will be cancelled, and Puning RCC is entitled to recover all the outstanding interest as if waive interest never occurred. When the entire principal owed by the Company and the Tianhe subsidiary had been paid, Puning RCC shall promptly perform the collateral cancellation procedures of the collateral objects.

The Company and the Tianhe subsidiary repaid entire principal of 48.1 million to Puning RCC in Dec. 2012. As at 31 Dec. 2012 and received the waiver interest notice. According to the notice, Puning RCC exempted all the interest which amounted to 34,198,389.90. The amount of waiver of interest had been credited into gain of debt restructuring.

## **2 Particulars on releasing the pledged real estate**

The Company mortgaged its real estate to obtain a loan of 6 million from Puning RCC in the previous periods, and the loan due date was 1 Dec. 2008; the Company also obtained a loan of 5 million from Puning RCC, and the loan due date was 20 Jan. 2009; as at the year ended of 2012, the Company repaid all the loans owed to Puning RCC, and the pledged real estate was released.

## **3 Particulars on the discontinued operation of Tianhe subsidiary**

Puning Tianhe Garment Manufacturing Factory Co., Ltd., a Chinese-foreign joint venture, established by Guangdong Rieys Group Company Ltd. and HongKong Xingli Trade Co., Ltd. under the approval of PWJPZ (2001) No. 123 issued by Bureau of Foreign Trade and Economic Cooperation of Puning Municipality. Puning Tianhe Garment Manufacturing Factory Co., Ltd. obtained the 4452814000002111 Business Licenses for Enterprises as Legal Persons authorised by Puning Province Administrator for Industry Commerce on 28 Dec. 2001. During this period, the shareholding structure of Puning Tianhe Garment Manufacturing Factory Co., Ltd. was changed; as at 31 Dec. 2012, the registered capital was HKD 65.1 million, where Guangdong Rieys Group Company Ltd. contributed HKD 48.82 million, occupying 75% of the total registered capital, Tianrui (HongKong) Trade Co., Ltd. contributed HKD 16.28 million, accounting for 25% of the total registered capital. The Puning Tianhe Garment Manufacturing Factory Co., Ltd.'s main scopes of business were garment manufacture, knitting, elastic webbing.

Tianhe has discontinued its garment manufacture business to execute a restructuring, because of the recession of garment export market, increasingly fierce competition from the new business model, increasing price of raw material for garment manufacture, growing labor cost and declining profitability.

## **4 Continual operating capacity of the Company**

Net profit attributable to owner of parent company of 2012 stood at 26.0674 million;

it was -5.5555 million after deducting non-recurring profit or loss. The Company has suffered losses for consecutive six years.

The Company has gradually retreated from to the development of real estate since 2009. The sales of

property during this reporting period was 291,440,067.00.

During the reporting period, the Company returned principal and interest of 58.6 million, of which 10 million for China Everbright Bank and 48.6 million for Puning RCC. Besides, the Company performed its duty in the Interest Waiver Agreement with Puning RCC and gained an interest exemption of 34,198,389.90.

In light of the above measures adopted by the Company, Board of Directors and management evaluated the solvency and operating capacity of the Company prudently and concluded that the Company has the capacity in generating sufficient cash flows to settle all due debts from operating activities to keep the Company functioning without the threat of liquidation for the foreseeable future. Besides, there are more projects which will be implemented in the following years. Therefore, the Company's continual operating capacity is guaranteed.

## XI Notes to the items of consolidated financial statement

### 1 Trade receivables

#### 1. In categories

Categories	31 Dec.2012				31 Dec.2011			
	Balances		Write-down		Balances		Write-down	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
Significant balances	4,608,276.88	100.00	4,608,276.88	100.00				
Portfolios					4,224,304.63	91.67	4,224,304.63	91.67
Other					383,972.25	8.33	383,972.25	8.33
Total	4,608,276.88	100.00	4,608,276.88	100.00	4,608,276.88	100.00	4,608,276.88	100.00

#### 2. Significant balances and other receivables with individually recognized provision.

Names of balances	Amounts	Write-down	Write-down in Amounts %	Reason
Hongkong Jinhua Trading Company	4,224,304.63	4,224,304.63	100.00	Long-term credit, the balance is controversial
Guangzhou Chen Shunqin	335,904.80	335,904.80	100.00	Long-term credit, the balance is controversial
Ningbo Industrial and Commercial Bureau	26,354.45	26,354.45	100.00	Long-term credit, the balance is

				controversial
Beijing Capital Airport	21,713.00	21,713.00	100.00	Long-term credit, the balance is controversial
Total	4,608,276.88	4,608,276.88		

