中國農林低碳控股有限公司

# China Agroforestry Low-Carbon Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

*(Stock Code: 01069)*

# Annual Report 2014

# Contents



# Corporate Information

## DIRECTORS

### Executive Directors:

Mr. Lei Zuliang *(Chairman)*
Mr. Cai Shuiyong *(Resigned on 4 July 2014)*
Mr. Long Weihua

### Non-executive Director:

Professor Liu Zhikun
Mr. Zhou Xianyan *(Appointed on 5 March 2014)*

### Independent Non-executive Directors:

Ms. Tian Guangmei
Mr. Zhou Wei *(Resigned on 16 April 2014)*
Mr. Liang Guoxin
Mr. Liu Zhaoxiang *(Appointed on 16 April 2014)*

## AUDIT COMMITTEE

Mr. Zhou Wei *(Chairman, resigned as Chairman but remained as member on 22 January 2014; resigned on 16 April 2014)*
Ms. Tian Guangmei *(Appointed as Chairman on 22 January 2014)*
Mr. Liang Guoxin
Mr. Liu Zhaoxiang *(Appointed on 16 April 2014)*

## REMUNERATION COMMITTEE

Mr. Zhou Wei *(Chairman, resigned as Chairman but remained as member on 22 January 2014; resigned on 16 April 2014)*
Mr. Cai Shuiyong *(Resigned on 4 July 2014)*
Mr. Liang Guoxin *(Appointed as Chairman on 22 January 2014)*
Mr. Liu Zhaoxiang *(Appointed on 16 April 2014)*
Mr. Lei Zuliang *(Appointed on 4 July 2014)*

## NOMINATION COMMITTEE

Mr. Zhou Wei *(Chairman, resigned on 16 April 2014)*
Mr. Cai Shuiyong *(Resigned on 4 July 2014)*
Mr. Liang Guoxin
Mr. Liu Zhaoxiang *(Chairman, appointed on 16 April 2014)*
Mr. Lei Zuliang *(Appointed on 4 July 2014)*

## JOINT COMPANY SECRETARIES

Mr. Ding Liang CGA, ACCA *(Appointed on 4 June 2013)*
Ms. Chan Ling CPA, MSc *(Resigned on 16 April 2014)*
Mr. Leung Man Kit CPA *(Appointed on 16 April 2014)*

## AUTHORISED REPRESENTATIVES

Mr. Cai Shuiyong *(Resigned on 4 July 2014)*
Mr. Ding Liang CGA, ACCA *(Resigned on 24 April 2014)*
Mr. Lei Zhuliang *(Appointed on 4 July 2014)*
Mr. Leung Man Kit CPA *(Appointed on 24 April 2014)*

## INDEPENDENT AUDITORS

CCTH CPA Limited
*Certified Public Accountants*

## REGISTERED OFFICE

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1002–1003, 10/F
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

## HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA ("CHINA" OR THE "PRC")

40/F, Landmark
4028 Jintian Road
Futian District
Shenzhen City
Guangdong Province
The PRC

## CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
PO Box 190
Grand Cayman
KY1-1108
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKER

China Construction Bank (Asia) Corporation Limited
11/F, Devon House
979 King's Road
Quarry Bay, Hong Kong

## COMPANY WEBSITE

www.chinacaflc.com

## STOCK CODE

01069

# Financial Highlights

## ANNUAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

- Turnover for the financial year ended 31 December 2014 amounted to approximately Renminbi ("**RMB**") 26.8 million (2013: RMB67.0 million), representing a decrease of approximately 60% as compared with corresponding period in 2013.

- Turnover from the continuing operations of the Company for the financial year ended 31 December 2014 was approximately RMB26.8 million (2013: RMB28.9 million); segment profit from the forestry business for the financial year ended 31 December 2014 was approximately RMB6.6 million (2013: RMB10.4 million).

- Loss attributable to the owners of the Company for the financial year ended 31 December 2014 amounted to approximately RMB90.3 million (2013: RMB19.6 million), representing an increase in loss of approximately 360.7% as compared with corresponding period in 2013.

- Total comprehensive expenses attributable to the owners of the Company for the financial year ended 31 December 2014 amounted to approximately RMB91.5 million (2013: RMB17.7 million), representing an increase of approximately 416.9% as compared with corresponding period in 2013.

- Basic loss per share for the financial year ended 31 December 2014 amounted to RMB19.48 cents (2013: RMB5.14 cents).

- The board (the "**Board**") of directors of the Company (the "**Directors**") does not recommend the payment of a final dividend for the financial year ended 31 December 2014 (2013: nil).

# Chairman's Statement

On behalf of the Board, I am pleased to present to our valued shareholders and investors the annual report (the "**Annual Report**") of China Agroforestry Low-Carbon Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the financial year ended 31 December 2014.

Despite the slowing down of the economic growth of the People's Republic of China ("**China**" or the "**PRC**") in the year of 2014, the country is on track for steady economic development with most economic indicators being positive during the year, easing worries of a sharp economic downturn. However, the impact of the fluctuation of raw material prices and the rise of the statutory minimum wages, which resulted in the year of 2013 and 2014, was a difficult and challenging one for the Group's garment manufacturing business in China. The factories in China faced continuous obstacles of escalating manufacturing costs, lacking of skilled sewing workers and keen competition both domestically and from overseas. As a result, the Group disposed its garment business on 30 June 2014 and focused on the sale and research and development of biomass fuel produced by biomass materials such as timber processing and forestry waste, and forestry management.

The operation team of the Group made ongoing efforts to seek appropriate projects for the development of the Group. In September 2014, the Group has invested RMB10 million in the biomass fuel base in Lianzhou, Guangdong Province of the PRC, which has commenced production during the year, so as to further improve its biomass fuel production capacity.

Furthermore, the Group acquired the equity interests of Xinyu Bio Energy (Anhui) Company Limited, which is principally engaged in the manufacture and sale of biomass fuel products, so as to further expand its biomass fuel business. Since then, the Group has established footholds in three major provinces including Sichuan, Guangdong and Anhui. The Group believes that relevant businesses will bring steady returns in the future.

In conclusion, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and others who have extended their invaluable support to the Group and my fellow directors and all staff for their considerable contributions to the Group.

On behalf of the Board
**Lei Zuliang**
*Chairman*

Shenzhen, the PRC, 31 March 2015

## BUSINESS AND OPERATIONAL REVIEW

As a result of the gross loss for the apparel business for the financial year ended 31 December 2013 and the continuing adverse conditions in the apparel business, the Company decided to dispose its apparel business. In May 2014, the Company entered into a major transaction which involved the disposal of Newshine International Limited, a wholly-owned subsidiary of the Company (the "**Disposal**"). The Disposal was completed on 30 June 2014, following which the Group ceased its business in the manufacturing and wholesaling of apparels and became principally engaged in the sale, research and development of biomass fuel produced by biomass materials such as timber processing and forestry waste, and forestry management.

### Continuing Operations

***Forestry management business***

As at 31 December 2014, the long-lease forest lands in the PRC owned by the Group were approximately 3,530 Chinese Mu (equivalent to approximately of 235 hectares) and 21,045 Chinese Mu (equivalent to approximately of 1,403 hectares) in Dali City of Yunnan Province (the "**Yunnan Forest**") and Jiange County of Sichuan Province (the "**Sichuan Forest**"), respectively.

The Sichuan Forest is held by China Timbers Limited ("**China Timbers**") and its subsidiaries (collectively the "**China Timbers Group**"), which were acquired by the Group on 28 May 2013 and became part of the Group. The Group harvested timber logs of approximately 15,000 cubic metres (2013: 25,000 cubic metres) in the Sichuan Forest during the year ended 31 December 2014. As at 31 December 2014, the Sichuan Forest is estimated to comprise of approximately 1,403 hectares of Cypress with approximately 13 hectares of tree plantations aged 40 years or older.

The Yunnan Forest have been under various maintenance works, and the logging and transportation permits of the forest lands are being applied before the commencement of harvesting work. Accordingly, nil revenue has been contributed from the Yunnan Forest to the Group for the year ended 31 December 2014. As at 31 December 2014, the Yunnan Forest is estimated to comprise of approximately 142 hectares of pine trees and 93 hectares of oak trees with approximately 118 hectares of tree plantations with age 40 years or older.

For the year of 2014, the forestry management business of the Group achieved a revenue of RMB12,024,000, which accounted for 44.8% of the total revenue, representing a decrease of 58.4% as compared to the year of 2013. Such decrease was due to the decrease in the number of logging in Sichuan Forest.

***Biomass fuel business***

In early 2014, the Group has successfully commenced operation of its first biomass energy base in Jiange County of Sichuan Province, with an expected annual production capacity of 30,000 tons. For the year ended 31 December 2014, the Group produced approximately 17,000 tons of biomass fuel.

To further expand the Group's biomass fuel business, the Group acquired 70% equity interests of Xinyu Bio Energy (Anhui) Company Limited ("**Anhui Xinyu**") for cash consideration of RMB27,300,000 by way of capital contribution of RMB27,300,000 payable by the Group to Anhui Xinyu on 1 December 2014. As at the date of this announcement, RMB2,466,000 has been paid by the Group as capital contribution to Anhui Xinyu. Anhui Xinyu is principally engaged in the manufacture and sale of biomass fuel products.

For the year of 2014, the biomass fuel business of the Group achieved a revenue of RMB14,813,000 (2013: nil), which accounted for 55.2% of the total revenue. As the Group has only commenced its biomass fuel business in early 2014, no revenue was attributable to this business segment for the year of 2013.

## Discontinued Operations

***Garment business***

During the first six months of 2014, the Group's garment business faced a very complex and volatile environment both domestically and internationally. The core garment manufacturing business of the Group has been significantly impacted by the unfavorable and uncertain global macroeconomic environment and the said business continues to face considerable head winds from mounting manufacturing costs, shortage of skilled sewing workers, slowing domestic demand as well as strong domestic and international competitions. Following the Disposal on 30 June 2014, the Group has ceased its business in the manufacturing and wholesaling of apparels. Given the headwinds from monthly manufacturing costs, shortage of skilled sewing workers and slowing domestic demand as well as the unfavorable global macroeconomics environment, the Group did not carry out any production in its garment business during the year and hence no revenue were made in relation to the garment business for the year ended 31 December 2014.

## Equity Fundraising Activities

During the year ended 31 December 2014, in order to support the rapid development of the Group's forestry management business and the biomass fuel business, the Group has engaged in certain equity fundraising activities, details of which are set out as follows:

***Issue of corporate bonds***

During the year, the Company entered into separate subscription agreements with twelve independent private investors (the "**Subscribers**") pursuant to which the subscribers have agreed to subscribe and the Company has agreed to issue the corporate bonds in the aggregate principal amount of HK$114,100,000 at par value, bearing interest rates ranged from 4% to 7% per annum and maturity dates ranging from two to eight years from the date of issue.

The net proceeds from the issue of corporate bonds, after deducting the interests and other related expenses payable by the Company, were approximately HK$102.9 million, which were used mainly for investment in biomass fuel project(s), to repay existing debts and as general working capital.

***Placing of new shares under the general mandate***

On 24 April 2014, the Company entered into the Placing Agreement with the Emperor Securities Limited (the "**Placing Agent**") whereby the Company agreed to place, through the Placing Agent, on a best effort basis, 74,000,000 new Shares to not less than six placees at a price of HK$1.30 per placing share under the general mandate. The placing shares represent approximately18.67% of the then issued share capital of the Company and 15.73% of the then enlarged issued share capital of the Company.

An aggregate of 74,000,000 placing shares of the Company were placed on 8 May 2014. The net proceeds from the placing, after deducting the placing commission and other related expenses payable by the Company, were approximately HK$94.70 million, which were used mainly for the purpose of investment in biomass fuel project(s), repayment of liabilities and general working capital.

On 16 July 2014, the Company entered into the Placing Agreement with KGI Securities (the "**Placing Agent**") whereby at the request of the Company, the Placing Agent has agreed, on a best effort basis, to procure not less than six placees to subscribe for a total of up to 94,059,259 new Shares at a price of HK$1.65 per placing share under the general mandate. The placing shares represent approximately 20.00% of the then issued share capital of the Company and 16.67% of the then enlarged issued share capital of the Company.

An aggregate of 47,504,000 placing shares of the Company were placed by the Placing Agent on 7 August 2014. The net proceeds from the placing, after deducting the placing commission and other related expenses payable by the Company, were approximately HK$77.6 million, which were used mainly for the purpose of investment in biomass fuel project(s), repayment of liabilities and general working capital.

## FINANCIAL REVIEW

### Turnover

During the financial year ended 31 December 2014, the Company recorded a turnover of approximately RMB26.8 million, representing an approximately 60% decrease as compared to approximately RMB67.0 million for 2013. Such significant drop was mainly due to the slowdown of both domestic and overseas demand and the fierce competition in the garment industry in the PRC, which is partially offset by the new stream of revenue generated from the forestry management business.

Turnover from the Company's forestry management business for the year ended 31 December 2014 was approximately RMB12.0 million (2013: RMB28.9 million), representing an approximately 58.4% decrease as compared to the year ended 31 December 2013. However, such decrease was due to the decrease in the number of logging in Sichuan Forest. The revenue for this business segment attributable to the sale of the forest stock harvested from the Sichuan Forest. The Group expects the revenue generated from this business to further increase in the coming year with the commencement of harvesting of the Yunnan Forest until the Company has acquired the relevant logging permit by the government.

Turnover from the Company's biomass fuel business for the year ended 31 December 2014 was approximately RMB14.8 million. The Group expects the revenue generated from this business to further increase in the coming year as a result of the acquisition of Anhui Xinyu, which is principally engaged in the manufacture and sale of biomass fuel products.

### Gross Profit/Loss

The Group recorded a gross profit of approximately RMB4.19 million for the year ended 31 December 2014 (2013: Gross loss of approximately RMB1.66 million), representing an increase of approximately 352.4% as compared to that for the corresponding period in 2013.

Cost of sales of the Group's forestry management business mainly included cost of timbers harvested, costs incurred from direct labour costs, soil fertilization and pest and disease control costs.

The gross margin of the Group's forestry management business and biomass fuel business, calculated by dividing gross profit by turnover, is 17.2% and 14.3% for the financial year ended 31 December 2014.

## Change in fair value of plantation forest assets

During the year ended 31 December 2014, the Group recognised a gain on change in fair value of plantation forest assets of approximately RMB7.2 million (2013: RMB13.1 million).

## Qualifications and independence of the valuer and forestry specialist consultant

Ascent Partners Valuation Service Limited ("**Ascent Partners**" or the "**Independent Valuer**") is an independent professional qualified valuer appointed by the Company for the purpose of preparing the valuation reports dated 27 March 2015 (the "**Valuation Reports**") on the fair market value of the forest lands with a total site area of approximately 3,530 Chinese Mu and 21,045 Chinese Mu located in Dali City of Yunnan Province (the "**Dali Forests**") and Jiange County of Sichuan Province (the "**Jiange Forests**", together with the Dali Forests, the "**Forests**"), the PRC, respectively. The Independent Valuer has extensive experience in performing valuation of businesses, tangible and intangible assets and financial instruments, and has served as the independent valuer for various forestry projects for listed companies on the Stock Exchange.

The Valuation Report was prepared by Mr. William SW Yuen and Mr. Paul Wu of Ascent Partners. Mr. William SW Yuen is a Chartered Financial Analyst and Financial Risk Manager. He holds a Master degree of Science in Finance and has extensive experience in valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries. He has over six years of experience in the valuation industry and has experience in valuing biological assets. Mr. Paul Wu, holder of a Master degree of Science, had worked in the senior management of world class technology companies. He has extensive experience in corporate valuation and advisory, as well as financial and statistical analyses and solutions. He has over five years of experience in the valuation industry and has experience in valuing biological assets.

Set out below are the companies (Hong Kong listed and private) and their respective valuation projects that have been conducted by Mr. William SW Yuen and Mr. Paul Wu, which are similar to the valuation report for the Forests:

| Company | Stock code | Date of valuation report | Date of circular/ announcement issued | Items of valuation |
|---|---|---|---|---|
| Jiangchen International Holdings Ltd. | 1069.HK | 30 April 2013 | 30 April 2013 | Acquisition of pine forestry plantation in Jiange, Sichuan Province |
| A private company in Qingyuan, Guangdong Province | – | 26 September 2012 | Nil | Annual valuation of eucalyptus plantation |
| China Environmental Resources Group Ltd. | 1130.HK | June, 2009–2012 | Nil | Annual valuation of polar plantation in Shihezi, Xinjiang Province |
| Jiangchen International Holdings Ltd. | 1069.HK | 10 May 2012 | 21 May 2012 | Acquisition of pine forestry plantation in Dali, Yunnan Province |
| Sustainable Forest Holdings Ltd. | 0723.HK | December 2009 | Nil | Second opinion on the valuation of a mixed plantation in Brazilian |

In performing the valuation of the Forests, the Independent Valuer has consulted a forestry specialist consultant, Mr. Peng Tuming (彭土明) ("**Mr. Peng**"), to, amongst other, provide certain technical advice and expert opinions in respect of the biological assets, verify the species of the cypress trees, assist in data collection, issue and confirm the conditions of the biological assets in the Forests.

Mr. Peng, aged 55, studied and graduated in 湖南林業學校 (Hunan Forestry School*, now known as Central South University of Forestry and Technology (中南林業科技大學)) in 1985. Mr. Peng obtained his bachelor in forestry in Central South University of Forestry and Technology in 1993. He has been working in 國家林業局中南調查規劃設計院 (Academy of Central South Forest Inventory and Planning of SFA) since 1985 and is currently a senior engineer. The Academy of Central South Forest Inventory and Planning of SFA is directly supervised by the SFA and is awarded a Class A qualification (甲A級資質), which is the highest credential in the forestry field in the PRC. All data collected and work performed by the Academy of Central South Forest Inventory and Planning of SFA are reported to the SFA. Research published by the SFA as the official governmental data are mainly based on the information collated by the various academies of forest inventory and planning.

Mr. Peng has over 25 years of experience in the forestry related works in the PRC, especially the national 1st class and 2nd class forestry resources survey (國家一類與二類森林資源調查). Mr. Peng has been engaged in a wide variety of technical forestry works in 17 provinces in the PRC, including but not limited to, forestry policy planning, forestry researching, forestry resources inspection and surveying, planning and designing of ecological forests and natural reserve forests and forestry resources monitoring by using remote sensing technology. During his employment with Academy of Central South Forest Inventory and Planning of SFA, he has participated in over 100 forestry surveying, verification and planning tasks and he has published over 30 theses and/or technical reports on forestry resources surveying and planning independently. The above forestry tasks handled by Mr. Peng in the Academy of Central South Forest Investory and Planning of SFA involved the tree stock volume estimation and the experimental procedure for the determination and verification of various parameters used in forestry valuations.

Set out below are some of the technical forestry works in relation to the forests with cypress trees in the PRC that Mr. Peng has conducted previously:

| Project | Date | Items of works |
|---|---|---|
| Provide technical advice and expert opinions in respect of the forest lands of the Group with a total site area of approximately 21,786 Chinese mu located in Jiange County, Sichuan Province, the PRC | 2012 | To monitor and investigate the forest resources, such as stock volume and their biological conditions, such as ages, health statuses, diameter at breast height, of the area. |
| Monitoring and investigation project for the protection of natural forest in Wanyuan County (萬源市) of Sichuan Province | 2006 | To monitor and investigate the forest resources, such as stock volume and their biological conditions, such as ages, health statuses, diameter at breast height, of the area. |
| The inspection project of transforming farmland to forest in Li County (理縣) and Songpan County (松潘縣) of Sichuan Province | 2001 | To inspect the progress of turning the farmland into forest in the area, as well as the checking of biological conditions of the forest in the area, such as ages, health statuses and diameter at breast height. |
| National 2nd class forestry resources survey in Mingxi County of Fujian Province (福建省明溪縣森林資源二類調查) | July–December 1996 | To collect the data of the forest resources, such as stock volume, as well as their biological conditions, such as ages, health statuses, diameter at breast height, in the area for the future governmental planning purposes. |
| National 2nd class forestry resources survey in Fenyi County of Jiangxi Province (江西省分宜縣森林資源二類調查) | May–November 1989 | To collect the data of the forest resources, such as stock volume, as well as their biological conditions, such as ages, health statuses, diameter at breast height, in the area for the future governmental planning purposes. |
| National 2nd class forestry resources survey in Youxi County of Fujian Province (福建省尤溪縣森林資源二類清查) | September 1985 –May 1986 | To collect the data of the forest resources, such as stock volume, as well as their biological conditions, such as ages, health statuses, diameter at breast height, in the area for the future governmental planning purposes. |

In 2015, Mr. Peng prepared two technical reports for advisory purposes for the valuation of the forests lands of the Group with a total site area of approximately 3,530 Chinese Mu located in Dali City of Yunnan Province and approximately 21,045 Chinese Mu located in Jiange County, Sichuan Province, the PRC respectively.

Save for the above, Mr. Peng has not performed any similar technical report for advisory purposes for the valuation of forests similar to the Forests for private enterprises nor the listed companies in Hong Kong. However, Mr. Peng has conducted numerous governmental forestry related technical works for forests in the PRC, in particular, in relation to the estimation of tree volume of cypress trees as disclosed above, which are therefore relevant to the conducting and providing of technical advices on the Forests as a forestry specialist consultant.