3. Portfolios for balances without respective risk

Aging	31 Dec.2012				31 Dec.2011	
	Balances		Write-down	Balances		Write-down
	Amounts	%		Amounts	%	
0-1 year						
1-2 years						
2-3 years						
Over 3 years				4,224,304.63	100.00%	4,224,304.63
Total				4,224,304.63	100.00%	4,224,304.63

4. Top 5 amounts of balances on 31 Dec.2012.

Names of balances	Relation	Amount	Aging	Percentage in the total receivables
Hongkong Jinhua Trading Company	Customer	4,224,304.63	Over 3years	91.67
Chen Shunqin	Customer	335,904.80	Over 3years	7.29
Ningbo Industrial and Commercial Bureau	Customer	26,354.45	Over 3years	0.57
Beijing Capital Airport	Customer	21,713.00	Over 3years	0.47
<b>Total</b>		4,608,276.88		100.00

No increase or decrease in trade receivable which had been fully written-down.

**2 Other receivables**

1. In categories

Categories	31 Dec.2012				31 Dec.2011			
	Balances		Write-down		Balances		Write-down	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
Significant balances	96,986,345.81	97.45	3,090,408.20	3.19	137,930,803.36	95.20		
Portfolios	2,538,015.43	2.55	2,168,656.92	85.45	3,147,662.99	2.17	1,148,344.08	23.18
Other					3,806,735.56	2.63	3,806,735.56	76.82
Total	99,524,361.24	100.00	5,259,065.12	5.28	144,885,201.91	100.00	4,955,079.64	100.00

2. Significant balances and other receivables with individually recognized provision.



Names of balances	Amounts	Allowance	Allowance in Amounts %	Reason
Tax reimbursement for export	2,331,608.20	2,331,608.20	100.00%	Unsettled balance with little estimated recovery possibility
Guangzhoushi Nanxiang Building Co.,Ltd.	500,000.00	500,000.00	100.00%	Long-term credit with little estimated recovery possibility
Shenzhen Zhaotong Investment Co.,Ltd.	500,000.00	500,000.00	100.00%	Long-term credit with little estimated recovery possibility
Lin Jialin	300,000.00	300,000.00	100.00%	Long-term credit with little estimated recovery possibility
Shenzhen Baoanqu Gongmingqixingjianye Building Material Sales	200,000.00	200,000.00	100.00%	Long-term credit with little estimated recovery possibility
Shenzhen Jinhongren information consulting Co.,Ltd.	200,000.00	200,000.00	100.00%	Long-term credit with little estimated recovery possibility
Zonglvquan	100,000.00	100,000.00	100.00%	Long-term credit with little estimated recovery possibility
Chengde Xingye Paper Co.,Ltd.	89,229.41	89,229.41	100.00%	Long-term credit with little estimated recovery possibility
Puningshi Weililai textile Co.,Ltd.	50,000.00	50,000.00	100.00%	Long-term credit with little estimated recovery possibility
Changsha Guanyuan Clothes Co.,Ltd.	12,150.00	12,150.00	100.00%	Long-term credit with little estimated recovery possibility
Changsha Hat works	10,542.95	10,542.95	100.00%	Long-term credit with little estimated recovery possibility
Cai Weixian	9,500.00	9,500.00	100.00%	Long-term credit with little estimated recovery possibility
Chen Hanbiao	3,600.00	3,600.00	100.00%	Long-term credit with little estimated recovery possibility
Security deposit	3,000.00	3,000.00	100.00%	Long-term credit with little estimated recovery possibility
Shenzhen Youtianda Industry Co.,Ltd.	205.00	205.00	100.00%	Long-term credit with little estimated recovery possibility
Total	4,309,835.56	4,309,835.56		

### 3. Portfolios for balances without respective risk

Aging	31 Dec.2012			31 Dec.2011		
	Balances		Write-down	Balances		Write-down
	Amounts	%		Amounts	%	

0-1 year	11,517.72	0.45%	230.35	1,558,717.44	49.52%	31,174.35
1-2 years	340,424.80	13.41%	34,042.48	211,732.36	6.73%	21,173.24
2-3 years	33,732.36	1.33%	16,866.18	19,246.86	0.61%	9,623.43
Over 3 years	2,152,340.55	84.80%	2,117,517.91	1,357,966.33	43.14%	1,086,373.06
Total	2,538,015.43	100.00%	2,168,656.92	3,147,662.99	100.00%	1,148,344.08

4. Top 5 amounts of balances on 31 Dec.2012.

Names of balances	Relation	Amount	Aging	Percentage in the total receivables
Puning Rieys Paper Industrial Co., Ltd.	Customer	1,276,000.00	1-3 years	1.29
Guangdong yuanfeng Trading developing Co., Ltd.	Supplier	700,000.00	Over 3 years	0.70
Shenzhen Zhaotong Investing Co., Ltd.	Supplier	600,000.00	Over 3 years	0.60
Guangzhoushi Nanxiang Building Co., Ltd.	Supplier	500,000.00	Over 3 years	0.50
Huang Donglai	Customer	300,000.00	1-2 years	0.30
Total		3,376,000.00		3.39

**3 Investments in subsidiaries and associates**

Name	Accounting Method	Shares in the investee (%)	Voting rights in the investee (%)	Difference statement
Shenzhen Rieys Industrial Co., Ltd.	Cost method	90.00	90.00	
Puning Tianhe Garment Manufacturing Factory Co., Ltd.	Cost method	75.00	100.00	25% held by other entities in the group
Tianrui (HK) Trading Co., Ltd.	Cost method	100.00	100.00	
Puning Hengda Real Estate Development Co., Ltd.	Cost method	100.00	100.00	

Name	Initial cost	31 Dec.2012	Increase and decrease	31 Dec.2011
Shenzhen Rieys Industrial Co., Ltd.	45,000,000.00	45,000,000.00		45,000,000.00
Puning Tianhe Garment Manufacturing Factory Co., Ltd.	51,712,500.42	51,712,500.42		51,712,500.42
Tianrui (HK) Trading Co., Ltd.	8.26	8.26		8.26
Puning Hengda Real Estate Development	146,600,000.00	146,600,000.00		146,600,000.00

Name	Initial cost	31 Dec.2012	Increase and decrease	31 Dec.2011
Co., Ltd.				

#### Revenue and cost of sales

Item	Year ended 31 Dec.2012	Year ended 31 Dec.2011
Revenue	14,400.00	1,138,000.00
cost of sales		1,067,370.64
Gross profit	14,400.00	70,629.36

Revenue decreased by 1,123,600.00(98.73%) due to the cease of leasing the plant to Puning Rieys Paper Industrial Co., Ltd.

#### 4 Investment income

Categories	Year ended 31 Dec.2012	Year ended 31 Dec.2011
Generated from disposal of equity investments		
Generated from holding financial assets at fair value through profit or loss	5,093.38	120,369.70
Total	5,093.38	120,369.70

Investment income decreased by 115,276.32 (95.77%),

#### 5 Supplementary information for statement of cash flows

Item	Year ended 31 Dec.2012	Year ended 31 Dec.2011
1.Reconciliation of profit to cash flows from operating activities:		
Profit for the year	984,345.38	10,955,971.24
Add: Impairment loss	303,985.48	41,174.16
Depreciations of tangible non-current assets	3,504,140.46	4,033,204.64
Amortizations of intangible assets	673,188.24	893,606.44
Amortizations of long-term deferred expenses		
Loss in disposal of property, plant and equipment, intangible assets, and other non-current assets. ("-" for gains)		578,733.69
Loss in scrapping property, plant and equipment. ("-" for gains)		
Loss in changes in fair value of related items ("-" for gains)		7,659.00
Finance costs ("-" for gains)	9,996,965.24	20,495,371.41
Loss in investing ("-" for gains)	-5,093.38	-120,369.70
Decreases in deferred tax assets ("-" for increase)	-75,996.37	-2,657,976.98
Increases in deferred tax liabilities ("-" for decrease)		
Decreases in inventories ("-" for increase)		

Decreases in operating receivables ("-" for increase)	45,360,840.67	-32,494,259.64
Increases in operating payables ("-" for decrease)	-35,846,417.13	51,491,070.32
Other	-15,042.84	-43,656,604.10
Net cash flows generated by operating activities	24,880,915.75	9,567,580.48
2. Significant investing and financing activities without cash flows		
Liabilities transferring to capital		
Convertible bond matured in 12 months		
Property, plant and equipment acquired in a Finance lease		
3.Net increase in cash and cash equivalents:		
Closing balance of cash	7,628,811.81	1,338,922.68
Less: Opening balance of cash	1,338,922.68	28,150,078.47
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	6,289,889.13	-26,811,155.79