Having considered the abovementioned educational background, qualifications and experience of Mr. Peng, and in particular, the following factors, the Board and the Independent Valuer are satisfied that Mr. Peng is competent to perform the current tasks, including but not limited to, conducting and providing technical advices, in particular, the estimation of the stock volume, the parameters used in the forestry valuation and the conditions of the plantation assets of the Forests:

(i) as a senior engineer at the Academy of Central South Forest Inventory and Planning of SFA, Mr. Peng has over 25 years of experience in the forestry related works in the PRC, especially in the national 1st class and 2nd class forestry resources survey (國家一類與二類森林資源調查), for different kinds of forests and trees, including cypress trees;

(ii) Mr. Peng has been engaged in a wide variety of technical forestry works in 17 provinces in the PRC, including but not limited to, forestry resources estimation, forestry policy planning, forestry researching, forestry resources inspection and surveying, planning and designing of ecological forests and natural reserve forests and forestry resources monitoring. The aforesaid forestry related works include the estimation of tree stock volume, assessment and determination of various forestry data, for instance, the yielding rate;

(iii) during Mr. Peng's employment with Academy of Central South Forest Inventory and Planning of SFA, he has participated in over 100 forestry surveying, verification and planning tasks and he has published over 30 theses and/or technical reports on forestry resources surveying and planning independently; and

(iv) the key skills and knowledge required for conducting the above forestry related works, including but not limited to, collect sample data in the forests, investigate the biological conditions of the forestry resources, estimate and assess the forestry growth rate, adopt appropriate methodology for assessing the standing tree stock volumes, are the same set of skills in relation to providing technical advices of the Forests.

Ascent Partners is an independent firm providing a full range of valuation and advisory services. The Valuation Reports have been prepared independently. Neither Ascent Partners nor any authors of the Valuation Reports hold any interest in the Company or its related parties. The fee for providing the Valuation Reports is based on Ascent Partners' normal professional rates, whilst expenses (if incurred) are being reimbursed at cost. Payment of fees and reimbursements are not contingent upon the conclusions drawn in the Valuation Reports.

Mr. Peng does not hold any interest in the Company or its related parties and is independent of and not connected (as defined in the Listing Rules) with the Group and its associates.

In view of the above, the Directors are of the view that the Independent Valuer and Mr. Peng are independent and competent for the purpose of determining the fair value of the Forests.

## Valuation methodology and assumptions

In carrying out the valuation of the Forests, the Independent Valuer considered the following approaches and methodologies:

**Cost Approach** — The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.

Unlike market and income approaches which either incorporate market sentiments or future earnings capacity of an asset as a function to determine its current value, cost approach considers the fundamental cost it takes to form the asset. In the opinion of the Independent Valuer, this method is inapplicable to the analysis of the Forests as there is no convincing association of the market value of the subject asset with its cost.

**Market Approach** — In this approach, the value of an asset is derived by looking at how the market prices similar assets. This approach employs market data either directly from active market, or indirectly through comparable companies or similar transactions to develop a measure of value for the subject assets.

The market approach is preferred by Hong Kong Accounting Standards (HKAS). According to HKAS 41, in particular paragraph B27, if an active market exists for a biological asset, the quoted price in that market is the appropriate basis for determining the fair value of that asset. However, as an active market for transactions of biological assets with similar characteristics and conditions such as types, sizes, population, environment, etc. does not exist, the market approach is not employed in the valuation of the Forests.

**Income Approach** — In the income approach, the value of an asset is the present worth of the expected future economic benefits of ownership. The value of the asset to be valued is developed through the application of the discounted cash flow method to devolve the values of expected future income generated by the asset into a present market value.

This Income Approach is considered the most appropriate and adopted by the Independent Valuer for the valuation of the Forests in the absence of an active market. The method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to its business operation.

## Work performed by the Independent Valuer and Mr. Peng

***(i) Jiange Forests***

Sampling investigation work by random was done by Mr. Peng on the plantation land among each of the 123 sub-compartments being divided in accordance to 《森林資源規劃設計調查主要技術規定》(國家林業局，2003年4月) by using a 1:10000 topographic map. In addition, angle gauge sample plot (角規樣地) approach was adopted to determine the timber volume in each sub-compartment.

The survey of a total of 1,403.03 hectare (equivalent to 21,045.4 Chinese Mu) has been completed and all of them belong to the forest lands. The surveying area involves 1 town and 6 administrative villages, which comprises of 6 compartments and 182 sub-compartments.

Mr. Peng and his two assistants investigated the health status of the trees through visual inspection in the Forests during the fieldwork surveying period. This is a common general practice for determination of the health status of trees in the PRC.

According to the requirements of the sampling survey, non-stratified sampling method was used for this survey. Mr. Peng has adopted a commonly used sampling method as detailed in the Principal Technical Requirements on Forestry Resources Planning and Design Survey, which is a national regulation and guideline issued by the SFA for conducting forestry resources designing, planning, surveying and investigation.

Based on the said guideline for the determination of the numbers of angle gauge survey sample plots required, 455 angle gauge survey sample plots were selected randomly and set up according to the Principal Technical Requirements on Forestry Resources Planning and Design Survey. The stock volume in one sub-compartment can be derived by multiplying the stock volume per unit ha to the area of the sub-compartment. Such sample size is sufficient in ascertaining the stock volume of the Forests which enables to draw the conclusions of the Forests according to the abovementioned guideline in the determination of the numbers of angle gauge survey sample plots required in the forests for sampling purpose.

***(ii) Dali Forests***

Although the Independent Valuer has not paid any site visits to the Dali Forests recently, they have confirmed with the Company that there is no material change with the stock volume and conditions of the forest plantations. The Independent Valuer has relied on the technical report provided by Mr. Peng as basis for the valuation of the Dali Forest.

## Material input, included bases and assumptions used in the valuation

***Key inputs***

The key inputs used in the valuation of the Forests are as follows:

Timber Sale Revenue = Planned Cutting Volume ($m^3$) X Average Selling Price (RMB/$m^3$) X Yielding Rate (%) X Price Growth Factor

The experimental form factor formula originally developed by Professor Lin Changgeng ("**Professor Lin**"), Nanjing Forestry University in 1964, to calculate the standing timber volume was adopted as below:

$$V= F * (H+3) * G$$

where V is standing timber stock volume calculated, F is the experimental form factor, H is the average height of trees, and G is the basal area measured by angle gauge. The values of G and H are collected and derived from the raw data collected on-site by Mr. Peng, while the value of F is retrieved from the ArcGIS, a complete geographical system which integrates hardware, software, and data for capturing, managing, analyzing, and displaying all forms of geographically referenced information and related database.

***Key assumptions***

The key assumptions made by the Independent Valuer in valuing the Forests are as follows:

a. The Independent Valuer has assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of 劍閣縣恒昌低碳林業開發有限公司 (Jiange Hengchang Low-Carbon Forestry Development Co., Ltd*.) ("**Jiange Hengchang**") and 大理藍海 (Dalinanhai Forestry Ltd*) ("**Dalinanhai**").

b. The Independent Valuer has not investigated any financial data to determine the earning capacity of the operation in which the assets are used, and assumed that the prospective earnings would provide a reasonable return on the fair market value of the assets.

c. The Independent Valuer has visited the premises where Qingchuan Boyuan's and Dalinanhai's business operates. Although they have not visited the premises of Dalinanhai for this fiscal year, they have confirmed with the Company that there is no material change in conditions of the Dali Forest and have relied on the technical report by Mr Peng for the valuation of Dalinanhai. We have relied on the assistance of and information provided by the Company, Qingchuan Boyuan and Dalinanhai.

***Discount rate***

*(i) Jiange Forests*

As at the date of the Valuation Report, Jiange Hengchang has no borrowings outstanding and no expected loan upcoming as confirmed by the management, hence their respective Debt-to-Equity value is assumed to be zero, and their respective weighted average cost of capital is equal to their respective cost of equity.

The cost of equity, according to the Capital Asset Pricing Model (CAPM), is given by:

$$\text{Cost of Equity} = \text{Risk-Free Rate} + ß_l \times \text{Market Risk Premium}$$

Where

- $ß_l$ is the sensitivity of return on equity of Jiange Hengchang to the market risk premium; and
- the market risk premium is the difference between the expected rate of return on the market portfolio and the risk-free rate.

The value of $ß_l$ is given by

$ß_l = ß_u + ß_u(1\text{-}t)D/E$

where

- $ß_u$ is the unlevered sensitivity of return on equity of the forest industry to the market risk premium;
- t is the effective tax rate of Jiange Hengchang; and
- D/E is the debt-to-equity ratio of the weighted average of the comparable companies identified.

*(ii) Dali Forests*

As at the date of the Valuation Report, Dalinanhai has no borrowings outstanding and no expected loan upcoming as confirmed by the management, hence their respective Debt-to-Equity value is assumed to be zero, and their respective weighted average cost of capital is equal to their respective cost of equity.

The cost of equity, according to the Capital Asset Pricing Model (CAPM), is given by:

$$\text{Cost of Equity} = \text{Risk-Free Rate} + ß_l \times \text{Market Risk Premium}$$

Where

- $ß_l$ is the sensitivity of return on equity of Dalinanhai to the market risk premium; and
- the market risk premium is the difference between the expected rate of return on the market portfolio and the risk-free rate.

The value of $ß_l$ is given by

$ß_l = ß_u + ß_u(1\text{-}t)D/E$

where

- $ß_u$ is the unlevered sensitivity of return on equity of the forest industry to the market risk premium;
- t is the effective tax rate of Dalinanhai; and
- D/E is the debt-to-equity ratio of the weighted average of the comparable companies identified.

***Selling prices***

*(i) Jiange Forests*

According to the search of the various websites in the internet, including but not limited to:

http://www.178sj.net
http://www.wood168.com
http://www.chinatimber.org
http://www.jiage88.com
http://www.myw189.com
http://jiage.china.alibaba.com
http://www.wood365.cn
http://www.chinaforest.com.cn

Based on the results of the research from the websites above, the average tree prices of the cypress timber to be stable around RMB1,800 per cubic meters for the year 2014. In accordance with the sales contract between Jiange Hengchang and its subcontractors , the sales price of the cypress timber was determined to be RMB1,800 per cubic meters. Accordingly, the average price of RMB1,800 is adopted as a conservative estimation of the market price of the cypress timber. As the market price is based on the dimension of the tree log rather than the age of the trees, in particular the diameter of the tree log, the weighted average is derived by taking into the account of the diameter at breast height distribution which affects the price of cypress log, and hence the valuation of the Jiange Forests. Accordingly, the age of the trees is not being considered in the valuation of the Jiange Forests.

*(ii)* *Dali Forests*

According to the search of the various websites in the internet, including but not limited to:

http://www.jiage88.com
http://www.myw189.com
http://jiage.china.alibaba.com
http://www.wood365.cn
http://www.chinaforest.com.cn
http://miaomu.yuanlin365.com

The prevailing average market prices were RMB1,370 and RMB1,733 for Yunnan pine and oak, respectively. As the market price is based on the dimension of the tree log rather than the age of the trees, in particular the diameter of the tree log, the weighted average is derived by taking into the account of the diameter at breast height distribution which affects the price of pine and oak logs, and hence the valuation of the Dali Forests. Accordingly, the age of the trees is not being considered in the valuation of the Dali Forests.

***Costs in the cash flow projections***

*(i)* *Jiange Forests*

- Timber operational cost rate: RMB64/Chinese Mu for maintenance cost, RMB71/$m^3$ for timber logging cost, RMB64/Chinese Mu for road construction and maintenance cost and RMB 62/$m^3$ for timber transportation cost;
- Scrap sale rate: RMB321/ton;
- Scrap produced rate: 4 tons/Chinese Mu;
- Corporate tax: 0% (waived);
- Silviculture fund collection rate: RMB72/$m^3$;
- Agriculture subsidy: RMB200/Chinese Mu;
- Management & staff cost: RMB53,881per month; and
- Land rental cost: RMB40/Chinese Mu

*(ii) Dali Forests*

- Timber operational cost rate: RMB64/Chinese Mu for maintenance cost, RMB71/$m^3$ for timber logging cost, RMB64/Chinese Mu for road construction and maintenance cost and RMB62/$m^3$ for timber transportation cost;
- Scrap sale rate: RMB300/ton;
- Scrap produced rate: 4 tons/Chinese Mu;
- Corporate tax: 0% (waived);
- Silviculture fund collection: 10% on the timber sales;
- Agriculture Subsidy: RMB200/Chinese Mu;
- Management & Staff Cost: RMB35,343 per month; and
- Land Rental Cost: RMB40/Chinese Mu

***Historical yield of the biological assets***

*(i) Jiange Forests*

- Yielding rate: 66%
- Cypress tree biological growth rate: 5.43%

*(ii) Dali Forests*

- Yielding rates: 55% for Yunnan pine and 52% for oak tree
- Yunnan pine and oak tree biological growth rate: 5.73% and 4.78% respectively

## Sensitivity analysis for the enterprise value

***(i) Jiange Forests***

*Discount rate*

| Variance | Discount Rate | Enterprise Value | % Change |
|---|---|---|---|
| 3% | 17.63% | RMB194,164,123 | –7.16% |
| 2% | 16.63% | RMB198,953,032 | –4.87% |
| 1% | 15.63% | RMB203,938,854 | –2.48% |
| 0% | 14.63% | RMB209,132,169 | 0.00% |
| –1% | 13.63% | RMB214,544,243 | 2.59% |
| –2% | 12.63% | RMB220,187,089 | 5.29% |
| –3% | 11.63% | RMB226,073,518 | 8.10% |

*Cypress market price*

| Variance | Price per m³ | Enterprise Value | % Change |
|---|---|---|---|
| 15% | RMB2,070 | RMB244,284,941 | 16.81% |
| 10% | RMB1,980 | RMB232,567,350 | 11.21% |
| 5% | RMB1,890 | RMB220,849,759 | 5.60% |
| 0% | RMB1,800 | RMB209,132,169 | 0.00% |
| –5% | RMB1,710 | RMB197,414,578 | –5.60% |
| –10% | RMB1,620 | RMB185,696,987 | –11.21% |
| –15% | RMB1,530 | RMB173,979,396 | –16.81% |

*Estimation of cypress volume*

| Variance | Volume | Enterprise Value | % Change |
|---|---|---|---|
| 15% | 269,145 | RMB233,374,763 | 11.59% |
| 10% | 257,443 | RMB225,031,809 | 7.60% |
| 5% | 245,741 | RMB217,021,878 | 3.77% |
| 0% | 234,039 | RMB209,132,169 | 0.00% |
| –5% | 222,337 | RMB200,542,212 | –4.11% |
| –10% | 210,635 | RMB191,252,007 | –8.55% |
| –15% | 198,933 | RMB182,659,316 | –12.66% |

*Estimation of cypress growth rate*

| Variance | Growth Rate | Enterprise Value | % Change |
|---|---|---|---|
| 3% | 8.43% | RMB222,221,188 | 6.26% |
| 2% | 7.43% | RMB217,442,407 | 3.97% |
| 1% | 6.43% | RMB213,293,401 | 1.99% |
| 0% | 5.43% | RMB209,132,169 | 0.00% |
| –1% | 4.43% | RMB204,992,219 | –1.98% |
| –2% | 3.43% | RMB200,902,946 | –3.93% |
| –3% | 2.43% | RMB196,889,968 | –5.85% |

*Estimation of logging cost*

| Variance | Logging Cost per m³ | Enterprise Value | % Change |
|---|---|---|---|
| 100% | RMB141 | RMB195,477,042 | –6.53% |
| 50% | RMB106 | RMB202,304,605 | –3.26% |
| 25% | RMB88 | RMB205,718,387 | –1.63% |
| 0% | RMB71 | RMB209,132,169 | 0.00% |
| –10% | RMB64 | RMB210,497,681 | 0.65% |
| –25% | RMB53 | RMB212,545,950 | 1.63% |
| –75% | RMB18 | RMB219,373,514 | 4.90% |

*Estimation of road construction cost*

| Variance | Road Construction Cost per Chinese Mu | Enterprise Value | % Change |
|---|---|---|---|
| 100% | RMB128 | RMB203,389,850 | –2.75% |
| 50% | RMB96 | RMB206,261,009 | –1.37% |
| 25% | RMB80 | RMB207,696,589 | –0.69% |
| 0% | RMB64 | RMB209,132,169 | 0.00% |
| –10% | RMB58 | RMB209,706,400 | 0.27% |
| –25% | RMB48 | RMB210,567,748 | 0.69% |
| –75% | RMB16 | RMB213,438,908 | 2.06% |

*Estimation of transportation cost*

| Variance | Transportation cost per $m^3$ | Enterprise Value | % Change |
|---|---|---|---|
| 100% | RMB124 | RMB201,212,195 | –3.79% |
| 50% | RMB93 | RMB205,172,182 | –1.89% |
| 25% | RMB78 | RMB207,152,175 | –0.95% |
| 0% | RMB62 | RMB209,132,169 | 0.00% |
| –10% | RMB56 | RMB209,924,166 | 0.38% |
| –25% | RMB47 | RMB211,112,162 | 0.95% |
| –75% | RMB16 | RMB215,072,149 | 2.84% |

*Estimation of operation fees*

| Variance | Operation Fees per Chinese Mu | Enterprise Value | % Change |
|---|---|---|---|
| 100% | RMB128 | RMB203,389,850 | –2.75% |
| 50% | RMB96 | RMB206,261,009 | –1.37% |
| 25% | RMB80 | RMB207,696,589 | –0.69% |
| 0% | RMB64 | RMB209,132,169 | 0.00% |
| –10% | RMB58 | RMB209,706,400 | 0.27% |
| –25% | RMB48 | RMB210,567,748 | 0.69% |
| –75% | RMB16 | RMB213,438,908 | 2.06% |

***(ii) Dali Forests***

*Discount rate*

| Variance | Discount Rate | Enterprise Value | % Change |
|---|---|---|---|
| 3% | 18.10% | RMB16,954,879 | –7.23% |
| 2% | 17.10% | RMB17,378,693 | –4.91% |
| 1% | 16.10% | RMB17,818,848 | –2.50% |
| 0% | 15.10% | RMB18,276,158 | 0.00% |
| –1% | 14.10% | RMB18,751,484 | 2.60% |
| –2% | 13.10% | RMB19,245,743 | 5.31% |
| –3% | 12.10% | RMB19,759,906 | 8.12% |

*Yunnan pine market price*

| Variance | Market Price per $m^3$ | Enterprise Value | % Change |
|---|---|---|---|
| 15% | RMB1,576 | RMB19,671,434 | 7.63% |
| 10% | RMB1,507 | RMB19,206,342 | 5.09% |
| 5% | RMB1,439 | RMB18,741,250 | 2.54% |
| 0% | RMB1,370 | RMB18,276,158 | 0.00% |
| –5% | RMB1,302 | RMB17,811,065 | –2.54% |
| –10% | RMB1,233 | RMB17,345,973 | –5.09% |
| –15% | RMB1,165 | RMB16,880,881 | –7.63% |

*Oak market price*

| Variance | Market Price per $m^3$ | Enterprise Value | % Change |
|---|---|---|---|
| 15% | RMB1,993 | RMB20,061,639 | 9.77% |
| 10% | RMB1,907 | RMB19,466,478 | 6.51% |
| 5% | RMB1,820 | RMB18,871,318 | 3.26% |
| 0% | RMB1,733 | RMB18,276,158 | 0.00% |
| –5% | RMB1,647 | RMB17,680,997 | –3.26% |
| –10% | RMB1,560 | RMB17,085,837 | –6.51% |
| –15% | RMB1,473 | RMB16,490,676 | –9.77% |

*Estimation of Yunnan pine volume*

| Variance | Volume per $m^3$ | Enterprise Value | % Change |
|---|---|---|---|
| 15% | 17,216 | RMB19,672,119 | 7.64% |
| 10% | 16,467 | RMB19,186,720 | 4.98% |
| 5% | 15,719 | RMB18,679,462 | 2.21% |
| 0% | 14,970 | RMB18,276,158 | 0.00% |
| –5% | 14,222 | RMB17,934,000 | –1.87% |
| –10% | 13,473 | RMB17,570,393 | –3.86% |
| –15% | 12,725 | RMB17,185,337 | –5.97% |

*Estimation of oak volume*

| Variance | Volume per $m^3$ | Enterprise Value | % Change |
|---|---|---|---|
| 15% | 17,956 | RMB19,859,714 | 8.66% |
| 10% | 17,175 | RMB19,312,326 | 5.67% |
| 5% | 16,395 | RMB18,742,537 | 2.55% |
| 0% | 15,614 | RMB18,276,158 | 0.00% |
| –5% | 14,833 | RMB17,872,962 | –2.21% |
| –10% | 14,053 | RMB17,447,047 | –4.54% |
| –15% | 13,272 | RMB16,998,746 | –6.99% |

*Estimation of Yunnan pine growth rate*

| Variance | Growth Rate | Enterprise Value | % Change |
|---|---|---|---|
| 3% | 8.73% | RMB19,120,076 | 4.62% |
| 2% | 7.73% | RMB18,792,051 | 2.82% |
| 1% | 6.73% | RMB18,468,295 | 1.05% |
| 0% | 5.73% | RMB18,276,158 | 0.00% |
| –1% | 4.73% | RMB18,106,549 | –0.93% |
| –2% | 3.73% | RMB17,933,048 | –1.88% |
| –3% | 2.73% | RMB17,756,603 | –2.84% |

*Estimation of oak growth rate*

| Variance | Growth Rate | Enterprise Value | % Change |
|---|---|---|---|
| 3% | 7.78% | RMB18,675,467 | 2.18% |
| 2% | 6.78% | RMB18,497,142 | 1.21% |
| 1% | 5.78% | RMB18,378,262 | 0.56% |
| 0% | 4.78% | RMB18,276,158 | 0.00% |
| –1% | 3.78% | RMB18,175,357 | –0.55% |
| –2% | 2.78% | RMB18,076,040 | –1.09% |
| –3% | 1.78% | RMB17,978,373 | –1.63% |

*Estimation of logging cost*

| Variance | Logging Cost per $m^3$ | Enterprise Value | % Change |
|---|---|---|---|
| 100% | RMB141 | RMB16,466,482 | –9.90% |
| 50% | RMB106 | RMB17,371,320 | –4.95% |
| 25% | RMB88 | RMB17,823,739 | –2.48% |
| 0% | RMB71 | RMB18,276,158 | 0.00% |
| –10% | RMB64 | RMB18,457,125 | 0.99% |
| –25% | RMB53 | RMB18,728,576 | 2.48% |
| –75% | RMB18 | RMB19,633,414 | 7.43% |

*Estimation of road construction cost*

| Variance | Road Construction Cost per Chinese Mu | Enterprise Value | % Change |
|---|---|---|---|
| 100% | RMB128 | RMB17,406,012 | –4.76% |
| 50% | RMB96 | RMB17,841,085 | –2.38% |
| 25% | RMB80 | RMB18,058,621 | –1.19% |
| 0% | RMB64 | RMB18,276,158 | 0.00% |
| –10% | RMB58 | RMB18,363,172 | 0.48% |
| –25% | RMB48 | RMB18,493,694 | 1.19% |
| –75% | RMB16 | RMB18,928,767 | 3.57% |

*Estimation of transportation cost*

| Variance | Transportation Cost per $m^3$ | Enterprise Value | % Change |
|---|---|---|---|
| 100% | RMB124 | RMB17,427,300 | –4.64% |
| 50% | RMB93 | RMB17,851,729 | –2.32% |
| 25% | RMB78 | RMB18,063,943 | –1.16% |
| 0% | RMB62 | RMB18,276,158 | 0.00% |
| –10% | RMB56 | RMB18,361,043 | 0.46% |
| –25% | RMB47 | RMB18,488,372 | 1.16% |
| –75% | RMB16 | RMB18,912,801 | 3.48% |

*Estimation of operation fees*

| Variance | Operation Fees per Chinese Mu | Enterprise Value | % Change |
|---|---|---|---|
| 100% | RMB128 | RMB17,406,012 | –4.76% |
| 50% | RMB96 | RMB17,841,085 | –2.38% |
| 25% | RMB80 | RMB18,058,621 | –1.19% |
| 0% | RMB64 | RMB18,276,158 | 0.00% |
| –10% | RMB58 | RMB18,363,172 | 0.48% |
| –25% | RMB48 | RMB18,493,694 | 1.19% |
| –75% | RMB16 | RMB18,928,767 | 3.57% |

## Selling and Distribution Costs

The selling and distribution costs of the Group decreased from RMB0.39 million for the year ended 31 December 2013 to approximately RMB0.12 million for the year ended 31 December 2014. The selling and distribution costs was mainly attributable to the transportation costs incurred by the newly commercial biomass fuel business.

## Administrative Expenses

The administrative expenses of the Group increased by approximately 204.9% from approximately RMB16.3 million for the year ended 31 December 2013 to approximately RMB49.7 million for the year ended 31 December 2014. The increase in administrative expenses was mainly attributable to the addition of consultation fees, the one-off loss brought by the valuation on the share options granted by the Company, and administrative costs associated with head office expenses and the forestry and biomass fuel business.

## Impairment loss recognised in respect of trade receivables

No impairment loss was recognised in respect of trade receivables for the year ended 31 December 2014. During the year ended 31 December 2013, the Group recognised an impairment loss in respect of trade receivables of approximately RMB2.5 million as such amount was under dispute and have already passed the credit period.

## Finance Costs

The finance costs represent the aggregate of interests on (i) the promissory notes ("**Note A**"), bearing 15% interest per annum and with the principal amount of HK$190 million issued on 8 January 2013; (ii) the promissory notes ("**Note B**"), bearing 3% interest per annum and with the principal amount of HK$144 million issued on 28 May 2013; (iii) the zero coupon convertible bonds issued on 11 July 2012; and (iv) corporate bonds issued during the year with the principal amount of HK$114 million and at interest rates ranged from 4% to 7% per annum.

## Income Tax Expense

For the year ended 31 December 2014 , the income tax expense of the Group was approximately RMB0.12 million (2013: nil), which was attributable to the PRC Enterprise Income Tax imposed on profits of the PRC subsidiaries.

## Profit/Loss and Total Comprehensive Income/Expenses Attributable to Owners of the Company

As a result of the above changes, the Company has recorded a loss of approximately RMB90.6 million, representing an increase of approximately 362.2% as compared to a loss of approximately RMB19.6 million for the year ended 31 December 2013. The total comprehensive expenses attributable to owners of the Company was approximately RMB91.7 million for the year ended 31 December 2014, which represents an increase of approximately 418.1% compared to approximately RMB17.7 million for the year ended 31 December 2013.

## Basic Loss per Share

Basic loss per share for the financial year ended 31 December 2014 amounted to RMB19.48 cents (2013: RMB5.14 cents), representing a increase of approximately 279.0%.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group employed a total of 150 employees (766 as at 31 December 2013). Total staff costs for the year under review, including the Directors' remuneration and termination benefits, amounted to approximately RMB26.0 million (2013: RMB14.9 million). The Group's remuneration policies are in line with the prevailing market standards and are determined on the basis of the performance and the level of experience of each individual employee. Other employee benefits include contributions to social insurance scheme.

The Group has adopted a share option scheme pursuant to which the Directors may grant options to individuals including Directors, employees or consultants of the Group to acquire shares of the Company. The Directors consider that the share option scheme assists in recruiting and retaining high calibre executives and employees.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows and bank borrowings. As at 31 December 2014, the Group had total assets of approximately RMB331.8 million (2013: RMB324.7 million) and net assets of approximately RMB151.6 million (2013: RMB81.7 million). The Group's cash and bank balances as at 31 December 2014 amounted to approximately RMB17.1 million (2013: RMB21.8 million). As at 31 December 2014, there were no unutilised banking facilities (2013: nil).

As discussed above, the Group has engaged in certain equity fundraising activities during the year, including the issuance of corporate bonds and placing of new shares of the Company under the general mandate.

Subsequent to 31 December 2014, the Company has made several measures and arrangements for additional fundings to the Group, details of which are set out in Note 2 to the consolidated financial statements.

Taking into account the cash reserves and internally generated cash flows from its operating activities, the Group's financial position is healthy, positioning the Group advantageously to expand its core business and seek other opportunities in order to achieve its business objectives.

## PLEDGE ON ASSETS

As at 31 December 2014, the Company has pledged its entire equity interest of all subsidiaries under Rongxuan and China Timbers to Maple Reach Limited ("Maple Reach") as security for the pledge notes issued to Maple Reach.

## COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| — Acquisition of subsidiaries | **115,331** | – |
| — Property, plant and machinery | **2,796** | – |
| | **118,127** | – |

The Group leases certain of its office premises and production plants under operating lease arrangements with leases negotiated for an average term of one to three years and rentals are fixed over the lease term. At the end of the reporting period, the Group had the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Within one year | **3,276** | 2,385 |
| In the second to fifth year inclusive | **3,169** | 3,977 |
| More than five years | **428** | – |
| | **6,873** | 6,362 |

## CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities (2013: nil).

## FOREIGN EXCHANGE EXPOSURE AND RELATED HEDGES

The Group's transactions are mainly denominated in Hong Kong dollars and RMB, being the functional currencies of relevant group entities. The majority of the Group's cash and bank balances are also denominated in these two currencies. During the financial year ended 31 December 2014, the Group did not experience significant exposure to the exchange rate and interest rate fluctuations. Accordingly, the Group has not implemented any foreign currency hedging policy at the moment. However, the management of the Group will constantly review the economic situation, development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

## GEARING RATIO

The gearing ratio of the Group, which is calculated as total liabilities divided by total assets of the Group was approximately 54.3% as at 31 December 2014 (31 December 2013: 74.8%).

The decrease in the gearing ratio of the Group is primarily attributable to the repayment of the promissory notes as detailed below.

## Promissory note issued on 8 January 2013 (the "Note A")

On 8 January 2013, the Company issued the Note A with the principal amount of HK$190,000,000 to a third party, Maple Reach, for a cash consideration of HK$190,000,000. The Note A bears interest at 15% per annum, payable on a semi-annual basis, and is payable on the maturity date of two years after the date of issue with a redemption premium of HK$26,610,000. Under the terms of the Note A, the Company was entitled to early redeem the note after six months from the issue date at the principal amount of the note plus the redemption premium as specified therein. The Note A was secured by 186,850,000 shares of the Company owned by existing shareholders of the Company, the Company's entire equity interest of Rongxuan and its subsidiaries and the Group's entire equity interest of all subsidiaries under the China Timbers Group upon completion of its acquisition by the Group.

On 16 May 2013, the parties to the Note A reached an agreement for the change in the terms of the note, under which warrants with the nominal value of HK$26,610,000 (the "**Warrant B**") was issued by the Company to Maple Reach and the redemption premium of HK$26,610,000 referred above was agreed not to be paid by the Company upon redemption of the Note A. The holder of the warrants is entitled to convert the warrants into new shares of the Company (the "**Warrant Shares**") for the following period at the conversion price of HK$1.0644 per share. The revision of the terms of the Note A was effective from 5 July 2013.

| Number of shares under the Warrant B | Exercisable period |
|---:|---:|
| 6,250,000 | 8 July 2013 to 31 January 2015 |
| 6,250,000 | 8 January 2014 to 31 January 2015 |
| 6,250,000 | 8 July 2014 to 31 January 2015 |
| 6,250,000 | 8 January 2015 to 31 January 2015 |
| 25,000,000 | |

At 31 December 2013, no part of the Note A was redeemed and no part of the Warrant B was converted into shares of the Company.

During the year ended 31 December 2014, the Company repaid part of the Note A with the principal amount of HK$130,976,000 for an aggregate consideration of HK$144,890,000, comprising cash consideration paid of HK$130,976,000 and redemption premium payable of HK$13,914,000, and Warrant B convertible into 4,194,000 shares lapsed upon repayment of the Note A. At 31 December 2014, the Note A with the principal amount of HK$59,024,000 (2013: HK$190,000,000) remained outstanding which was secured by the pledge of 61,550,000 shares (2013: 105,550,000 shares) of the Company owned by Well Bright. As at that date, the Warrant B convertible into 20,806,000 (2013: 25,000,000) new shares of the Company remained outstanding. Subsequent to 31 December 2014, the Company repaid part of the Note A with the principal amount of approximately HK$45,957,000 for a cash consideration of approximately HK$45,957,000.

## Warrants issued on 28 March 2013

On 28 March 2013, the Company issued an aggregate of 22,000,000 warrants at the issue price of HK$0.01 per warrant ("**Warrant A**"). The holders of the warrants are entitled to convert each unit of the warrants into one new share of the Company at the subscription price of HK$0.99 per share during the period of three years commencing from the date of issue of the warrants. During the year, no warrants have been converted into new shares of the Company. At the end of the reporting period, 22,000,000 units (2013: 22,000,000 units) of the Warrants A remained outstanding.

### Promissory note issued on 28 May 2013 (the "Note B")

On 28 May 2013, the Company issued the Note B with the principal amount of HK$144,000,000 as part of the consideration for the acquisition of certain subsidiaries. The Note B, which is unsecured, bears interest at 3% per annum for the first two years from the date of issue and 8% per annum thereafter, and is payable the maturity date of 28 May 2018 at the principal amount. The Company is also entitled to redeem the whole or part of the Note B at the principal amount at any time before the maturity date.

During the year ended 31 December 2013, the Company repaid part of the Note B with the principal amount of HK$25,000,000 for cash consideration of HK$25,000,000.

During the year ended 31 December 2014, the Company repaid part of the Note B with the principal amount of HK$90,497,000 for cash consideration of HK$90,497,000. At 31 December 2014 ,the Note B with the principal amount of HK$28,503,000 (2013 : HK$119,000,000) remained outstanding.

## CAPITAL STRUCTURE

The capital structure of the Group consisted of net debt, which include promissory notes payable (as detailed above) and corporate bonds payable, and equity attributable to owners of the Company, comprising issued share capital and reserves. As at 31 December 2014, the total number of the ordinary shares of the Company in issue was 517,800,296 shares (2013: 396,296,296 shares). The total equity attributable to the owners of the Company as at 31 December 2014 was approximately RMB140.1 million (2013: RMB81.7 million).

## SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITIONS AND DISPOSALS

### Acquisition of subsidiaries

To further expand the Group's biomass fuel business, on 1 December 2014, the Group acquired 70% equity interests in Anhui Xinyu for cash consideration of RMB27,300,000 by way of capital contribution of RMB27,300,000 payable by the Group to Anhui Xinyu. As at the date of this announcement, RMB2,466,000 has been paid by the Group as capital contribution to Anhui Xinyu. Anhui Xinyu is principally engaged in the manufacture and sale of biomass fuel products.

### Disposal of subsidiaries

On 13 May 2014, the Company and Pu Xing Group Limited (the "**Purchaser**") entered into the sale and purchase agreement, pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of Newshine International Limited, a wholly-owned subsidiary of the Company at a consideration of approximately RMB40 million (which was adjusted to approximately RMB34 million at completion) (the "**Disposal**"). The Disposal was approved by the shareholders on 30 June 2014 and was completed on the same date. Details of the Disposal was disclosed in the announcements of the Company dated 13 May 2014 and 4 June 2014 and the circular dated 13 June 2014, as well as the poll result and completion announcements both dated 30 June 2014.

As discussed earlier, the Group ceased its business in the manufacturing and wholesaling of apparels upon the completion of the Disposal.

Save as disclosed above, there were no significant acquisitions and disposals of subsidiaries during the year ended 31 December 2014.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The biomass fuel base located in the Jiange County of Sichuan Province, with the designed capacity of 30,000 to 40,000 tons per year, successfully commenced operation at the beginning of 2014 and its operation was on track, with an annual production capacity of 30,000 tons. The Group expected to use such biomass fuel base as the Group's standard model in building new factories in regions and provinces such as North Guangdong, Beijing and Tianjin, Hebei and Jiangsu where there is serious problem of air pollution, so as to further expand the Group's biomass fuel business.

In the context of reducing smog, the Group intends to expand the biomass fuel business to moderately developed areas where there is no natural gas supply and within 200 kilometres from factories, by securing large-scale industrial park projects, constructing energy equipment and boilers for customers, providing energy supply technology and services, and sharing the reduction of energy costs with customers.

Save as disclosed above, the Group had no other future plans for material investments or capital assets as at 31 December 2014.

## SUMMARY OF FIVE-YEAR FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

### Results

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | **2014** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Revenue | 202,232 | 184,804 | 92,438 | 66,956 | **26,837** |
| Gross profit/(loss) | 32,823 | 12,884 | (884) | (1,661) | **4,189** |
| Profit/(loss) before tax | 26,706 | 1,531 | (20,037) | (19,632) | **(85,201)** |
| Profit/(loss) attributable to owners of the Company | 23,081 | 411 | (20,037) | (19,632) | **(90,322)** |
| Basic earnings/(loss) per share (RMB) | 0.0624 | 0.0011 | (0.0542) | (0.0514) | **(0.1948)** |

### Assets and Liabilities

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | **2014** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Non-current assets | 23,749 | 22,432 | 26,699 | 246,825 | **264,676** |
| Current assets | 73,645 | 74,749 | 66,627 | 77,852 | **67,134** |
| Current liabilities | 16,383 | 15,759 | 6,864 | 7,262 | **77,314** |
| Net assets | 81,011 | 81,422 | 73,868 | 81,744 | **151,586** |

## PROSPECT AND OUTLOOK

Given that the PRC's economy is no longer developing at double-digit rates of growth and has entered a mature stage featuring more robust but slower growth, the Group is cautiously optimistic about the future of the forestry management and biomass fuel industry.

In the first half of 2014, the Group continually reviewed its existing businesses and opportunities, both in terms of acquisitions and divestments, which may improve its profitability and overall financial position. Following the disposal of the Group's Garment business on 30 June 2014, the Company has positioned development of biomass fuel business and forestry management business as its core business segment of the Group. As a result of the policies implemented by the PRC Government categorizing biomass fuel as clean energy and the rapid development of the biomass fuel business by the Group, the Board holds the view that the earnings derived from the biomass fuel business will grow tremendously in the near future and the profitability of the Group will improve accordingly.

Additionally, the Group intends to expand the biomass fuel business to moderately develop areas where there is no natural gas supply and within 200 kilometres from factories, by securing large-scale industrial park projects, constructing energy equipment and boilers for customers, providing energy supply technology and services, and sharing the reduction of energy costs with customers. The acquisition of Anhui Xinyu which is principally engaged in the manufacture and sale of biomass fuel products at the end of the year of 2014 is an example showing the Group's gradual expansion of the biomass fuel business. It is expected that more projects will be completed in 2015, which will complete the whole supply chain of the biomass fuel business of the Group and maximise profitability.

The Group will continue to increase its investment and research and development, and co-operate with forestry research universities in China to establish a biomass fuel academy in the PRC, which aims to research biomass materials liquefaction, specialization and minimisation of biomass fuel's production facilities and upgrade of biomass boilers. At the same time, the Group will actively cooperate with enterprises which produce biomass fuels in the PRC to broaden the upstream supply sources and actively expand into the downstream market.

Maintenance works of the Sichuan Forest and the Yunnan Forest have been ongoing and the logging and transportation permits for the Yunnan Forest have been applied for. Harvesting of forest stock in the Yunnan Forest will commence when the said permits are obtained, with production capacity expected to grow gradually in 2015.

## BOARD OF DIRECTORS

### Executive Directors

**Mr. Lei Zuliang (雷祖亮)**, aged 63, is an executive Director, the Chairman of the Board and an authorised representative of the Company. He completed his diploma study in politics at Wuhan University in the PRC in 1988. He served in Chinese military from 1968 to 1990 and was promoted to Lieutenant-Colonel in 1988. From 1990 to 1996, he worked for Dongfeng Motor Corporation. From 1996 to 2001, he was the party secretary general of the department of general affairs and department of infrastructure construction of Hubei University of Automotive Technology. Since 2001, he has held senior positions in various commercial firms. He is currently the president of Yuepengda Forestry (Shenzhen) Company Limited, a wholly owned subsidiary of the Company. He has extensive experiences in corporate business administration and management.

**Mr. Long Weihua (龍衛華)**, aged 48, was appointed as an independent non-executive Director on 19 March 2012. He graduated with a master's degree in engineering at the Hunan University of the PRC in 1993 and also completed the Tsinghua capital management class (investment and financing stream) for presidents organized by the Research Institute of Tsinghua University in Shenzhen in 2011. He has been a qualified engineer in the PRC since 1996. He has extensive experiences in project development, project investment and project management. He is a project manager in the department of engineering of Shenzhen Yantian Port Group Co., Ltd since April 1996. He is a founder and the dean of general affairs of Shenzhen Lions Organization Bodhi branch (深圳獅子會菩提分會).

### Non-Executive Directors

**Professor Liu Zhikun (劉志坤)**, aged 59, is a non-executive Director. He graduated with a master's degree in timber logging and transportation at the Northeast Forestry University in the PRC in 1990 and graduated with a bachelor's degree in Central South University of Forestry and Technology in 1982. He is a professor, co-supervisor for doctoral candidates, supervisor for graduates and the vice president for National Engineering and Technology Research Center of Wood-based Resources Comprehensive Utilization in Zhejiang Agricultural and Forestry University. He has been teaching, researching and performing administrative management duties since 1990. Professor Liu's main research works focus on the efficient use of raw material resources, such as wood, bamboo, plywood and etc. He has completed various national and provincial level research projects, and possessed in-depth technical knowledge and achieved fruitful result in the forest industry.

**Mr. Zhou Xianyan (周先雁)**, aged 58, is a non-executive director. He graduated with a Bachelor degree in civil engineering, a Master's degree in civil engineering specializing in highway engineering, and a Doctor's degree in civil engineering specializing in structural engineering at the Hunan University of the PRC in 1982, 1986, and 1996 respectively. He has extensive experiences in national or provincial research projects and has been publishing research papers. He has been a deputy head of civil engineering at the Hunan University for more than 4 years since 1994. Mr. Zhou has then become the general manager of Baiquan Group Company of Hunan University for approximately 3 years. Since 2001, Mr. Zhou has been the Principal or Vice Principal of three universities or colleges in Hunan. He has been the Principal of Central South University of Forestry and Technology since November 2008. Besides, Mr. Zhou has achieved various awards from national or provincial science and technology progress.

## Independent Non-Executive Directors

**Ms. Tian Guangmei (田光梅)**, aged 53, is an independent non-executive Director. She graduated in accounting at Beijing Trade Finance and Commerce College (北京財貿金融學院) in 1988. Subsequently in 1999, Ms. Tian was awarded the certificate to certify the middle level of specialty in economics — finance by Shenzhen Zhi Cheng Guan Li Office (深圳市職稱管理辦公室). Since 1983, Ms. Tian has held positions in various commercial firms. She is currently the finance manager of Shenzhen Urban Construction Company Limited (深圳市城建集團有限公司).

**Mr. Liang Guoxin (梁國新)**, aged 52, is an independent non-executive Director. He graduated with a master's degree in the technical economics from the Harbin Institute of Technology in 1992 and graduated with a bachelor's degree in mechanization of harvesting transportation from Jilin Forestry College in 1984. Mr. Liang has been a senior economist certified by Guangdong Provincial Personnel Department (廣東省人事廳) since 2000. Mr. Liang has extensive experiences in project development and project management. He was the management of Shenzhen Yantian District Urban Development Co. (深圳市鹽田區城建開發公司), from 1999 to 2005. Since 2005, he has been the person in charge of the construction of two golf courses, clubhouse and villa projects of Shenzhen OCT East Co., Ltd. (深圳東部華僑城有限公司).

**Mr. Liu Zhaoxiang (劉兆祥)**, aged 67, is an independent non-executive Director. He graduated with a Bachelor degree in industrial economics and management at the Economics Management and Journal Union University (經濟管理刊授聯合大學) of the PRC in 1986. Mr. Liu has been a member of the Chinese Institute of Certified Public Accountants since 18 March 2000. He has more than 42 years of experience in accounting and auditing, and worked at various stated-owned enterprises, government departments at municipal level and an accounting firm in Hubei Province of the PRC. From 2005 to 2012, Mr. Liu had been a partner of Wongga Partners Certified Public Accountants (SZ) (深圳皇嘉會計師事務所) and since 2012, he has been a chief auditor of the said accounting firm.