## XII. Supplementary information

### 1 Statement of non-recurring gains or losses for the year ended 31 Dec.2012

Item	Amount	Remark
1. Profit or loss from disposal of non-current assets, including write-off impairment.	-1,627.80	Disposal of Property, plant and equipment
2. Ultra vires approval, or without official approval, or occasional tax return or relief;		
3. Government subsidies through current profit or loss. (Excluding that could be continuously received in normal operations according to certain standard amount or quantities, due to being in accord national policies and regulations.		
4. Interest from non-financial enterprises		
5. Gain from acquiring subsidiaries or other entities with a consideration less than the fair value of the net assets.		
6. Non-monetary transactions profit or loss;		
7. Profit or loss from entrusting others to invest or manage assets;		
8. Various impairment losses made due to force majeure, such as natural disasters;		

9. Debt restructuring gains and losses;	34,198,389.90	Note X.1
10. Corporate restructuring costs, such as the employees arrange expenses, integration costs, etc.;		
11. Profit or loss over the part of fair value generated by transactions with obviously unfair trading price;		
12. Profit or loss generated by subsidiaries acquired( under the same control before acquisition) from year beginning to the combination date;		
13. Profit or loss generated by contingencies unrelated to normal business;		
14. Profit or loss from changes in fair values of financial assets at fair value through profit or loss, and liabilities at fair value through profit or loss or from disposals of financial assets at fair value through profit or loss, liabilities at fair value through profit or loss and available-for-sale financial assets. Excluding effective hedging in normal operations.	5,093.38	Stock deals
15. Reversal of write-off of receivables through separate impairment test;		
16. Profit or loss from entrusted loans lend to other entities;		
17. Profit or loss generated from changes in fair value of investment property that using fair value method for subsequent measurement;		
18. According to tax, accountancy law and other regulations, one-time adjustment on current profit or loss;		
19. Commission Income obtained from commission operation;		
20. Other non-operating income and expenditure in addition to the above items;	-1,249,537.38	Fines and donations
21. Other profit or loss items meet the definition of non-recurring gains and losses.		
Subtotal	32,952,318.10	
Income tax expense that should be deducted from aforementioned non-recurring gains and losses	1,429,558.32	
Profit or loss of non-controlling interests in consolidated financial statement	-100,123.48	
Total	31,622,883.26	

## 2 ROE, basic EPS and diluted EPS

Profit of yearended31 Dec.2012	Weighted average	EPS
--------------------------------	------------------	-----

	ROE	Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	0.0761	0.0818	0.0818
Net profit attributable to ordinary shareholders after deducting non-recurring gain or loss	-0.0162	-0.0174	-0.0174

### 3 Explanation to major anomalies in the Company's financial statements

Items in statements	Change amount	Change proportion	Notes
Cash and bank balances	19,954,743.16	1246.59%	Proceeds from property sales.
Trade receivables	15,575,496.79	111.52%	Property sales before proceedings.
Short-term borrowings	-58,600,000.00	-79.51%	Repaid loans from Puning Association of Country Credit Union Liusha West Union and China Everbright Bank
Trade payables	20,122,892.56	187.11%	Recognize payable to builders of the property.
Advances from customers	14,182,920.24	98.54%	Advances from property customers
Current tax liabilities	40,375,013.08	916.58%	Recognize taxes related to sales
Interest payable	-22,062,207.99	-61.59%	Interest exemption acquired from Puning Association of Country Credit Union Liusha West Union
Other payables	-31,300,045.34	-48.82%	Repaid accounts payable to related parties
Revenue	213,680,527.11	244.76%	Sales from property sales
Cost of sales	156,521,799.85	222.56%	Cost of sales from property sales
Distribution expenses	-2,849,139.35	-49.58%	Withdrew from the garment industry.
Asset impairment loss	7,488,393.21	277.87%	Bad debts allowance recognized due to a larger receivables
Investment income	-10,433,626.05	-99.95%	No more incomes excluding stock deals
Non-operating income	-16,882,619.28	-33.05%	Interest exemption was less than previous year

### XIII. Approval and issue of financial statements

The financial statements have been approved for issue by the Board of Directors on 1 Mar.2013

## **XI. Documents Available for Reference**

- I. Accounting statements with the signatures and seals of legal representative, CFO and person in charge of accounting;
- II. Original of Auditor's Report with seals of accounting firm and certified public accountants and seals and signatures of certified public accountants
- III. Originals of all the documents of the Company ever disclosed publicly on the information-disclosure media designated by CSRC, as well as original manuscripts of all notifications of the Company.
- IV. The report is made in both Chinese and English Version, should there be any discrepancy between the two versions, the Chinese version shall prevail.