## Senior Management

**Mr. Ding Liang ("Mr. Ding")**, aged 42, joined the Group in June 2013 and is the chief financial officer and a joint company secretary of the Company. Mr. Ding holds a bachelor's degree in economics from Shanghai Institute of Foreign Trade (now known as Shanghai University of International Business and Economics) in 1998. Mr. Ding is a fellow member of the Association of Chartered Certified Accountants and a Certified General Accountant of the Association of Canada. Mr. Ding has over 11 years' experience in auditing, accounting and finance industry. He is currently the assistant company secretary of the Company. Prior to joining the Company, he has served as a financial controller of a company listed on the TSX Venture Exchange in Canada.

**Mr. Leung Man Kit ("Mr. Leung")**, aged 38, joined the Group in March 2014 and is the assistant to Chairman, project director, a joint company secretary and an authorised representative of the Company. Mr. Leung is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants as well as a Fellow Member of the Association of International Accountants, Fellow Member of the Taxation Institute of Hong Kong and also a Member of The Hong Kong Institute of Directors. He obtained a Master Degree of Business Administration in Financial Management from The University of Hull in the United Kingdom. Mr. Leung has over 13 years of audit and tax experience from various listed and private companies in Hong Kong and the PRC. He is also experienced in carrying out compliance duties of companies listed on the Stock Exchange. Mr. Leung was an executive director of Modern Beauty Salon Holdings Limited (Stock Code: 919), a company listed on the Main Board of the Stock Exchange, from 15 September 2010 to 13 February 2014.

The Directors are pleased to present this Annual Report together with the audited financial statements of the Group for the financial year ended 31 December 2014.

## PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 44 to the consolidated financial statements. In 2014, the Group has positioned the forestry management business and biomass fuel business as its core business and there were no significant changes in the nature of Group's principal activities during the year apart from the disposal of its garment business. As at 31 December 2014, the long and medium lease forest lands in the PRC owned by the Group were approximately 3,530 Chinese Mu and 21,045 Chinese Mu in the Yunnan Forest and the Sichuan Forest, respectively. The Group harvested timber logs of approximately 15,000 cubic metres (2013: 25,000 cubic metres) in the Sichuan Forest during the year ended 31 December 2014. Regarding the biomass fuel business, the Group produced approximately 17,000 tons of biomass fuel, contributing to 55.2% of the total revenue for the year ended 31 December 2014.

An analysis of the Group's performance for the financial year ended 31 December 2014 by business and geographical segments is set out in Note 7 to the consolidated financial statements of this Annual Report.

## FINANCIAL RESULTS

The Group's financial results for the year ended 31 December 2014 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 52 to 128 of this Annual Report.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2014 attributable to the Group's major suppliers and customers are as follows:

| | **Percentage of the total purchases/sales accounted for (%)** |
|---|---|
| Purchase | |
| — the largest supplier | 81% |
| — the five largest suppliers combined | 91% |
| Sales | |
| — the largest customer | 45% |
| — the five largest customers combined | 95% |

None of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers and suppliers.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the financial year ended 31 December 2014 are set out in Note 17 to the consolidated financial statements of this Annual Report.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements of this Annual Report.

## BORROWINGS

The Group has no secured bank borrowings as at 31 December 2014. Details of promissory notes and corporate bonds payable by the Group are set out in Note 26 and Note 28 respectively.

## GROUP FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the past 5 financial years is set out in the section Five-Year Financial Information of this Annual Report.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial year ended 31 December 2014.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best of the Directors knowledge, at least 25% of the Company's issued shares was held by the public throughout the year ended 31 December 2014.

## RESERVES

Details of movements in the reserves of the Company and the Group during the financial year ended 31 December 2014 are set out in Note 43(b) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company does not have any reserve available for distribution to owners (2013: nil).

## DIRECTORS

The list of Directors during the year and up to the date of this Annual Report is set out in the Board Composition section of this Annual Report. Information about the Board, including members' appointments and retirements, and their interests in Company's shares, is set out in the Corporate Governance Report of this Annual Report.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management as at the date of this Annual Report are set out in the Biographical Information of Directors and Senior Management section of this Annual Report.

## DIRECTORS' SERVICE AGREEMENT

None of the Directors, including those retired or to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

## REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the directors and five individuals with highest emoluments are set out in Note 13 to the consolidated financial statements.

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2014, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive is taken or deemed to have under such provision of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register of members of the Company, or which were required, pursuant to standard of dealings by Directors as referred to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

***Long position in shares of the Company***

| Name of directors | Capacity | Number of ordinary shares | Percentage of issued share capital |
|---|---|---|---|
| Lei Zuliang | Beneficial owner | 1,000,000 | 0.19 |
| Liang Guoxin | Beneficial owner | 150,000 | 0.03 |
| Liu Zhaoxiang | Beneficial owner | 150,000 | 0.03 |
| Liu Zhikun | Beneficial owner | 150,000 | 0.03 |
| Long Weihua | Beneficial owner | 800,000 | 0.15 |
| Tian Guangmei | Beneficial owner | 150,000 | 0.03 |
| Zhou Xianyan | Beneficial owner | 150,000 | 0.03 |

Save as disclosed above, as at 31 December 2014, none of the Directors of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Listing Rules relating to the required standard of dealings by the directors to be notified to the Company and the Stock Exchange.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2014, so far as is known to the Directors and taking no account of the shares to be issued pursuant to options which may be granted under the share option scheme (as defined below), the following persons (other than the Directors or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

***Long position in shares of the Company***

| Name | Capacity | Number of ordinary shares | Percentage of issued share capital |
|---|---|---|---|
| Central Huijin Investment Ltd. | Interest of controlled corporation | 86,550,000(1) | 16.71 |
| China Construction Bank Corporation | Interest of controlled corporation | 86,550,000(1) | 16.71 |
| Maple Reach Limited | Beneficial owner and/or person having a security interest in shares | 86,550,000(1) | 16.71 |
| He Si Xing | Interest of controlled corporation | 61,550,000(2) | 11.89 |
| Well Bright Group Limited | Beneficial owner | 61,550,000(2) | 11.89 |
| Zhang Xiaoli | Beneficial owner | 29,768,000 | 6.33 |
| Jendens Equity Finance Ltd. | Person having a security interest in shares | 27,400,000(3) | 5.29 |
| Pinnacle Global Partners | Interest of controlled corporation | 27,400,000(3) | 5.29 |
| Victor Charm Investments Limited | Beneficial owner | 27,400,000(4) | 5.29 |
| Xu Sai Sai | Interest of controlled corporation | 27,400,000(4) | 5.29 |

Notes:

1. These shares comprise of (i) 61,550,000 shares charged in favour of Maple Reach Limited ("**Maple Reach**") by existing shareholders; and (ii) 25,000,000 underlying shares which would be issued upon the exercise of the subscription rights attaching to Warrant B issued by the Company to Maple Reach. Maple Reach is an indirect wholly-owned subsidiary of China Construction Bank Corporation ("**CCB**") (stock code: 939), the shares of which are listed on the main board of the Stock Exchange. As at 31 December 2014, CCB is owned as to approximately 57.26% by Central Huijin Investment Limited ("**Huijin**"). Accordingly, Huijin was deemed to be interested in the Shares in which CCB and Maple Reach were interested by virtue of the SFO.

2. Mr. He Si Xing beneficially owned 44% of Well Bright Group Limited ("**Wellbright**") and is deemed to be interested in all the Shares held by Well Bright.

3. These shares are the underlying shares held by Victor Charm Investments Limited ("**Victor Charm**") and pledged to Jendens Equity Finance Ltd. ("**Jendens**"). Jendens is a direct wholly-owned subsidiary of Pinnacle Global Partners, which is therefore deemed to be interested in all the Shares held by Jendens.

4. Mr. Xu Sai Sai beneficially owned 100% of Victor Charm and is therefore deemed to be interested in all the shares held by Victor Charm.

***Short position in shares of the Company***

| Name of directors | Capacity | Number of ordinary shares | Percentage of issued share capital |
|---|---|---|---|
| Victor Charm | Beneficial owner | 27,400,000[(1)] | 5.29 |
| Xu Sai Sai | Interest of controlled corporation | 27,400,000[(1)] | 5.29 |

Note:

1. Mr. Xu Sai Sai beneficially owned 100% of Victor Charm and is therefore deemed to be interested in all the short positions held by Victor Charm.

Save as disclosed under the sections headed "Interests and Short positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" and "Interests and Short positions of Substantial Shareholders in Shares and Underlying Shares of the Company" above, as at 31 December 2014, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and was able, as a practical matter, to direct or influence the management of the Company.

## ANNUAL DIVIDEND

The Directors do not recommend the payment of an annual dividend for the financial year ended 31 December 2014 (2013: nil) and there is no disclosure of the registers of members accordingly.

## DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

## CONNECTED TRANSACTIONS

No transactions were entered into by the Group during the year ended 31 December 2014, which constitute connected transactions under the Listing Rules.

## DIRECTORS’ INTEREST IN A COMPETING BUSINESS

During the financial year under review and up to and including the date of this Annual Report, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

## SHARE OPTION SCHEME (The “Scheme”)

The Scheme was approved and adopted pursuant to a written resolution of all the Shareholders of the Company on 15 September 2009 (the “**Adoption Date**”).

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe the Shares as it may determine in accordance with the terms of the Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

The Company shall be entitled to issue options, provided that the total number of the Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Scheme of the Company shall not exceed 10% of the aggregate Shares in issue at the date when the Shares were first listed on the Stock Exchange, which is 370,000,000 Shares.

On 10 November 2014, 37,000,000 shares options were granted to certain eligible participants (the “**Grantees**”) to subscribe for up to an aggregate of 37,000,000 ordinary Shares of the Company of HK$2.76 each in the share capital of the Company under the Scheme, which represented 10% of issued share capital of the Company as at the date of approval of the Scheme. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules and obtaining the approval of the Shareholders in general meeting, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme does not exceed the 30% of the Shares in issue from time to time.

Unless approved by the Shareholders of the Company, the total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company for the time being.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

At the time of the grant of the options, the Company will specify the minimum period for which an option must be held before it can be exercised. The Scheme does not any such minimum period. The period within which the option must be exercised will be specified by the Company at the time of grant. Such period must expire no later than 10 years from the relevant date of grant (being the date of which the Board resolves to make an offer of options to the relevant grantee).

The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of an option to a participant, which must be a trading day (i.e. any day on which the Stock Exchange is open for business of dealing in securities); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of an option to a participant; and (iii) the nominal value of a Share on the date of offer of an option to a participant, provided always that for the purpose of calculating the subscription price, where the Company has been listed on the Main Board for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before Listing.

The Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

As at 31 December 2014, 37,000,000 share options have been granted to eligible Directors and employees of the Group. Details of the share options movements during the year of 2014 under the Scheme are as follows:

| Name | Date of grant of share options | Exercise price (HK$) | Number of share options granted | Exercised in 2014 | Cancelled/ Lapsed in 2014 | Outstanding as at 31 December 2014 | Vesting period | % of the total issued share capital |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Mr. Lei Zuliang | 10/11/2014 | 2.76 | 1,000,000 | 0 | 0 | 1,000,000 | 10/11/2014-10/11/2015 | 0.19 |
| Mr. Long Weihua | 10/11/2014 | 2.76 | 800,000 | 0 | 0 | 800,000 | 10/11/2014-10/11/2015 | 0.15 |
| Professor Liu Zhikun | 10/11/2014 | 2.76 | 150,000 | 0 | 0 | 150,000 | 10/11/2014-10/11/2015 | 0.03 |
| Mr. Zhou Xianyan | 10/11/2014 | 2.76 | 150,000 | 0 | 0 | 150,000 | 10/11/2014-10/11/2015 | 0.03 |
| Ms. Tian Guangmei | 10/11/2014 | 2.76 | 150,000 | 0 | 0 | 150,000 | 10/11/2014-10/11/2015 | 0.03 |
| Mr. Liang Guoxin | 10/11/2014 | 2.76 | 150,000 | 0 | 0 | 150,000 | 10/11/2014-10/11/2015 | 0.03 |
| Mr. Liu Zhaoxiang | 10/11/2014 | 2.76 | 150,000 | 0 | 0 | 150,000 | 10/11/2014-10/11/2015 | 0.03 |
| Subtotal | | | 2,550,000 | 0 | 0 | 2,550,000 | | |
| Other employees | 10/11/2014 | 2.76 | 34,450,000 | 0 | 0 | 34,450,000 | 10/11/2014-10/11/2015 | 6.65 |
| Total | | | 37,000,000 | 0 | 0 | 37,000,000 | | |

The exercise price of HK$2.76 is the higher of (i) the closing price of HK$2.76 per Share as stated in the daily quotations sheet of the Stock Exchange on 10 November 2014, i.e. the date of grant of the share options; (ii) the average closing price of HK$2.758 per Share as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of HK$0.01 per Share on 10 November 2014.

For the value of options granted and the accounting policy adopted for the share options, please refer to Note 32 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed.

## RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in Note 33 to the consolidated financial statements.

## CORPORATE GOVERNANCE

The Company's principal corporate governance practices are set out in the Corporate Governance Report of this Annual Report.

## ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company (the "**AGM**") will be held on 28 May 2015. Notice of the annual general meeting will be published and despatched to the Shareholders together with this Annual Report.

## AUDITORS

CCTH CPA Limited ("**CCTH**") has acted as auditors of the Company for the year ended 31 December 2014. CCTH was appointed as the new auditors of the Company on 24 December 2013 following the resignation of SHINEWING (HK) CPA Limited ("**SHINEWING**"), and audited the consolidated financial statements for the year ended 31 December 2013. A resolution will be submitted to the AGM to re-appoint CCTH as auditors of the Company.

On behalf of the Board
**Lei Zuliang**
*Chairman*

Shenzhen, the PRC, 31 March 2015

# Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance and practices to protect the interests of the shareholders of the Company. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value. The Company adopts the principles set out in the Corporate Governance Code and embedding best governance practices throughout the organization.

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted all the code provisions (the "**Code Provisions**") contained in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules as the Company's code of corporate governance. Throughout the year ended 31 December 2014, the Company complied with all the Code Provisions contained in the CG Code and, where appropriate, adopted the Recommended Best Practices set out in the CG Code, with the exception of Code Provisions A.1.8, A.2.1 and A.4.1 as addressed below:

1. Pursuant to the Code Provision A.1.8, the Company should arrange appropriate insurance cover in respect of any legal action against its Directors and officers. Up to the date of this report, the Company has not arranged to purchase any Directors and Officers' Liability Insurance, which covers in respect of legal action against the Directors. While the Company is committed to achieving high standards of corporate governance and to complying with the code provisions, the Company decided to delay the compliance with such code provision as the Board is currently considering quotations from different underwriters and will select the Directors and Officer's Liability insurance with the most cost-efficient.

2. Pursuant to Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Since the Company has not appointed a chief executive officer, the roles of the chairman and chief executive officer are not separated and performed by two different individuals. Mr. Lei Zuliang is the Chairman of the Company, who is responsible for the Group's overall development direction and strategies and ensures the Board functions effectively and discharges its responsibilities. As there is no chief executive officer appointed, the daily operations of the Group are delegated to other executive directors and the senior management. The Board is of the view that the current management structure can effectively facilitate the Company's operation and business development.

3. Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, none of the non-executive Directors has been appointed for a specific term to allow flexibility and they are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Company's articles of association.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the Code Provisions during the year of 31 December 2014. The key corporate governance principles and practices of the Company are summarised in this Annual Report.

## THE BOARD

### Roles and Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its shareholders.

Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The non-executive Directors (including the independent non-executive Directors) serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group through their contributions in board meetings.

## Board Composition

The Board structure is governed by the Company's articles of association. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

As at the date of this Annual Report, the Board comprises two executive Directors, two non-executive Director and three independent non-executive Directors as follows:

**Executive Directors:**
Mr. Lei Zuliang *(Chairman)*
Mr. Long Weihua

**Non-executive Director:**
Professor Liu Zhikun
Mr. Zhou Xianyan *(Appointed on 5 March 2014)*

**Independent non-executive Directors:**
Ms. Tian Guangmei
Mr. Liang Guoxin
Mr. Liu Zhaoxiang *(Appointed on 16 April 2014)*

The biographical details of the Directors and the relationship among the members of the Board are set out in the Biographical Information of Directors and Senior Management on pages 31 to 32 of this Annual Report.

## Appointment, Re-Election and Removal of Directors

- On 5 March 2014, Mr. Zhou Xianyan was appointed as a non-executive Director.

- On 16 April 2014, Mr. Zhou Wei resigned as an independent non-executive Director and Mr. Liu Zhaoxiang was appointed as an independent non-executive Director.

- On 4 July 2014, Mr. Cai Shuiyong resigned as an executive Director.

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, none of the non-executive Directors has been appointed for a specific term.

Notwithstanding the aforesaid deviation, one-third of the Directors (including the non-executive Directors and independent non-executive Directors) are subject to retirement by rotation and re-election at each of the Company's annual general meeting and every Director shall be subject to retirement by rotation at least once in every three years in compliance with the Company's articles of association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are in line with the underlying intentions of Code Provision A.4.1 of the CG Code.

During the year ended 31 December 2014, the Board complied at all times with the requirement of the Listing Rules relating to the appointment of at least 3 independent non-executive directors representing at least on-third of the board and at least one of them having appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent.

Both Mr. Zhou Wei (resigned on 16 April 2014) and Mr. Liu Zhaoxiang (appointed on 16 April 2014), as independent non-executive Directors, have the relevant accounting qualifications and experience.

According to the Company's articles of association, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. The Directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last re-election. Pursuant to the Company's articles of association, all Directors are all eligible for re-appointment and three of them shall retire from office at the coming AGM, who shall be eligible for re-election.

## Independence of non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent parties. The Company considers all of the non-executive Directors is independent. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence.

## Induction and Development

Every newly appointed Director will be given an induction training so as to ensure that he has appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

The Company also provides regular updates on the business development of the Group. The Directors are regularly briefed on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, the Company has been encouraging the Directors to enroll in professional development courses and seminars relating to the Listing Rules, companies ordinance and corporate governance practices organised by professional bodies or chambers in Hong Kong. All the Directors are requested to provide the Company with their respective training records pursuant to the CG Code.

All Directors have participated in appropriate continuous professional development to refresh their knowledge and skills during the year. Such professional development was completed either by way of attending briefings, conference, forum, courses and seminars and self-reading which are relevant to the business or directors duties.

## Board Meetings

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. Notice of at least 14 days is given of a regular Board meeting to give all Directors an opportunity to attend.

The following table is the attendance record of each of the Directors at the meetings held during the year of 2014:

| Directors | Attendance/Number of meetings |
|---|---|
| **Executive Directors** | |
| Mr. Lei Zuliang *(Chairman)* | 44/45 |
| Mr. Cai Shuiyong *(Resigned on 4 July 2014)* | 0/25 |
| Mr. Long Weihua | 21/45 |
| **Non-executive Director** | |
| Professor Liu Zhikun | 6/45 |
| Mr. Zhou Xianyan *(Appointed on 5 March 2014)* | 3/45 |
| **Independent non-executive Directors** | |
| Ms. Tian Guangmei | 43/45 |
| Mr. Zhou Wei *(Resigned on 16 April 2014)* | 1/9 |
| Mr. Liang Guoxin | 14/45 |
| Mr. Liu Zhaoxiang *(Appointed on 16 April 2014)* | 4/45 |

Board papers are circulated at least 3 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company.

All Directors have full and timely access to all relevant information as well as the advice and service of the Joint Company Secretaries to ensure Board procedures and all applicable rules and regulations are followed.

The Joint Company Secretaries prepare minutes and keeps records of matters discussed and decisions resolved at all Board meetings. The Joint Company Secretaries also keeps the minutes, which are open for inspection at any reasonable time on reasonable notice by any Director.

## DELEGATION BY THE BOARD

### Board Committees

The Board has delegated authority to 3 standing Committees with specific roles and responsibilities. While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association).

The Board delegates the responsibility of implementing its strategies and the day-to-day activities to the management of the Company with department heads responsible for different aspects of the business. Management of the Company is required to present an annual budget and any proposal for major investments and changes in business strategies for the Board's approval.

## Nomination Committee

The Company established a nomination committee in September 2009 with written terms of reference in compliance with the Code Provisions. The principal duties of the nomination committee are to identify and nominate suitable candidates for the appointment of the Directors and make recommendations to the Board on succession planning for the Directors. As at the date of this Annual Report, the nomination committee comprised one executive Director, namely Mr. Lei Zuliang and two independent non-executive Directors namely Mr. Liu Zhaoxiang and Mr. Liang Guoxin. Mr. Liu Zhaoxiang has been appointed as the chairman of the nomination committee.

The following table is the attendance record of each of the nomination committee members at the meetings held during the financial year ended 31 December 2014:

| | Attendance/Number of meetings |
|---|---|
| Mr. Zhou Wei *(Resigned as chairman and member on 16 April 2014)* | 1/2 |
| Mr. Cai Shuiyong *(Resigned on 4 July 2014)* | 0/2 |
| Mr. Liang Guoxin | 3/3 |
| Mr. Liu Zhaoxiang *(Appointed as chairman and member on 16 April 2014)* | 2/2 |
| Mr. Lei Zuliang *(Appointed on 4 July 2014)* | 0/1 |

## Remuneration Committee

The Company established a remuneration committee in September 2009 with written terms of reference in compliance with the Code Provisions. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. The remuneration committee comprises one executive Director, namely, Mr. Lei Zuliang and two independent non-executive Directors, namely Mr. Liu Zhaoxing and Mr. Liang Guoxin. Mr. Liang Guoxin has been appointed as the chairman of the remuneration committee.

The following table is the attendance record of each of the remuneration committee members at the meetings held during the financial year ended 31 December 2014:

| | Attendance/Number of meetings |
|---|---|
| Mr. Liang Guoxin *(Appointed as chairman on 22 January 2014)* | 1/1 |
| Mr. Zhou Wei *(Resigned as chairman and member on 22 January 2014 and 16 April 2014 respectively)* | 0/1 |
| Mr. Liu Zhaoxiang *(Appointed on 16 April 2014)* | 1/1 |
| Mr. Cai Shuiyong *(Resigned on 4 July 2014)* | 0/1 |
| Mr. Lei Zuliang *(Appointed on 4 July 2014)* | 0/1 |

### Audit Committee

The Company established an audit committee in September 2009 with written terms of reference in compliance with Rules 3.21 to 3.23 of the Main Board Listing Rules, which were reviewed from time to time by the Board to keep them in line with the most up-to-date requirements. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control system of our Group. As at the date of this Annual Report, the audit committee has three members comprising our three independent non-executive Directors, namely Mr. Liu Zhaoxiang, Ms. Tian Guangmei and Mr. Liang Guoxin. Ms. Tian Guangmei has been appointed as the chairman of the audit committee.

The audit committee reviews the quarterly, interim and annual reports before submission to the Board. The audit committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

The audit committee met two times during the reviewed period, and the attendance records of individual committee members are set out below:

| | Attendance/Number of meetings |
|---|---|
| Mr. Zhou Wei *(Resigned as Chairman and member on 22 January 2014 and 16 April 2014 respectively)* | 0/1 |
| Ms. Tian Guangmei *(Appointed as Chairman on 22 January 2014)* | 2/2 |
| Mr. Liang Guoxin | 2/2 |
| Mr. Liu Zhaoxiang *(Appointed on 16 April 2014)* | 1/2 |

## JOINT COMPANY SECRETARIES

On 16 April 2014, Ms. Chan Ling tendered her resignation as a joint company secretary of the Company; and Mr. Leung Man Kit ("**Mr. Leung**") had been appointed as a joint company secretary of the Company. Mr. Ding Liang ("**Mr. Ding**") is a joint company secretary.

The joint company secretaries report to the Chairman on Board governance matters, and are responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management.

The Joint Company Secretaries' biographies are set out in the Board of Directors and senior management section of this Annual Report. In compliance with Rule 3.29 of the Listing Rules, each of Mr. Ding and Mr. Leung has undertaken no less than 15 hours of relevant professional training during the financial year ended 31 December 2014.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. Details of the remuneration committee and other relevant information are set out in the section of Remuneration Committee of this Annual Report.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" above.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors for the year ended 31 December 2014.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs, results, and cash flow of the Group for the year. The financial statements set out on pages 50 to 128 were prepared on a going concern basis. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. In preparing the financial statements for the year ended 31 December 2014, the Board:

(a) adopted HKFRSs, which conform to the International Financial Reporting Standards in all material respects;

(b) selected suitable accounting policies and applied them consistently;

(c) made prudent and reasonable judgments and estimates; and

(d) ensured that the financial statements were prepared on a going concern basis.

For the year ended 31 December 2014, the remuneration paid to the auditors, CCTH in respect of audit services amounted to HK$900,000 and non-audit service assignment amounted to HK$303,000.

For the year ended 31 December 2013, the remuneration paid to the auditors, CCTH in respect of audit services amounted to HK$800,000 and non-audit service assignment amounted to HK$nil.

The reporting responsibilities of CCTH CPA Limited ("**CCTH**") are set out in the Independent Auditors' Report on pages 50 and 51.

### Internal Controls

The Board recognises the importance of maintaining an adequate and effective internal control system to safeguard the Company's assets against unauthorised use of disposition, and to protect the interests of shareholders of the Company.

Senior management assumes the overall responsibility for reviewing the adequacy and integrity of the Group's internal control system with the guidance of the executive Directors. During the financial year ended 31 December 2014, the Board has discussed and reviewed the internal control system and the relevant proposal made by senior management in order to ensure an adequate and effective system of internal control. Based on the information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

## SHAREHOLDER RELATIONS

### Shareholder Engagement and Communication

The Board gives high priority to balanced, clear, and transparent communications which allow Shareholders and investors to understand the Group's prospects and the market environment in which it operates. The Company engages with Shareholders and investors in a number of different ways to help ensure that their views and concerns are understood and addressed in a constructive way.

***(a) Convening a Extraordinary General Meeting on Requisition by Shareholders***

Shareholders shall have the right to request the Board to convene an extraordinary general meeting ("**EGM**") of the Company. Two or more Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company which carries the right of voting at the general meeting of the Company may send a written request to the Board of the Company to request for a EGM. The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

***(b) Putting Forward Proposals at General Meetings***

A shareholder shall make a written requisition to the Board or the Joint Company Secretaries of the Company at the principal place of business address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

***(c) Making Enquiry to the Board***

Shareholders may send written enquiries, either by post or by email, together with his/her contact details, such as postal address, email or fax, addressing to the principal place of business address of the Company at the following address or facsimile number or via the website of the Company:

Address: Rooms 1002-1003, 10/F, Great Eagle Centre
23 Harbour Road, Wanchai, Hong Kong

Website: www.chinacaflc.com

All enquiries shall be collected by the Joint Company Secretaries who shall report to the Executive Directors periodically on the enquiries collected. The Executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Joint Company Secretaries will collect the answers for the Executive Directors' review and approval. The Joint Company Secretaries shall then be authorised by the Executive Directors to reply all enquiries in writing.

## INVESTOR RELATION

### Constitutional Documents

There was no change to the Company's Memorandum and Articles of Association during the financial year ended 31 December 2014. A copy of the Memorandum and Articles of Association is posted on the websites of the Company and the Stock Exchange.

## CHANGES AFTER CLOSURE OF THE FINANCIAL YEAR

This Annual Report takes into account the changes that have occurred since the end of the financial year ended 2014 to the date of approval of this Annual Report.

On behalf of the Board
**Lei Zuliang**
*Chairman*

Shenzhen, the PRC, 31 March 2015

**CCTH CPA LIMITED**
**中正天恆會計師有限公司**

**TO THE SHAREHOLDERS OF**
**CHINA AGROFORESTRY LOW-CARBON HOLDINGS LIMITED**
**中國農林低碳控股有限公司**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Agroforestry Low-Carbon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 128, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 the directors, 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.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014, and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements regarding the adoption of going concern basis on which the consolidated financial statements have been prepared. As at 31 December 2014, the Group and the Company had net current liabilities of approximately RMB10,180,000 and RMB26,581,000 respectively.

The conditions set out in Note 2 to the consolidated financial statements indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that would result from a failure to obtain the funding as referred to in Note 2 for financing the working capital and financial commitments of the Group and the Company for the foreseeable future.

**CCTH CPA Limited**
*Certified Public Accountants*
Hong Kong, 31 March 2015

Kwong Tin Lap
Practising certificate number P01953

Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza,
1 Science Museum Road, Tsim Sha Tsui,
Kowloon, Hong Kong

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2014*

| | Notes | 2014 RMB'000 | 2013 RMB'000 (restated) |
|---|---|---|---|
| **Continuing Operations** | | | |
| Revenue | 6 | **26,837** | 28,928 |
| Cost of sales | | **(22,648)** | (28,928) |
| Gross profit | | **4,189** | – |
| Investment and other income | 8 | **45** | 7 |
| Other gains and losses | 9 | **(12,239)** | 42,493 |
| Selling and distribution costs | | **(120)** | – |
| Administrative expenses | | **(41,997)** | (10,264) |
| Finance costs | 10 | **(35,079)** | (39,662) |
| Loss before tax | | **(85,201)** | (7,426) |
| Income tax expense | 11 | **(124)** | – |
| Loss for the year from continuing operations | 12 | **(85,325)** | (7,426) |
| **Discontinued Operations** | | | |
| Loss for the year from discontinued operations | 14 | **(5,232)** | (12,206) |
| Loss for the year | | **(90,557)** | (19,632) |
| **Other comprehensive (expense) income** | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Exchange differences on translation of financial statements of foreign operations | | | |
| Exchange differences arising during the year | | **(2,350)** | 1,954 |
| Reclassification adjustments relating to foreign operations disposed of during the year | | **1,182** | – |
| Other comprehensive (expense) income for the year | | **(1,168)** | 1,954 |
| Total comprehensive expense for the year | | **(91,725)** | (17,678) |

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000<br>(restated) |
|---|---|---|---|
| Loss for the year from continuing operations attributable to: | | | |
| Owners of the Company | | **(85,090)** | (7,426) |
| Non-controlling interests | | **(235)** | – |
| | | **(85,325)** | (7,426) |
| Loss for the year from continuing and discontinued operations attributable to: | | | |
| Owners of the Company | | **(90,322)** | (19,632) |
| Non-controlling interests | | **(235)** | – |
| | | **(90,557)** | (19,632) |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | **(91,490)** | (17,678) |
| Non-controlling interests | | **(235)** | – |
| | | **(91,725)** | (17,678) |
| Loss per share: | 16 | | |
| From continuing and discontinued operations | | | |
| Basic | | **RMB(19.48) cents** | RMB(5.14) cents |
| Diluted | | **N/A** | N/A |
| From continuing operations | | | |
| Basic | | **RMB(18.35) cents** | RMB(1.94) cents |
| Diluted | | **N/A** | N/A |

# Consolidated Statement of Financial Position

*As at 31 December 2014*

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 17 | **21,965** | 6,940 |
| Prepaid lease payments | 18 | **9,298** | 10,768 |
| Plantation forest assets | 19 | **227,408** | 229,117 |
| Deposit paid for acquisition of subsidiaries | 20 | **3,000** | – |
| Deposit paid for acquisition of property, plant and equipment | | **3,005** | – |
| | | **264,676** | 246,825 |
| Current assets | | | |
| Inventories | 21 | **3,104** | – |
| Trade and other receivables | 22 | **24,975** | 54,078 |
| Deposits and prepayments | 23 | **21,718** | 1,431 |
| Prepaid lease payments | 18 | **287** | 267 |
| Current tax recoverable | | **–** | 232 |
| Bank balances and cash | 24 | **17,050** | 21,844 |
| | | **67,134** | 77,852 |
| Current liabilities | | | |
| Trade and other payables | 25 | **20,868** | 5,917 |
| Current tax payable | | **124** | – |
| Promissory notes payable | 26 | **56,322** | – |
| Amount due to a former controlling shareholder | 27 | **–** | 1,345 |
| | | **77,314** | 7,262 |
| Net current (liabilities) assets | | **(10,180)** | 70,590 |
| Total assets less current liabilities | | **254,496** | 317,415 |
| Non-current liabilities | | | |
| Promissory notes payable | 26 | **18,067** | 235,671 |
| Corporate bonds payable | 28 | **84,843** | – |
| | | **102,910** | 235,671 |
| Net assets | | **151,586** | 81,744 |
| Capital and reserves | | | |
| Share capital | 30 | **4,431** | 3,466 |
| Reserves | | **135,690** | 78,278 |
| Total equity attributable to owners of the Company | | **140,121** | 81,744 |
| Non-controlling interests | | **11,465** | – |
| Total equity | | **151,586** | 81,744 |

The consolidated financial statements on pages 52 to 128 were approved and authorised for issue by the board of directors on 31 March 2015 and are signed on its behalf by:

**Lei Zhuliang**
*Director*

**Long Weihua**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2014*

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Statutory reserves RMB'000 (Note a) | Convertible bonds equity reserve RMB'000 (Note 29) | Warrants reserve RMB'000 (Note 31) | Share option reserve RMB'000 (Note 32) | Translation reserve RMB'000 | Other reserves RMB'000 (Note b) | Retained profits/ (accumulated losses) RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2013 | 3,256 | 10,642 | 10 | 5,943 | 12,444 | – | – | 39 | 18,038 | 23,496 | 73,868 | – | 73,868 |
| Loss for the year | – | – | – | – | – | – | – | – | – | (19,632) | (19,632) | – | (19,632) |
| Other comprehensive income for the year | – | – | – | – | – | – | – | 1,954 | – | – | 1,954 | – | 1,954 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | – | – | 1,954 | – | (19,632) | (17,678) | – | (17,678) |
| Issue of warrants | – | – | – | – | – | 12,297 | – | – | – | – | 12,297 | – | 12,297 |
| Issue of shares upon conversion of convertible bonds | 210 | 25,491 | – | – | (12,444) | – | – | – | – | – | 13,257 | – | 13,257 |
| **At 31 December 2013 and 1 January 2014** | **3,466** | **36,133** | **10** | **5,943** | **–** | **12,297** | **–** | **1,993** | **18,038** | **3,864** | **81,744** | **–** | **81,744** |
| Loss for the year | – | – | – | – | – | – | – | – | – | **(90,322)** | **(90,322)** | **(235)** | **(90,557)** |
| Other comprehensive expense for the year | – | – | – | – | – | – | – | **(1,168)** | – | – | **(1,168)** | – | **(1,168)** |
| Total comprehensive expenses for the year | – | – | – | – | – | – | – | **(1,168)** | – | **(90,322)** | **(91,490)** | **(235)** | **(91,725)** |
| Non-controlling interests arising on acquisition of subsidiaries (note 36(a)) | – | – | – | – | – | – | – | – | – | – | – | **11,700** | **11,700** |
| Issue of shares | **965** | **137,822** | – | – | – | – | – | – | – | – | **138,787** | – | **138,787** |
| Share issue expenses | – | **(1,797)** | – | – | – | – | – | – | – | – | **(1,797)** | – | **(1,797)** |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | **12,877** | – | – | – | **12,877** | – | **12,877** |
| Warrants lapsed during the year | – | – | – | – | – | **(2,033)** | – | – | – | **2,033** | – | – | – |
| Transfer to accumulated losses on disposal of subsidiaries | – | – | **(10)** | **(5,943)** | – | – | – | – | – | **5,953** | – | – | – |
| At 31 December 2014 | **4,431** | **172,158** | **–** | **–** | **–** | **10,264** | **12,877** | **825** | **18,038** | **(78,472)** | **140,121** | **11,465** | **151,586** |

Notes:

a. Statutory reserves

Statutory reserves were established in accordance with the relevant rules and regulations of the People's Republic of China (the "PRC") for the subsidiaries which are established in the PRC. Appropriations to the reserves were approved by the directors of the subsidiaries.

The relevant subsidiaries were disposed during the year and the reserves were transferred to accumulated losses.

b. Other reserves

Other reserves comprise the following:

— Merger reserve arising from common control combination for entity acquired in December 2010;

— Surplus from the share capital of the subsidiaries, acquired pursuant to the group reorganisation over acquisition consideration; and

— Difference between the nominal value of the shares of a subsidiary, acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2014*

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the year | | **(90,557)** | (19,632) |
| Adjustments for: | | | |
| Tax charge recognised in profit or loss | | **124** | – |
| Amortisation of prepaid lease payments | | **250** | 166 |
| Depreciation of property, plant and equipment | | **1,236** | 735 |
| Harvested timber transferred from plantation forest assets to cost of inventories sold | | **8,873** | 27,127 |
| Finance costs | | **35,079** | 39,662 |
| Gain on change in fair value less costs to sell of plantation forest assets | | **(7,164)** | (13,119) |
| Gain on bargain purchase of subsidiaries | | **–** | (46,390) |
| Gain on disposal of subsidiaries | | **(2,467)** | – |
| Share-based payments | | **12,877** | – |
| Bank interest income | | **(39)** | (17) |
| Loss on changes in fair value of derivative financial assets | | **–** | 2,141 |
| Loss on re-measurement of promissory notes upon change in note terms | | **–** | 9,050 |
| Loss on early repayment of promissory notes | | **18,789** | 6,240 |
| Loss on disposal of property, plant and equipment | | **–** | 39 |
| Impairment loss recognised in respect of trade receivables | | **–** | 2,490 |
| Impairment loss recognised in respect of other receivables | | **–** | 1,357 |
| Impairment loss on inventories | | **301** | – |
| Exchange gains | | **(2,638)** | (295) |
| Operating cash flows before movements in working capital | | **(25,336)** | 9,554 |
| (Increase) decrease in inventories | | **(1,355)** | 2,961 |
| Decrease (increase) in trade and other receivables | | **3,135** | (38,940) |
| (Increase) decrease in deposits and prepayments | | **(20,936)** | 1,023 |
| Increase (decrease) in trade and other payables | | **3,557** | (988) |
| Decrease in amount due to a former controlling shareholder | | **(297)** | – |
| **Net cash used in operating activities** | | **(41,232)** | (26,390) |

# Consolidated Statement of Cash Flows (continued)

*For the year ended 31 December 2014*

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(7,163)** | (3,334) |
| Proceeds on disposal of property, plant and equipment | | **–** | 8 |
| Acquisition of subsidiaries | 36 | **(1,232)** | (108,193) |
| Proceeds from disposal of subsidiaries | 37 | **33,938** | 13,800 |
| Deposit paid on acquisition of property, plant and equipment | | **(3,005)** | – |
| Deposit paid on acquisition of subsidiaries | | **(3,000)** | – |
| Interest received | | **39** | 17 |
| **Net cash from (used in) investing activities** | | **19,577** | (97,702) |
| **Financing activities** | | | |
| Interest paid | | **(26,124)** | (11,382) |
| Proceeds from issue of ordinary shares, net of issue expenses | | **136,990** | – |
| Proceeds from issue of warrants | | **–** | 178 |
| Proceeds from issue of corporate bonds, net of issue expenses | | **81,501** | – |
| Proceeds from issue of promissory notes, net of issue expenses | | **–** | 151,069 |
| Repayment of promissory notes | | **(175,478)** | (19,969) |
| **Net cash from financing activities** | | **16,889** | 119,896 |
| **Net decrease in cash and cash equivalents** | | **(4,766)** | (4,196) |
| **Cash and cash equivalents at beginning of the year** | | **21,844** | 26,198 |
| Effect of foreign exchange rate changes | | **(28)** | (158) |
| **Cash and cash equivalents at end of the year, represented by:** | | | |
| Bank balances and cash | | **17,050** | 21,844 |

## 1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands. On 8 October 2009, the Company's shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were withdrawn from the GEM on 13 May 2011. On 16 May 2011, the Company's shares are listed on the Main Board of the Stock Exchange.

The address of the registered office and principal place of business are Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Rooms 1002-1003, 10th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong respectively. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in forestry management, production and sale of biomass fuel products and investment holding.

The Company's functional currency is Hong Kong dollars ("HK$") while that for the major subsidiaries in the PRC is Renminbi ("RMB"). As the operations of the Group are mainly carried out in the PRC, the directors of the Company consider that it is appropriate to present the consolidated financial statements in RMB.

As referred to in Note 14, the Group discontinued its business of manufacture and wholesale of apparels on 30 June 2014. Certain comparative figures presented in the consolidated financial statements have been restated to conform with the current year's presentation.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors have considered the future liquidity of the Group. As at 31 December 2014, the Group and the Company had net current liabilities of RMB10,180,000 and RMB26,581,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group will be able to operate as a going concern for the foreseeable future. In the opinion of the directors, the Group can meet its financial obligations as and when they fall due in the next year from the date of approval of these consolidated financial statements, after taking into consideration of several measures and arrangements made subsequent to the reporting date as detailed below:

(a) In January 2015, the Company entered into a loan agreement with Victor Charm Investment Limited ("Victor Charm"), a shareholder of the Company, under which Victor Charm made a loan amounted to HK$11,000,000 to the Company. The loan, which is unsecured and carries interest at 8% per annum, is repayable in July 2015.

(b) In March 2015, the Company issued zero coupon corporate bonds with the aggregate principal amounts of HK$21,000,000 for a cash proceed of HK$19,110,000 (before expense). The corporate bonds are unsecured and repayable in June 2015.

(c) In March 2015, the Company issued corporate bond with the principal amount of HK$10,000,000 for a cash proceed of HK$9,850,000 (before expense). The corporate bond, which is unsecured and carries interest at 5.5% per annum, is repayable on the maturity date after 7 years from the date of issue.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(d) In March 2015, the Company entered into the subscription agreement with a third party, pursuant to which the third party has agreed to subscribe the corporate bonds with the aggregate principal amount of RMB70,000,000 to be issued by the Company. The corporate bonds, which are unsecured and carry interest at 8% per annum, are repayable on the maturity dates after 2 years from the dates of issues. Up to the date of approval of these consolidated financial statements, such corporate bonds have not yet been issued by the Company.

In light of the measures and arrangements implemented to date, the directors are of the view that the Group has sufficient cash resources to satisfy its working capital and other financial obligations for the next twelve months from the date of approval of these consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the production facilities and development of its businesses. Accordingly, the directors are of the view that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

## 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### New and revised HKFRSs applied in the current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC)-Int 21 | Levies |

The application of the new and revised HKFRSs in the current year had no material impact on the consolidated financial statements.

## 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2010–2012 Cycle[1] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2011–2013 Cycle[2] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012–2014 Cycle[4] |
| HKFRS 9 | Financial Instruments[6] |
| HKFRS 14 | Regulatory Deferral Accounts[3] |
| HKFRS 15 | Revenue from Contracts with Customers[5] |
| Amendments to HKFRS 11 | Accounting for Acquisition of Interest in Joint Operations[4] |
| Amendments to HKAS 1 | Disclosure Initiative[4] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[4] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[4] |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions[2] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKFRS10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[4] |

1 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.
2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
3 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application is permitted.
4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
6 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

***HKFRS 9 Financial Instruments***

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued on 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

## 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and revised HKFRSs in issue but not yet effective (Continued)

***HKFRS 9 Financial Instruments (Continued)***

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset and give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designed as at fair value through profit or loss, HKFRS 9 requires that amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types or transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have significant impacts on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

## 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and revised HKFRSs in issue but not yet effective (Continued)

***HKFRS 15 Revenue from Contracts with Customers***

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

***Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants***

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have no material impact on the consolidated financial statements.

The directors of the Company anticipate that the application of other new and revised HKFRSs in issue but not yet effective will have no material impact on the consolidated financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for plantation forest assets that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in the exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

— Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

— Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

— Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

— has power over the investee;

— is exposed, or has rights, to variable returns from its involvement with the investee; and

— has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date when the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

***Changes in the Group's ownership interests in existing subsidiaries***

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

— deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

— liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

— assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

— the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

— the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

— the amount of revenue can be measured reliably;

— it is probable that the economic benefits associated with the transaction will flow to the Group; and

— the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant leases.

***Leasehold land for own use***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, and a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment transactions

***Share-based payment transactions of the Company***

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred and deducted from accumulated losses.

### Taxation

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

***Current tax***

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

***Deferred tax***

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

***Deferred tax (Continued)***

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Plantation forest assets

Plantation forest assets predominately consist of standing trees in a forest on which the Group undertakes agricultural activities to transform the standing trees into agricultural produce for sale. The forest establishment and maintenance expenses are charged to profit or loss in the period in which they are incurred.

Plantation forest assets are stated at fair value less costs to sell at the end of each reporting period and the gain or loss arising from the changes in fair value less costs to sell of the plantation forest assets is recognised in profit or loss in the period in which it arises.

If an active market exists for standing trees with reference to the distribution of the forest area by age-class, land tenure, forest health, expected growth and yield of the tree crops are adopted for determining the fair value of these assets. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values or as determined by independent professional valuers.

At the time the tree is harvested, the agricultural produce is measured at its fair value less costs to sell at the point of harvest. It is taken out of the plantation forest assets (non-current assets) and accounted for under inventories (current assets). Depletion of plantation forest assets is calculated based on the rate corresponding to the volume of standing trees actually harvested and the total estimated standing trees volume of the plantation forest assets.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less estimated costs of completion and costs necessary to make the sale.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Financial assets at FVTPL*

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

— it has been acquired principally for the purpose of selling in the near term; or

— it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as hedging instrument.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets (Continued)***

*Financial assets at FVTPL (Continued)*

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

— if forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in other gains or losses in the consolidated statement of profit or loss and other comprehensive income.

*Loan and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment loss on financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets (Continued)***

*Impairment loss on financial assets (Continued)*

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade and other payables, amount due to a controlling shareholder, promissory notes payable and corporate bonds payable are subsequently measured at amortised cost, using the effective interest method.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial liabilities and equity instruments (Continued)***

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Convertible bonds*

Convertible bonds issued by the Group that contain both the liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability, an equity instrument and a derivative financial asset. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, both the liability component and the derivative financial asset (representing early redemption option component) are measured at fair value. The equity component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative financial asset is measured at fair value with changes in fair values recognised in profits or loss. The equity component will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components and early redemption option in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method. Transaction costs relating to the early redemption option are charged to profit or loss immediately.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

***Approval of logging permits for the plantation forest assets***

The PRC government strictly implements a quota system for the quantities of forest wood to be logged annually and accordingly, such limited quota is competed vigorously among the numerous forestry operators. Without the approved logging permits, the Group will not be able to start operations for revenue generation in the forestry segment.

Up to the date of approval of the consolidated financial statements, the permits for logging of the Group's plantation forest assets in future years have not been granted by the PRC government authorities. In the opinion of the directors of the Company, the absence of the logging permits does not impair the value of the forest assets to the Group as the Group has legally obtained ownership title to such assets, is qualified to make the relevant application and have already filed its application properly according to the relevant legal procedures.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty

The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***(a) Fair value of plantation forest assets***

The Group's plantation forest assets are stated at fair value less costs to sell. In determining the fair value of the plantation forest assets, the net present value approach has been adopted which requires a number of key assumptions and estimates to be made such as the successful application of logging permits, discount rate, log price, harvest profile, plantation costs, growth, harvesting and establishment. Any change in the estimates may affect the fair value of the plantation forest assets significantly. Management reviews the assumptions and estimates periodically to identify any significant change in the fair value of the plantation forest assets. The carrying amount of the Group's plantation forest assets as at 31 December 2014 is approximately RMB227,408,000 (2013: RMB229,117,000).

***(b) Impairment of property, plant and equipment and prepaid lease payments***

Management of the Group determines on a regular basis whether the property, plant and equipment and prepaid lease payments are impaired. Impairment loss for property, plant and equipment and prepaid lease payments are recognised when the carrying amounts of each of the assets exceed their respective recoverable amounts, which are determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. As at 31 December 2014, the carrying amounts of property, plant and equipment and prepaid lease payments are approximately RMB21,965,000 (2013: RMB6,940,000) and RMB9,585,000 (2013: RMB11,035,000) respectively. No impairment loss of these assets was recognised in respect of both of the years presented.

***(c) Depreciation of property, plant and equipment***

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account their estimated residual values. The determination of the useful lives involves management's estimation. The Group assesses annually the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation charges for the future years.

***(d) Impairment of inventories***

Inventories are written down to net realisable value based on an assessment of their realisability. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will have impact on the carrying value of inventories and write-down of inventories in the period in which such estimate is changed. As at 31 March 2014, the carrying amount of inventories is approximately RMB3,104,000 (2013: Nil). Write down of inventories amounted to RMB301,000 (2013: Nil) has been charged to profit or loss in respect of the year.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

***(e) Impairment of trade and other receivables***

The Group performs ongoing credit evaluations of its customers and other debtors and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and other debtors and make allowance for doubtful debts on outstanding receivables by reference to historical experience and debtors' financial position. As at 31 December 2014, the carrying amount of trade and other receivables is approximately RMB24,975,000, net of allowance for doubtful debts of approximately RMB Nil (2013: carrying amount of approximately RMB54,078,000, net of allowance for doubtful debts of approximately RMB15,069,000). No allowance for doubtful debts was recognised for the year ended 31 December 2014 (2013: allowance for doubtful debts of approximately RMB3,847,000 was recognised).

## 6. REVENUE

Revenue for the year represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

## 7. SEGMENT INFORMATION

Information reported to the chairman of the board (being the chief executive decision maker) for the purposes of resource allocation and assessment of segment performance focuses on the types of goods delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

### Continuing operations

(i) Forestry Business — plantation, logging and sale of timber related products.

(ii) Biomass Fuel Business — manufacture and sale of biomass fuel products.

### Discontinued operations

(i) OEM Business — manufacturing and sale of apparel products made according to design and specifications specified by customers.

(ii) Brand Business — sale of apparel designed in-house and sold under the Group's own brand name.

Information regarding the above segments for the years ended 31 December 2014 and 2013 is presented below.

## 7. SEGMENT INFORMATION (Continued)

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

**For the year ended 31 December 2014**

| | Continuing Operations | | | Discontinued Operations | | | |
|---|---|---|---|---|---|---|---|
| | Forestry Business RMB'000 | Biomass Fuel Business RMB'000 | Sub-total RMB'000 | OEM Business RMB'000 | Brand Business RMB'000 | Sub-total RMB'000 | Total RMB'000 |
| Revenue | 12,024 | 14,813 | 26,837 | – | – | – | 26,837 |
| Segment profit (loss) | 6,602 | (3,440) | 3,162 | (5,968) | (1,768) | (7,736) | (4,574) |
| Bank interest income | | | | | | | 39 |
| Other unallocated income | | | | | | | 7 |
| Gain on bargain purchase of subsidiaries | | | | | | | – |
| Gain on disposal of subsidiaries | | | | | | | 2,467 |
| Loss on change in fair value of derivative financial assets | | | | | | | – |
| Loss on re-measurement of promissory notes upon change in note terms | | | | | | | – |
| Loss on early repayment of promissory notes | | | | | | | (18,789) |
| Other unallocated expenses | | | | | | | (34,504) |
| Finance costs | | | | | | | (35,079) |
| Loss before tax | | | | | | | (90,433) |
| Income tax expense | | | | | | | (124) |
| Loss for the year | | | | | | | (90,557) |

## 7. SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

For the year ended 31 December 2013

| | Continuing Operations | | | Discontinued Operations | | | |
|---|---|---|---|---|---|---|---|
| | Forestry Business RMB'000 | Biomass Fuel Business RMB'000 | Sub-total RMB'000 | OEM Business RMB'000 | Brand Business RMB'000 | Sub-total RMB'000 | Total RMB'000 |
| Revenue | 28,928 | – | 28,928 | 32,864 | 5,164 | 38,028 | 66,956 |
| Segment profit (loss) | 10,398 | – | 10,398 | (9,849) | (2,024) | (11,873) | (1,475) |
| Bank interest income | | | | | | | 17 |
| Other unallocated income | | | | | | | 174 |
| Gain on bargain purchase of subsidiaries | | | | | | | 46,390 |
| Gain on disposal of subsidiaries | | | | | | | – |
| Loss on change in fair value of derivative financial assets | | | | | | | (2,141) |
| Loss on re-measurement of promissory notes upon change in note terms | | | | | | | (9,050) |
| Loss on early repayment of promissory notes | | | | | | | (6,240) |
| Other unallocated expenses | | | | | | | (7,645) |
| Finance costs | | | | | | | (39,662) |
| Loss before tax | | | | | | | (19,632) |
| Income tax expense | | | | | | | – |
| Loss for the year | | | | | | | (19,632) |

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment profit/loss represent the profit/loss earned from each segment without allocation of central administrative costs including directors' salaries and other corporate administrative costs, loss on change in fair value of derivative financial assets, gain on bargain purchase of subsidiaries, gain on disposal of subsidiaries, bank interest income, loss on re-measurement of promissory notes upon change in note terms, loss on early repayment of promissory notes and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

## 7. SEGMENT INFORMATION (Continued)

### Segment assets and liabilities

| Segment assets | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Forestry Business | **248,990** | 258,707 |
| Biomass Fuel Business | **47,912** | – |
| Total segment assets | **296,902** | 258,707 |
| Assets relating to the discontinued operations | | |
| — OEM Business | **–** | 35,022 |
| — Brand Business | **–** | 6,678 |
| Unallocated | **34,908** | 24,270 |
| Consolidated assets | **331,810** | 324,677 |

| Segment liabilities | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Forestry Business | **2,968** | 2,172 |
| Biomass Fuel Business | **5,748** | – |
| Total segment liabilities | **8,716** | 2,172 |
| Liabilities relating to the discontinued operations | | |
| — OEM Business | **–** | 785 |
| — Brand Business | **–** | 151 |
| Unallocated | **171,508** | 239,825 |
| Consolidated liabilities | **180,224** | 242,933 |

For the purposes of monitoring segment performance and allocating resources among segments:

— all assets are allocated to operating segments other than current tax recoverable, bank balances and cash and other assets for corporate use including certain property, plant and equipment and other receivables. Assets used jointly by segments are allocated on the basis of the revenue earned by individual segments; and

— all liabilities are allocated to operating segments other than promissory notes payable, corporate bonds payable, current tax payable, amount due to a former controlling shareholder and certain other payables. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

## 7. SEGMENT INFORMATION (Continued)

### Other segment information

**For the year ended 31 December 2014**

| | Continuing Operations | | | Discontinued Operations | | | |
|---|---|---|---|---|---|---|---|
| | Forestry Business RMB'000 | Biomass Fuel Business RMB'000 | Sub-total RMB'000 | OEM Business RMB'000 | Brand Business RMB'000 | Sub-total RMB'000 | Total RMB'000 |
| **Amounts included in the measure of segment loss/ profit or segment assets** | | | | | | | |
| Additions to non-current assets | 45 | 7,118 | 7,163 | – | – | – | 7,163 |
| Depreciation of property, plant and equipment | 65 | 674 | 739 | 129 | 75 | 204 | 943 |
| Amortisation of prepaid lease payments | 223 | 5 | 228 | 17 | 5 | 22 | 250 |
| Loss on disposal of property, plant and equipment | – | – | – | – | – | – | – |
| Gain on change in fair value of plantation forest assets | 7,164 | – | 7,164 | – | – | – | 7,164 |
| Impairment loss recognised in respect of trade receivables | – | – | – | – | – | – | – |
| Impairment loss recognised in respect of other receivables | – | – | – | – | – | – | – |
| **Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss/profit** | | | | | | | |
| Bank interest income | 14 | 11 | 25 | 1 | – | 1 | 26 |
| Sundry income | – | 7 | 7 | – | – | – | 7 |

## 7. SEGMENT INFORMATION (Continued)

### Other segment information (Continued)

For the year ended 31 December 2013

| | Continuing Operations | | | Discontinued Operations | | | |
|---|---|---|---|---|---|---|---|
| | Forestry Business RMB'000 | Biomass Fuel Business RMB'000 | Sub-total RMB'000 | OEM Business RMB'000 | Brand Business RMB'000 | Sub-total RMB'000 | Total RMB'000 |
| **Amounts included in the measure of segment loss/ profit or segment assets** | | | | | | | |
| Additions to non-current assets | 234,407 | – | 234,407 | – | – | – | 234,407 |
| Depreciation of property, plant and equipment | 59 | – | 59 | 320 | 192 | 512 | 571 |
| Amortisation of prepaid lease payments | 122 | – | 122 | 34 | 10 | 44 | 166 |
| Loss on disposal of property, plant and equipment | – | – | – | 39 | – | 39 | 39 |
| Gain on change in fair value of plantation forest assets | 13,119 | – | 13,119 | – | – | – | 13,119 |
| Impairment loss recognised in respect of trade receivables | – | – | – | 2,490 | – | 2,490 | 2,490 |
| Impairment loss recognised in respect of other receivables | – | – | – | 1,357 | – | 1,357 | 1,357 |
| **Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss/profit** | | | | | | | |
| Bank interest income | 3 | – | 3 | 8 | 2 | 10 | 13 |
| Sundry income | – | – | – | – | 1 | 1 | 1 |

## 7. SEGMENT INFORMATION (Continued)

### Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers as below:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| PRC (excluding Hong Kong) | **26,837** | 63,135 |
| Others | **–** | 3,821 |
| | **26,837** | 66,956 |

An analysis of segment assets and capital expenditure by geographical area in which the assets are located is not presented as the Group's assets are substantially located in the PRC.

### Information about major customers

Revenue from individual customers contributing over 10% of the revenue of the Group are as follows:

| | Revenue generated from | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| Customer A | Forestry Business | **12,024** | N/A[1] |
| Customer B | Forestry Business | **N/A[2]** | 28,928 |
| Customer C | Biomass Fuel Business | **7,441** | N/A[1] |
| Customer D | Biomass Fuel Business | **5,296** | N/A[1] |
| Customer E | OEM Business | **N/A[2]** | 14,462 |
| Customer F | OEM Business | **N/A[2]** | 10,736 |

1 The revenue for the corresponding prior year did not contribute over 10% of the total sales for that year.

2 The revenue for the current year did not contribute over 10% of the total sales for this year.

## 8. INVESTMENT AND OTHER INCOME

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Interest income | **38** | 7 | **1** | 10 | **39** | 17 |
| Sundry income | **7** | – | **–** | 1 | **7** | 1 |
| | **45** | 7 | **1** | 11 | **46** | 18 |

## 9. OTHER GAINS OR LOSSES

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Other gains (losses) | | | | | | |
| Exchange (losses) gains | **(614)** | 415 | **36** | (242) | **(578)** | 173 |
| Gain on change in fair value less costs to sell of plantation forest assets (Note 19) | **7,164** | 13,119 | **–** | – | **7,164** | 13,119 |
| Gain on bargain purchase of subsidiaries (Note 36(b)) | **–** | 46,390 | **–** | – | **–** | 46,390 |
| Loss on change in fair value of derivative financial assets (Note 29) | **–** | (2,141) | **–** | – | **–** | (2,141) |
| Loss on re-measurement of promissory notes upon change in note terms (Note 26) | **–** | (9,050) | **–** | – | **–** | (9,050) |
| Loss on early repayment of promissory notes (Note 26) | **(18,789)** | (6,240) | **–** | – | **(18,789)** | (6,240) |
| Impairment loss recognised in respect of | | | | | | |
| — trade receivables (Note 22) | **–** | – | **–** | (2,490) | **–** | (2,490) |
| — other receivables (Note 22) | **–** | – | **–** | (1,357) | **–** | (1,357) |
| | **(12,239)** | 42,493 | **36** | (4,089) | **(12,203)** | 38,404 |

## 10. FINANCE COSTS

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Interests on: | | | | | | |
| — promissory notes (Note 26) | **31,388** | 38,719 | **–** | – | **31,388** | 38,719 |
| — corporate bonds (Note 28) | **3,691** | – | **–** | – | **3,691** | – |
| — convertible bonds (Note 29) | **–** | 943 | **–** | – | **–** | 943 |
| | **35,079** | 39,662 | **–** | – | **35,079** | 39,662 |

## 11. INCOME TAX EXPENSE

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| PRC Enterprise Income Tax | **124** | – | **–** | – | **124** | – |

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits derived from Hong Kong for both of the years presented.

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Pursuant to the Implementation Regulation of the EIT, the Group's PRC subsidiaries which are engaged in forestry business are entitled to full exemption from PRC Enterprise Income Tax in respect of both of the years presented.

The income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Loss before tax from: | | |
| Continuing operations | **(85,201)** | (7,426) |
| Discontinued operations (Note 14) | **(5,232)** | (12,206) |
| Loss before tax | **(90,433)** | (19,632) |
| Tax credit at applicable income tax rate | **(18,028)** | (6,252) |
| Tax effect of expenses not deductible for tax purpose | **17,968** | 11,727 |
| Tax effect of income not taxable for tax purpose | **(3)** | (7,689) |
| Tax effect of tax losses not recognised | **112** | 2,214 |
| Tax effect of deductible temporary differences is not recognised | **75** | – |
| Income tax expense for the year | **124** | – |

As at 31 December 2014, the Group had unrecognised tax losses of approximately RMB2,649,000 (2013: RMB12,270,000), which can be carried forward to offset future taxable profit and will expire within five years. No deferred tax asset had been recognised in respect of these tax losses due to the unpredictability of future profit streams.

## 11. INCOME TAX EXPENSE (Continued)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately RMB21,125,000 (2013: RMB27,164,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 12. LOSS FOR THE YEAR

| | Continuing Operations | | Discontinued Operations | | Total | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Loss for the year has been arrived at after charging: | | | | | | |
| Directors' emoluments (Note 13) | **1,686** | 395 | **34** | 96 | **1,720** | 491 |
| Other staff costs | **16,998** | 2,069 | **7,309** | 12,295 | **24,307** | 14,364 |
| Total staff costs (Note below) | **18,684** | 2,464 | **7,343** | 12,391 | **26,027** | 14,855 |
| Auditors' remuneration | **736** | 692 | **–** | 12 | **736** | 704 |
| Cost of inventories recognised and timber harvested | **22,347** | 27,127 | **–** | 39,690 | **22,347** | 66,817 |
| Depreciation of property, plant and equipment | **1,032** | 223 | **204** | 512 | **1,236** | 735 |
| Amortisation of prepaid lease payments | **228** | 122 | **22** | 44 | **250** | 166 |
| Impairment loss on inventories | **301** | – | **–** | – | **301** | – |
| Loss on disposal of property, plant and equipment | **–** | – | **–** | 39 | **–** | 39 |
| Operating lease rentals in respect of rented premises | **2,839** | 995 | **116** | 272 | **2,955** | 1,267 |
| Research and development costs recognised | **–** | – | **–** | 131 | **–** | 131 |

Note:

Included in total staff costs are share-based payment expenses amounted to RMB12,877,000 (2013: Nil).

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors and chief executive

The emoluments paid or payable to each of the nine (2013: ten) directors and chief executive were as follows:

**For the year ended 31 December 2014**

| | Fees RMB'000 | Salaries and other allowances RMB'000 | Share-based payments RMB'000 | Retirement benefits scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| Mr. Cai Shuiyong[1] | – | 30 | – | 4 | 34 |
| Mr. Lei Zuliang | 418 | – | 350 | – | 768 |
| Mr. Long Weihua[2] | 95 | – | 280 | – | 375 |
| Non-executive director: | | | | | |
| Professor Liu Zhikun | 36 | – | 53 | – | 89 |
| Mr. Zhou Xianyan[3] | 40 | – | 53 | – | 93 |
| Independent non-executive directors: | | | | | |
| Ms. Tian Guangmei[4] | 128 | – | 53 | – | 181 |
| Mr. Zhou Wei[5] | 7 | – | – | – | 7 |
| Mr. Liang Guoxin[6] | 47 | – | 53 | – | 100 |
| Mr. Liu Zhaoxiang[7] | 20 | – | 53 | – | 73 |
| Total | 791 | 30 | 895 | 4 | 1,720 |

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### (a) Directors and chief executive (Continued)

For the year ended 31 December 2013

| | Fees RMB'000 | Salaries and other allowances RMB'000 | Share-based payments RMB'000 | Retirement benefits scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| Mr. Cai Shuiyong[1] | – | 60 | – | 7 | 67 |
| Mr. Cai Shuiping[8] | – | 15 | – | – | 15 |
| Mr. Lei Zuliang | 219 | – | – | – | 219 |
| Mr. Long Weihua[2] | 45 | – | – | – | 45 |
| Non-executive director: | | | | | |
| Professor Liu Zhikun | 36 | – | – | – | 36 |
| Independent non-executive directors: | | | | | |
| Ms. Tian Guangmei[4] | 61 | – | – | – | 61 |
| Mr. Zhou Wei[5] | 15 | – | – | – | 15 |
| Mr. Liang Guoxin[6] | 8 | – | – | – | 8 |
| Mr. Liu Jianlin[9] | 13 | – | – | – | 13 |
| Ms. Chan Ling[10] | 12 | – | – | – | 12 |
| Total | 409 | 75 | – | 7 | 491 |

1 Resigned on 4 July 2014
2 Redesignated as executive director on 1 November 2013
3 Appointed on 5 March 2014
4 Appointed on 17 June 2013
5 Appointed on 17 June 2013 and resigned on 16 April 2014
6 Appointed on 1 November 2013
7 Appointed on 16 April 2014
8 Resigned on 14 February 2013
9 Resigned on 19 June 2013
10 Resigned on 24 June 2013

Mr. Cai Shuiyong was also the chief executive officer of the Company up to 2 July 2013 and his emoluments disclosed above include those for services rendered by him as the chief executive.

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### (b) Employees

Of the five individuals with the highest emoluments in the Group, three (2013: two) were directors of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining two (2013: three) individuals were as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Salaries and other allowances | 903 | 806 |
| Retirement benefits scheme contributions | 21 | – |
| Share-based payments | 626 | – |
| | 1,550 | 806 |

The remuneration of these two highest paid employees (2013: three employees) fell within the following bands:

| | 2014 | 2013 |
|---|---|---|
| Nil to HK$1,000,000 (equivalent to RMB789,000) | 1 | 3 |
| HK$1,000,001 to HK$1,500,000 (equivalent to RMB1,183,000) | 1 | – |
| | 2 | 3 |

During the years ended 31 December 2014 and 2013, no emoluments were paid by the Group to any directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company waived any emolument during the years ended 31 December 2014 and 2013.

## 14. DISCONTINUED OPERATIONS

On 30 June 2014, the Company disposed of 100% equity interest in a subsidiary, Newshine International Limited, and its subsidiaries (together the "Disposed Group"), to a third party, Pu Xing Group Limited, for a cash consideration of RMB34,012,000. On the same date, the Group discontinued its business of OEM business and Brand business undertaken by the Disposed Group. An analysis of the profit/loss for the period from the discontinued operations is as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Loss for the period from discontinued businesses (Note below) | (7,699) | (12,206) |
| Gain on disposal of the Disposed Group (Note 37) | 2,467 | – |
| Loss for the period from discontinued operations | (5,232) | (12,206) |

## 14. DISCONTINUED OPERATIONS (Continued)

Note: The results of the discontinued business are analysed below:

| | OEM Business | | Brand Business | | Total | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Revenue | **–** | 32,864 | **–** | 5,164 | **–** | 38,028 |
| Cost of sales | **–** | (34,736) | **–** | (4,953) | **–** | (39,689) |
| Gross (loss) profit | **–** | (1,872) | **–** | 211 | **–** | (1,661) |
| Investment and other income (Note 8) | **1** | 8 | **–** | 3 | **1** | 11 |
| Other gains or losses (Note 9) | **36** | (4,089) | **–** | – | **36** | (4,089) |
| Selling and distribution expenses | **–** | – | **–** | (392) | **–** | (392) |
| Administrative expenses | **(5,968)** | (4,135) | **(1,768)** | (1,940) | **(7,736)** | (6,075) |
| Loss before tax | **(5,931)** | (10,088) | **(1,768)** | (2,118) | **(7,699)** | (12,206) |
| Income tax expense (Note 11) | **–** | – | **–** | – | **–** | – |
| Loss for the period attributable to owners of the Company (Note 12) | **(5,931)** | (10,088) | **(1,768)** | (2,118) | **(7,699)** | (12,206) |

The cash flows from the discontinued operations are analysed as follows:

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Net cash inflow (outflow) from operating activities | **23** | (39,222) |
| Net cash inflow from investing activities | **1** | 13,818 |
| Net cash inflow (outflow) | **24** | (25,404) |

## 15. DIVIDEND

No dividend was paid, declared or proposed during the years ended 31 December 2014 (2013: Nil) nor had any dividend been proposed since the end of the reporting period (2013: Nil).

## 16. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

| | Continuing and Discontinued Operations | | Continuing Operations | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Loss** | | | | |
| Loss for the purpose of basic loss per share | | | | |
| Loss for the year attributable to owners of the Company | **(90,322)** | (19,632) | **(85,090)** | (7,426) |
| Effect of dilutive potential ordinary shares: | | | | |
| — Interest expense on convertible bonds | **–** | 943 | **–** | 943 |
| — Loss on change in fair value of derivative financial assets | **–** | 2,141 | **–** | 2,141 |
| — Loss on early repayment of promissory notes | **(3,398)** | – | **(3,398)** | – |
| — Interest expense on promissory notes | **809** | 7,724 | **809** | 7,724 |
| Loss for the purpose of diluted earnings/loss per share | **N/A** | N/A | **N/A** | N/A |

| | Continuing and Discontinued Operations | | Continuing Operations | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **'000** | '000 | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **463,680** | 382,176 | **463,680** | 382,176 |
| Effect of dilutive potential ordinary shares: | | | | |
| — Share options | **5,271** | – | **5,271** | – |
| — Convertible bonds | **–** | 14,120 | **–** | 14,120 |
| — Warrants | **35,350** | 17,594 | **35,350** | 17,594 |
| Weighted average number of ordinary shares for the purposes of diluted earnings/loss per share | **504,301** | 413,890 | **504,301** | 413,890 |

As the Group sustained a loss for both of the years presented, diluted earnings/loss per share for these years are not presented as the effects of potential shares issuable arising from exercise of share options and warrants and the conversion of the convertible bonds are regarded anti-dilutive.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Machinery RMB'000 | Office equipment, furniture and fixtures RMB'000 | Leasehold improvement RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 January 2013 | 4,917 | 1,962 | 232 | 585 | 150 | – | 7,846 |
| Acquired on acquisition of subsidiaries | – | – | 40 | – | – | – | 40 |
| Additions | – | 2,295 | 94 | 808 | 124 | 12 | 3,333 |
| Disposals | – | (169) | – | – | – | – | (169) |
| Exchange realignment | – | – | (1) | (8) | – | – | (9) |
| At 31 December 2013 and 1 January 2014 | **4,917** | **4,088** | **365** | **1,385** | **274** | **12** | **11,041** |
| Acquired on acquisition of subsidiaries | **–** | **5,378** | **58** | **7,073** | **–** | **–** | **12,509** |
| Additions | **–** | **4,314** | **425** | **2,045** | **–** | **379** | **7,163** |
| Derecognised on disposal of a subsidiary | **(4,917)** | **(1,793)** | **(180)** | **(585)** | **–** | **–** | **(7,475)** |
| Reclassification of construction in progress | **–** | **–** | **–** | **12** | **–** | **(12)** | **–** |
| Exchange realignment | **–** | **–** | **–** | **(3)** | **–** | **–** | **(3)** |
| At 31 December 2014 | **–** | **11,987** | **668** | **9,927** | **274** | **379** | **23,235** |
| ACCUMULATED DEPRECIATION | | | | | | | |
| At 1 January 2013 | 1,568 | 1,340 | 149 | 421 | 12 | – | 3,490 |
| Provided for the year | 221 | 178 | 38 | 262 | 36 | – | 735 |
| Eliminated on disposals | – | (122) | – | – | – | – | (122) |
| Exchange realignment | – | – | – | (2) | – | – | (2) |
| At 31 December 2013 and 1 January 2014 | **1,789** | **1,396** | **187** | **681** | **48** | **–** | **4,101** |
| Provided for the year | **111** | **601** | **87** | **377** | **60** | **–** | **1,236** |
| Eliminated on disposal of subsidiaries | **(1,900)** | **(1,487)** | **(153)** | **(526)** | **–** | **–** | **(4,066)** |
| Exchange realignment | **–** | **–** | **–** | **(1)** | **–** | **–** | **(1)** |
| At 31 December 2014 | **–** | **510** | **121** | **531** | **108** | **–** | **1,270** |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2014 | **–** | **11,477** | **547** | **9,396** | **166** | **379** | **21,965** |
| At 31 December 2013 | 3,128 | 2,692 | 178 | 704 | 226 | 12 | 6,940 |

All the buildings of the Group are situated on land with medium-term land use rights in the PRC.

## 17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over their estimated useful lives and after taking into account their estimated residual value. The estimated useful lives of the property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 20 years or over the lease term of the relevant land, whichever is shorter |
| Machinery | 10 years |
| Office equipment, furniture and fixtures | 5 years |
| Leasehold improvement | 5 years or over the relevant lease, whichever is shorter |
| Motor vehicles | 4 years |

## 18. PREPAID LEASE PAYMENTS

| | Note | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| At 1 January | | **11,035** | 3,211 |
| Acquired on acquisition of subsidiaries | | **635** | 7,990 |
| Amortised for the year | | **(250)** | (166) |
| Derecognised on disposal of subsidiaries | | **(1,835)** | – |
| At 31 December | | **9,585** | 11,035 |
| Analysed for reporting purposes as: | | | |
| Non-current asset | | **9,298** | 10,768 |
| Current asset | | **287** | 267 |
| | | **9,585** | 11,035 |
| Prepaid lease payments in respect of land in the PRC: | | | |
| Medium-term lease in Sichuan | (i) | **7,687** | 7,889 |
| Medium-term lease in Anhui | | **630** | – |
| Medium-term lease in Jiangxi | | **–** | 1,857 |
| | | **8,317** | 9,746 |
| Long lease in Yunnan | (i) | **1,268** | 1,289 |
| | | **9,585** | 11,035 |

Notes:

(i) Prepaid lease payments in respect of land located in Sichuan and Yunnan, the PRC represent the amounts allocated as land portion from the consideration in respect of the forests on such land acquired by the Group. Usage of the land is regulated by the implementation regulations of PRC forest law issued by the State Council of the PRC.

(ii) The prepaid lease payments in Anhui, Sichuan and Yunnan are amortised over the terms of relevant land lease ranging from 40 to 65 years.

## 19. PLANTATION FOREST ASSETS

| | Yunnan Forest RMB'000 | Sichuan Forest RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2013 | 19,195 | – | 19,195 |
| Acquired on acquisition of subsidiaries | – | 223,930 | 223,930 |
| Harvested timber transferred to cost of inventories sold | – | (27,127) | (27,127) |
| Changes in fair value less costs to sell (Note 9) | 788 | 12,331 | 13,119 |
| At 31 December 2013 and 1 January 2014 | 19,983 | 209,134 | 229,117 |
| Harvested timber transferred to cost of inventories sold | – | (8,873) | (8,873) |
| Changes in fair value less costs to sell (Note 9) | (1,707) | 8,871 | 7,164 |
| At 31 December 2014 | 18,276 | 209,132 | 227,408 |

Notes:

**(a) Yunnan Forest**

On 11 July 2012, the Group acquired the entire interest in Rongxuan Forestry Investment Holdings Limited ("Rongxuan") and its subsidiaries (collectively referred to as the "Rongxuan Group") which principally holds plantation forest assets in Dali, Yunnan Province, the PRC ("Yunnan Forest"). The Yunnan Forest had a total leasehold land base of approximately 3,530 Chinese Mu (equivalent to approximately 235 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Yunnan Forests. During the year under review, approval of the logging permit in respect of the Yunnan Forest was not obtained by the Group and no timber logs were harvested (2013: Nil). As at 31 December 2014, Yunnan Forest is estimated to comprise approximately 142 hectares of pine trees and 93 hectares of oak trees with approximately 118 hectares of tree plantations with age 40 years or older.

**(b) Sichuan Forest**

On 28 May 2013, the Group acquired the entire equity interest in China Timbers Limited ("China Timbers") and its subsidiaries (collectively referred as to the "China Timbers Group") which are principally engaged in the operation and management of the forest in Jiange County, Sichuan Province in the PRC ("Sichuan Forest"). The Sichuan Forest had a total leasehold land base of approximately 21,045 Chinese Mu (equivalent to approximately 1,403 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Sichuan Forest. During the year under review, timber logs of approximately 15,000 cubic metres (2013: 25,000 cubic metres) in respect of the Sichuan Forest were harvested and the fair value of the timber logs harvested amounted to approximately RMB8,873,000 (2013: RMB27,127,000), which was estimated by reference to their sale prices less costs to less, was transferred to cost of inventories sold. As at 31 December 2014, the Sichuan Forest is estimated to comprise approximately 1,403 hectares of Cypress with approximately 13 hectares of tree plantations aged 40 years or older.

**(c) Valuation of Plantation Forest Assets**

The Group's plantation forest assets are regarded as biological assets and are carried at 31 December 2014 at fair value less costs to sell, which are independently valued by Ascent Partners Valuation Service Limited ("Ascent Partners"), independent professional valuers. In view of the non-availability of market value for tree plantations in the PRC, the professional valuers have applied the net present value approach whereby projected future net cash flows, based on their assessments of current timber log prices, were discounted at the pre-tax discount rate of 15.10% and 14.63% for the Yunnan Forest and Sichuan Forest respectively, to arrive at the fair value of the plantation forest assets.

## 19. PLANTATION FOREST ASSETS (Continued)

Notes: (Continued)

**(c) Valuation of Plantation Forest Assets (Continued)**

The principal valuation methodology and assumptions adopted are as follows:

*Applicable to both of Yunnan Forest and Sichuan Forest*

— The logging permit will be granted by the relevant government authorities.

— The forests are managed on a sustainable basis and sufficient logging quota will be continuously granted by the relevant government authorities.

— The cash flows are those arising from the current rotation of trees only. No account was taken of revenue or costs from re-establishment following harvest, or of land not yet planted.

— The cash flows do not take into account income tax and finance costs.

— The cash flows have been prepared in real terms and have not therefore included inflationary effects.

— The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forests is not taken into account.

— Costs have been derived from external sources and as determined by management. The costs are current average costs. No allowance has been made for cost improvements in future operations.

— Prices have been derived from independent market information and not prices actually received by the Group.

— The discount rates used in the valuation of the plantation forest assets are determined based on Capital Asset Pricing Model (CAPM), with reference to applicable risk-free rates and expected rates of return.

*Applicable to Yunnan Forest*

— Cash flow projection is determined for a period of 5 years up to 2019 with the first year of logging activities taken to be from January 2015. Management have assumed that the logging volume during the forecast period is 3,000 cubic meters in the first year, 5,000 cubic meters in the second year, 8,000 cubic meters in the third year, 10,000 cubic meters in the fourth year and 9,426 cubic meters in the last year based on the current best estimated harvesting plan. As at the date of approval of these consolidated financial statements, the Group has not obtained logging permits for the harvest of timber logs in the year of 2015 and onwards.

— The average increment in log sales prices is expected to be 6.71% per annum, which is in line with the long-term producer price index of forestry product. The increment in logging, transportation and maintenance and other costs relating to the logging activities and forestry management is 3.46% per annum for the forecast period.

— The discount rate applied is 15.10%.

— The inflation rate on other operation cost is 3.46% per annum.

— The biological growth rates of pine and oak are 5.73% and 4.78% respectively.

— The yielding rates for pine and oak are 55% and 52% respectively.

## 19. PLANTATION FOREST ASSETS (Continued)

Notes: (Continued)

**(c) Valuation of Plantation Forest Assets (Continued)**

*Applicable to Sichuan Forest*

— Cash flow projection is determined for a period of 6 years up to 2020 with the first year of logging activities taken to be from January 2015. Management have assumed that the logging volume during the forecast period is 30,000 cubic meters in the first year, 40,000 cubic meters in the second year, 50,000 cubic meters in the third year, 60,000 cubic meters in the fourth year, 60,000 cubic meters in the fifth year and 35,661 cubic meters in the last year based on the current best estimated harvesting plan. As at the date of approval of these consolidated financial statements, the Group has not obtained logging permits for the harvest of timber logs in the year of 2015 and onwards.

— The average increment in log sales prices is expected to be 6.71% per annum, which is in line with the long-term producer price index of forestry product. The increment in logging, transportation and maintenance and other costs relating to the logging activities and forestry management is 3.46% per annum for the forecast period.

— The discount rate applied is 14.63%.

— The inflation rate on other operation cost is 3.46% per annum.

— The biological growth rates of Cypress is 5.43%.

— The yielding rate for Cypress is 66%.

The fair value less costs to sell of the plantation forest assets at 31 December 2014 and 31 December 2013 have been determined on Level 3 fair value measurement. There has been no change from the valuation technique used in the prior year. In determining the fair value less costs to sell of the plantation forest assets, the highest and best use of the plantation forest assets is their current use.

The PRC government strictly implements a quota system for the quantities of forest wood to be logged annually and accordingly, such limited quota is competed vigorously among the numerous forestry operators. Without the approved logging permits, the Group will not be able to start operations for generating revenue in the forestry segment. In the opinion of the directors of the Company, the absence of logging permit does not impair their value to the Group as the Group has legally obtained ownership title to the forestry assets and is qualified to make the application of the logging permits which will be granted by the PRC government shortly after application.

**(d) Pledge of plantation forest assets**

At 31 December 2014, the equity interests in the Company's subsidiaries which hold the plantation forest assets have been pledged to secure the promissory notes payable by the Company (Note 26(a)).

**(e) Other risks associated with the plantation forest assets**

The Group is exposed to a number of risks related to its plantation forest assets:

*Regulatory and environmental risks*

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

*Climate and other risks*

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by the local forestry authorities. Other than the above-mentioned quotas, the Group's revenue also depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. The Group's standing timbers is exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

*Supply and demand risk*

The Group is exposed to risks arising from fluctuations in the price and sales volume of timber. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

## 20. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

During the year, the Company entered into an acquisition agreement with a third party for the acquisition of the entire equity interest in Exceed Target Investment Group Limited ("Exceed Target") for a consideration of HK$150,000,000, of which a refundable deposit of RMB3,000,000 was paid by the Company up to 31 December 2014 (2013: Nil). Exceed Target, through its subsidiaries established in the PRC, is principally engaged in forestry plantation business, technological consultancy related to agroforestry and the operation and management of forests.

## 21. INVENTORIES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Raw materials | 1,328 | – |
| Finished goods | 1,776 | – |
| | 3,104 | – |

## 22. TRADE AND OTHER RECEIVABLES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Trade receivables | 12,481 | 67,119 |
| Less: allowance for doubtful debts | – | (13,712) |
| | 12,481 | 53,407 |
| Other receivables | 12,494 | 671 |
| | 24,975 | 54,078 |

## 22. TRADE AND OTHER RECEIVABLES (Continued)

The Group generally allows an average credit period of 90 days (2013: 90 to 180 days) to its trade customers, where payment in advance is normally required. The Group does not hold any collateral over these balances. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| 0–90 days | **12,438** | 17,778 |
| 91–180 days | **43** | 22,951 |
| 181–365 days | **–** | 12,678 |
| Total | **12,481** | 53,407 |

No impairment loss is provided for the trade receivables that are not past due because these receivables are within credit period granted to the respective customers and management considers that the default rate is low for such receivables based on historical information and past experience.

No impairment loss was recognised in respect of the Group's trade receivables at 31 December 2014 which are substantially not past due. As at 31 December 2013, trade receivables that are past due but not impaired amounted to RMB12,678,000 that were aged between 181-365 days. Having considered the credit quality of the customers and the past experience of debt settlement, management was of the view that these receivables are fully recoverable and no impairment loss on trade receivables was not required in this respect.

Movement on allowance of trade receivables is as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| At beginning of the year | **13,712** | 11,222 |
| Derecognised on disposal of subsidiaries | **(13,712)** | – |
| Impairment loss recognised (Note 9) | **–** | 2,490 |
| At end of the year | **–** | 13,712 |

The allowance for doubtful debts of RMB2,490,000 recognised for the year ended 31 December 2013 was made against individually impaired trade receivables which have passed the credit period and are considered non-recoverable.

## 22. TRADE AND OTHER RECEIVABLES (Continued)

An analysis of other receivables is as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Other receivables | **12,494** | 2,028 |
| Less: allowance for doubtful debts | **–** | (1,357) |
| | **12,494** | 671 |

Movements of allowance of other receivables are as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| At beginning of the year | **1,357** | – |
| Derecognised on disposal of subsidiaries | **(1,357)** | – |
| Impairment loss recognised (Note 9) | **–** | 1,357 |
| At end of the year | **–** | 1,357 |

## 23. DEPOSITS AND PREPAYMENTS

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Deposits paid for acquisition of raw materials | **11,368** | – |
| Other deposits paid | **5,083** | 685 |
| Prepayments | **5,267** | 746 |
| | **21,718** | 1,431 |

## 24. BANK BALANCES AND CASH

At 31 December 2014, the Group's bank balances and cash denominated in RMB amounted to approximately RMB4,935,000 (2013: RMB7,059,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The bank balances and bank deposits carry average interest rate of 0.001% to 0.35% (2013: 0.34%) per annum.

## 25. TRADE AND OTHER PAYABLES

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Trade payables | **1,637** | 10 |
| Other payables | **6,593** | 3,799 |
| Redemption premium payable (Note 26(a)) | **10,976** | – |
| Accrued charges | **1,662** | 2,108 |
| | **20,868** | 5,917 |

The average credit period on purchase of goods is approximately 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The following is an aged analysis of trade payables presented based on the invoice date:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| 0–30 days | **1,584** | – |
| 31–90 days | **53** | – |
| Over 90 days | **–** | 10 |
| Total | **1,637** | 10 |

## 26. PROMISSORY NOTES PAYABLE

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Promissory notes payable | | |
| — issued on 8 January 2013, secured (Note a) | **56,322** | 167,670 |
| — issued on 28 May 2013, unsecured (Note b) | **18,067** | 68,001 |
| | **74,389** | 235,671 |

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Carrying amount payable | | |
| — Within one year | **56,322** | – |
| — More than one year, but not exceeding two years | **–** | 167,670 |
| — More than two years, but not exceeding five years | **18,067** | 68,001 |
| | **74,389** | 235,671 |
| Less: Amount shown under current liabilities | **(56,322)** | – |
| Amount shown under non-current liabilities | **18,067** | 235,671 |

## 26. PROMISSORY NOTES PAYABLE (Continued)

### (a) Promissory note issued on 8 January 2013 (the "Note A")

On 8 January 2013, the Company issued the Note A with the principal amount of HK$190,000,000 to a third party, Maple Reach Limited ("Maple Reach"), for a cash consideration of HK$190,000,000. The Note A bears interest at 15% per annum, payable on a semi-annual basis, and is payable on the maturity date of two years after the date of issue with a redemption premium of HK$26,610,000 (the "Redemption Premium"). Under the terms of the Note A, the Company was entitled to early redeem the note after six months from the issue date at the principal amount of the note plus the redemption premium as specified therein. The Note A was secured by 179,450,000 shares of the Company owned by Well Bright, the controlling shareholder of the Company, an additional 7,400,000 shares of the Company owned by other shareholders, the entire equity held by the Group of the companies comprising the Rongxuan Group (Note 19(a)) and the China Timbers Group (Note 19(b)) (collectively the "Relevant Securities").

On 16 May 2013, the parties to the Note A reached an agreement for the revision of the terms of the Note A, under which the Company issued warrants convertible into 25,000,000 new shares of the Company at the total exercise price of HK$26,610,000 (the "Warrant B") to Maple Reach. The holder of the warrants is entitled to convert the warrants into new shares of the Company at the exercise price of HK$1.0644 per share in the following four equal tranches of 6,250,000 shares each. The revision of the terms of the Note A was effective from 5 July 2013.

| Number of shares under the Warrant B | Exercisable period |
|---|---|
| 6,250,000 | 8 July 2013 to 31 January 2015 |
| 6,250,000 | 8 January 2014 to 31 January 2015 |
| 6,250,000 | 8 July 2014 to 31 January 2015 |
| 6,250,000 | 8 January 2015 to 31 January 2015 |
| 25,000,000 | |

Under the relevant agreements, the exercise price payable on conversion of the Warrant B to shares of the Company will be satisfied by applying the Redemption Premium of the Note A.

At 31 December 2013, no part of the Note A was redeemed and no part of the Warrant B was converted into shares of the Company.

During the year ended 31 December 2014, the Company repaid part of the Note A with the principal amount of HK$130,976,000 for an aggregate consideration of HK$144,890,000, comprising cash paid by the Company amounted to HK$130,976,000 and Redemption Premium payable to the noteholder amounted to HK$13,914,000 (equivalent to RMB10,976,000 (Note 25)), and Warrant B convertible into 4,194,000 shares lapsed upon repayment of the Note A. At 31 December 2014, the Note A with the principal amount of HK$59,024,000 (2013: HK$190,000,000) remained outstanding which was secured by the pledge of 61,550,000 shares (2013: 105,550,000 shares) of the Company owned by Well Bright. As at that date, the Warrant A convertible into 20,806,000 (2013: 25,000,000) new shares of the Company remained outstanding. Subsequent to 31 December 2014, the Company repaid part of the Note A with the principal amount of approximately HK$45,957,000 for a cash consideration of approximately HK$45,957,000 together with Redemption Premium payable of HK$6,436,000.

## 26. PROMISSORY NOTES PAYABLE (Continued)

### (a) Promissory note issued on 8 January 2013 (the "Note A") (Continued)

The fair values of the Note A at the date of issue was estimated to be HK$190,000,000 (equivalent to RMB151,765,000) based on the effective interest rate of 21.22% per annum. The fair value of the Note A and the Warrant B at 5 July 2013, the date of change in note terms, were estimated to be HK$204,713,000 (equivalent to RMB163,545,000) and HK$15,208,000 (equivalent to RMB12,119,000) respectively, as valued by Ascent Partner Valuation Service Limited, independent professional valuer. The effective interest rate applied to arrive at the fair value of the Note A of HK$204,713,000 is 22.79% per annum. The fair value of the early redemption of the Note A is considered insignificant by the directors and has not been recognised by the Company. The fair value of the Warrant B at the date of issue, which has been included in warrants reserve, was estimated using binominal option pricing model.

The inputs into the model were as follows:

| | 5 July 2013 |
|---|---|
| Risk-free rate | 0.2140% |
| Expected volatility | 64.9662% |
| Credit spread | 13.7892% |
| Dividend yield | – |

The risk-free rate was determined with reference to the yield rate of Hong Kong Zero Coupon Sovereign Yield with duration similar to the contractual tenor of the Warrant B. The expected volatility was determined based on the historical volatility of the share prices of the Company.

The credit spread was determined with reference to the average yield spread of issuers with similar rating over the U.S. treasury.

### (b) Promissory note issued on 28 May 2013 (the "Note B")

On 28 May 2013, the Company issued the Note B with the principal amount of HK$144,000,000 as part of the consideration for the acquisition of the entire interest in China Timbers and its subsidiaries (Note 36(b)). The Note B, which is unsecured, bears interest at 3% per annum for the first two years from the date of issue and 8% per annum thereafter, and is payable on the maturity date on 28 May 2018 at its principal amount. The Company is also entitled to redeem the whole or part of the Note B at the principal amount at any time before the maturity date. During the year ended 31 December 2013, the Company redeemed part of the Note B with the principal amount of HK$25,000,000 for cash consideration of HK$25,000,000.

During the year ended 31 December 2014, the Company redeemed part of the Note B with the principal amount of HK$90,497,000 for cash consideration of HK$90,497,000. At 31 December 2014, the Note B with the principal amount of HK$28,503,000 (2013: HK$119,000,000) remained outstanding.

The fair value of the Note B at the date of issue was estimated to be RMB77,631,000, based on the effective interest rate of 14.86% per annum. The fair value of the early redemption option in respect of the Note B is considered insignificant by the directors and has not been recognised by the Company.

## 26. PROMISSORY NOTES PAYABLE (Continued)

Movements of the Group's promissory notes payable for both of the years presented are as follows:

| | Note A<br>RMB'000 | Note B<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| At 1 January 2013 | – | – | – |
| Issue of promissory notes, at fair value | | | |
| — Cash | 151,765 | – | 151,765 |
| — For acquisition of subsidiaries (Note 36(b)) | – | 77,631 | 77,631 |
| Transaction costs attributable to issue of notes | (696) | – | (696) |
| Imputed interest for the year (Note 10) | 32,712 | 6,007 | 38,719 |
| Issue of warrants upon change in note terms (Note 31) | (12,119) | – | (12,119) |
| Loss on re-measurement of promissory notes upon change in note terms (Note (i)) | 9,050 | – | 9,050 |
| Interest paid during the year | (11,382) | – | (11,382) |
| Promissory notes repaid during the year | – | (19,969) | (19,969) |
| Loss on early repayment of promissory notes (Note (ii)) | – | 6,240 | 6,240 |
| Interest payable included in trade and other payables | – | (1,489) | (1,489) |
| Exchange realignment | (1,660) | (419) | (2,079) |
| At 31 December 2013 and 1 January 2014 | 167,670 | 68,001 | 235,671 |
| Imputed interest for the year (Note 10) | 24,880 | 6,508 | 31,388 |
| Interest paid during the year | (22,936) | (1,711) | (24,647) |
| Promissory notes repaid during the year | (114,770) | (71,684) | (186,454) |
| Loss on early repayment of promissory notes (Note (iii)) | 1,485 | 17,304 | 18,789 |
| Interest payable included in trade and other payables | – | (367) | (367) |
| Exchange realignment | (7) | 16 | 9 |
| At 31 December 2014 | 56,322 | 18,067 | 74,389 |

Notes:

(i) During the year ended 31 December 2013, the terms of the Note A have been revised as detailed in paragraph (a) above. The loss on re-measurement of promissory notes upon change in note terms, which represents the excess of the aggregate of the fair value of the Note A and the Warrant A totalled RMB175,664,000 at the date of change in note terms over the carrying amount of the Note A of RMB166,614,000 at that date before change in note terms, amounted to RMB9,050,000 which has been recognised in profit or loss for the year.

(ii) During the year ended 31 December 2013, part of the Note B with the principal amount of HK$25,000,000 was repaid by the Company. The loss on early repayment of the Note B, which represents the excess of the consideration paid of HK$25,000,000 over the carrying amount of the note redeemed of HK$17,188,000, amounted to HK$7,812,000 (equivalent to RMB6,240,000) which has been recognised in profit or loss for the year (Note 9).

(iii) During the year ended 31 December 2014, part of the Note A and Note B with aggregate principal amounts of HK$221,473,000 were repaid by the Company. The loss on early repayment of promissory notes, which represents the excess of the aggregate of the consideration paid of HK$221,473,000 (equivalent to RMB175,478,000) and the premium payable amounted to HK$13,914,000 (equivalent to RMB10,976,000) upon repayment of the Note A over the aggregate of carrying amounts of the notes repaid amounted to RMB167,665,000 at the dates of repayments, amounted to HK$23,720,000 (equivalent to RMB18,789,000) which has been recognised in profit or loss for the year (Note 9).

## 27. AMOUNT DUE TO A FORMER CONTROLLING SHAREHOLDER

The amount is unsecured, non-interest bearing and repayable on demand.

## 28. CORPORATE BONDS PAYABLE

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Unsecured corporate bonds payable: | | |
| — More than one year, but not exceeding two years | **8,006** | – |
| — More than two years, but not exceeding five years | **4,402** | – |
| — More than five years | **72,435** | – |
| Amount shown under non-current liabilities | **84,843** | – |

Movements during the year in the corporate bonds payable are as follows:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| At 1 January | **–** | – |
| Issue of corporate bonds, at cash | **90,380** | – |
| Transaction costs incurred for issue of bonds | **(8,879)** | – |
| Imputed interest for the year (Note 10) | **3,691** | – |
| Exchange realignment | **(349)** | – |
| At 31 December | **84,843** | – |

During the year, the Company issued corporate bonds with the aggregate principal amounts of HK$114,100,000 giving rise to a total proceed of HK$114,100,000 (equivalent to RMB90,380,000) (before expenses). The corporate bonds, which are unsecured and carry interest at interest rates ranged from 4% to 7 % per annum, are wholly payable by the Company at end of the maturity periods of 2 to 8 years from the respective dates of issue. At 31 December 2014, the corporate bonds with the principal amount of HK$114,100,000 (2013: Nil) remained outstanding. The effective interest rate of the corporate bonds in respect of the current year ranged from 4.154% to 11.858% per annum.

## 29. CONVERTIBLE BONDS PAYABLE

On 11 July 2012, the Company issued HK$ unsecured zero coupon convertible bonds with the principal amount of HK$21,300,000 (the "Convertible Bonds") (equivalent to approximately RMB17,330,000) and the maturity date of 11 July 2015 (the "Convertible Bonds") to a third party for the acquisition of the Rongxuan Group.

The principal terms of the Convertible Bonds are as follows:

### (i) Conversion rights

The holders of the Convertible Bonds are entitled to convert any part of bonds into new ordinary shares of the Company at a conversion price of HK$0.81 each during the period from six months after the date of issue up to the maturity date.

### (ii) Redemption at the option of the Company

The Company may, at any time before the maturity date by serving at least 10 days' prior written notice to all of the bondholders with total amount to be redeemed specified therein, redeem the Convertible Bonds at 103% to the principal amount of the bond to be redeemed. Any amount of the Convertible Bonds which is redeemed by the Company will forthwith be cancelled.

### (iii) Redemption at maturity

Unless previously redeemed, converted, or purchased and cancelled, the outstanding Convertible Bonds will be redeemed on 11 July 2015 at 103% of the principal amount of the bonds.

On 16 July 2013, all the Convertible Bonds with principal amount of HK$21,300,000 were converted into 26,296,296 ordinary shares at the conversion price HK$0.81 per share.

The Convertible Bonds contains three components: liability component, equity component (conversion option) and derivative component (redemption option).

Movements of the liability, derivative and equity components of the Convertible Bonds during both of the years presented are set out below:

| | Liability component RMB'000 | Derivative component RMB'000 | Equity component RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2013 | 12,594 | (2,184) | 12,444 | 22,854 |
| Imputed interest charges (Note 10) | 943 | – | – | 943 |
| Loss on change in fair value of derivative financial assets (Note 9) | – | 2,141 | – | 2,141 |
| Converted during the year | (13,257) | – | (12,444) | (25,701) |
| Exchange realignment | (280) | 43 | – | (237) |
| At 31 December 2013 and 31 December 2014 | – | – | – | – |

## 30. SHARE CAPITAL

| | Par value HK$ | Number of ordinary shares '000 | Nominal amount of ordinary shares HK$'000 |
|---|---|---|---|
| *Authorised:* | | | |
| At 1 January 2013, 31 December 2013 and 2014 | 0.01 | 1,000,000 | 10,000 |

| | Par value HK$ | Number of ordinary shares '000 | Nominal amount of ordinary shares HK$'000 | Carrying amount RMB'000 |
|---|---|---|---|---|
| *Issued and fully paid:* | | | | |
| At 1 January 2013 | 0.01 | 370,000 | 3,700 | 3,256 |
| Issue of shares on conversion of convertible bonds (Note a) | | 26,296 | 263 | 210 |
| At 31 December 2013 | 0.01 | 396,296 | 3,963 | 3,466 |
| Issue of shares on placement of shares (Note b) | 0.01 | 74,000 | 740 | 588 |
| Issue of shares on placement of shares (Note c) | 0.01 | 47,504 | 475 | 377 |
| At 31 December 2014 | 0.01 | 517,800 | 5,178 | 4,431 |

Notes:

(a) As referred to in Note 29, on 16 July 2013, the Convertible Bonds with the principal amount of HK$21,300,000 were converted into 26,296,296 new ordinary shares of the Company at the conversion price of HK$0.81 per share.

(b) On 24 April 2014, the Company entered into a placement agreement with a financial institution, pursuant to which 74,000,000 new ordinary shares of the Company were issued at a price of HK$1.3 per share on 8 May 2014, giving rise to a gross proceed at HK$96,200,000 (before expense).

(c) On 16 July 2014, the Company entered into a placement agreement with a financial institution, pursuant to which 47,504,000 new ordinary shares of the Company were issued at a price of HK$1.65 per share on 7 August 2014, giving rise to a gross proceed at HK$78,382,000 (before expense).

## 31. WARRANTS RESERVE

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| At the beginning of the year | **12,297** | – |
| Proceeds from issue of the Warrants A (Note b below) | **–** | 178 |
| Fair value of the Warrants B issued arising from revision of note terms (Note 26(a)) | **–** | 12,119 |
| Transferred to accumulated losses upon lapse of the Warrants B (Note c below) | **(2,033)** | – |
| At end of the year | **10,264** | 12,297 |

Notes:

(a) The warrants reserve will be transferred to share capital and share premium account upon exercise of the warrants.

(b) On 28 March 2013, the Company issued an aggregate of 22,000,000 warrants at the issue price of HK$0.01 per warrant (the "Warrants A"). The holders of the warrants are entitled to convert each unit of the warrants into one new share of the Company at the subscription price of HK$0.99 per share during the period of three years commencing from the date of issue of the warrants. During the year, no warrants have been converted into new shares of the Company. At the end of the reporting period, 22,000,000 units (2013: 22,000,000 units) of the Warrants A remained outstanding.

(c) As referred to in Note 26(a), part of the Warrant B convertible into 4,194,000 shares of the Company lapsed upon repayment of part of the Note A during the year. Accordingly, the warrant reserve of RMB2,033,000 attributable to the Warrant B lapsed were transferred to accumulated losses. As at 31 December 2014, the Warrant B convertible into 20,806,000 shares of the Company remained outstanding.

## 32. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 15 September 2009 for the primary purpose of providing incentives to selected participants, including directors and eligible employees. Under the Scheme, the board of directors of the Company may grant option to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 37,000,000 (2013: Nil), representing 7.15% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A nominal consideration of HK$1 is payable on the grant of an option. The period within which the option must be exercised will be specified by the Company at the time of grant. Such period must expire no later than 10 years from the relevant date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

## 32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

No share options were granted, exercised or cancelled during the year ended 31 December 2013 and no share options were outstanding at that date.

During the year ended 31 December 2014, certain share options were granted by the Company to its directors and employees, details of which are as follows:

| | Number of share options granted | Date of grant | Exercise period | Exercise price per share HK$ | Fair value per option at grant date HK$ |
|---|---|---|---|---|---|
| Directors | 2,550,000 | 10/11/2014 | 10/11/2014 to 9/11/2015 | 2.76 | 0.4433 |
| Employees | 34,450,000 | 10/11/2014 | 10/11/2014 to 9/11/2015 | 2.76 | 0.4391 |
| | 37,000,000 | | | | |

In accordance with the terms of the Scheme, the options granted vested at the date of grant.

The fair value of the share options was estimated to be RMB12,877,000, which was determined using the binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past one year.

The variances and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

### Inputs into the model

| | Share options granted on 10 November 2014 |
|---|---|
| Grant date share price | HK$2.76 |
| Exercise price | HK$2.76 |
| Expected volatility | 40.54% |
| Option life | 1 year |
| Dividend yield | – |
| Risk-free interest rate | 0.09% |

## 32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

### Inputs into the model (Continued)

Movements during the year ended 31 December 2014 of the share options granted are as follows:

| | | | Number of share options granted | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Exercise price per share HK$ | Date of grant | Outstanding at 1 January 2014 | Movements during the year Granted | Exercised | Forfeited | Expired | Outstanding at 31 December 2014 |
| Directors | 2.76 | 10/11/2014 | – | 2,550,000 | – | – | – | 2,550,000 |
| Employees | 2.76 | 10/11/2014 | – | 34,450,000 | – | – | – | 34,450,000 |
| | | | – | 37,000,000 | – | – | – | 37,000,000 |
| Exercisable at the end of the year | | | | | | | | 37,000,000 |
| Weighted average exercise price | | | – | HK$2.76 | – | – | – | HK$2.76 |

Share-based payment expense amounted to RMB12,877,000 (2013: Nil) has been recognised in profit or loss in respect of the year.

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK$2.76 (2013: Nil) per share. The weighted average remaining contractual life of outstanding share options granted and outstanding at the end of the reporting period is 0.86 years (2013: Nil).

## 33. RETIREMENT BENEFIT SCHEMES

The Group has participated in defined contribution retirement schemes established under Mandatory Provident Fund Ordinance ("MPF schemes") for its employees in Hong Kong. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of independent trustees. Under the rules of the MPF Schemes, each of the employer and its employees are generally required to make contributions to the schemes at 5% of the employee's relevant monthly income, subject to a cap of monthly relevant income of HK$25,000 thereafter. Contributions to the plan vest immediately.

The employees of PRC subsidiaries of the Company are members of state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

## 33. RETIREMENT BENEFIT SCHEMES (Continued)

The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income of approximately RMB1,522,000 (2013: RMB3,055,000) represents contributions payable by the Group at rates or amounts specified in the schemes.

Apart from the above, the Group has no significant obligations under retirement benefit schemes at the end of both of the years presented.

## 34. OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises and production plants under operating lease arrangements with leases negotiated for an average term of one to fifteen years and rentals are fixed over the lease term. At the end of the reporting period, the Group had the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

**2014**

| | Office premises RMB'000 | Plant and machinery RMB'000 | Total RMB'000 |
|---|---|---|---|
| Within one year | **1,951** | **1,325** | **3,276** |
| In the second to fifth year inclusive | **1,479** | **1,690** | **3,169** |
| More than five year | **–** | **428** | **428** |
| | **3,430** | **3,443** | **6,873** |

2013

| | Office premises RMB'000 | Plant and machinery RMB'000 | Total RMB'000 |
|---|---|---|---|
| Within one year | 1,857 | 528 | 2,385 |
| In the second to fifth year inclusive | 2,505 | 1,472 | 3,977 |
| | 4,362 | 2,000 | 6,362 |

## 35. CAPITAL COMMITMENTS

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| — Acquisition of subsidiaries | **115,331** | – |
| — Plant and machinery | **2,796** | – |
| At end of the year | **118,127** | – |

## 36. ACQUISITION OF SUBSIDIARIES

### (a) Acquisition took place during the year ended 31 December 2014

On 1 December 2014, for the development of the Group's biomass fuel business, the Group acquired 70% equity interests of Xinyu Bio Energy (Anhui) Company Limited ("Anhui Xinyu") for cash consideration of RMB27,300,000 by way of capital contribution of RMB27,300,000 payable by the Group to Anhui Xinyu. Anhui Xinyu is principally engaged in the manufacture and sale of biomass fuel products.

This acquisition has been accounted for using the purchase method. The effect of the acquisition is summarised as follows:

***Cash consideration transferred***

| | RMB'000 |
|---|---|
| Capital contribution to Anhui Xinyu | |
| — Paid | 1,295 |
| — Payable | 26,005 |
| | 27,300 |

Acquisition-related costs amounting to approximately RMB2,397,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

## 36. ACQUISITION OF SUBSIDIARIES (Continued)

### (a) Acquisition took place during the year ended 31 December 2014 (Continued)

Consolidated assets and liabilities of Anhui Xinyu recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 12,509 |
| Prepaid lease payments | 635 |
| **Current assets** | |
| Inventories | 2,050 |
| Trade and other receivables | 333 |
| Amount due from holding company | 26,005 |
| Bank balances and cash | 63 |
| **Current liabilities** | |
| Trade and other payables | (2,595) |
| | 39,000 |

The receivables acquired in this transaction had gross amount of RMB333,000. No contractual cash flows from these receivables are expected not to be collected.

Goodwill arising on consideration:

| | RMB'000 |
|---|---|
| Consideration attributable to acquisition of 70% equity interest in Anhui Xinyu | 27,300 |
| Less: Net assets acquired | (39,000) |
| Add: Non-controlling interests | 11,700 |
| Goodwill arising on consideration | – |
| Net cash outflow arising on the acquisition: | |
| Cash consideration paid | 1,295 |
| Bank balances and cash acquired | (63) |
| | 1,232 |

## 36. ACQUISITION OF SUBSIDIARIES (Continued)

### (a) Acquisition took place during the year ended 31 December 2014 (Continued)

***Impact of acquisition on the result of the Group***

Included in the turnover and loss for the year is turnover and profit of RMB143,000 and of RMB782,000 respectively attributable to Anhui Xinyu.

Had the acquisition of Anhui Xinyu been effected at the beginning of the year, the revenue of the Group for the year ended 31 December 2014 would have been RMB26,851,000, and the loss for the year, from continuing and discontinued operations would have been RMB90,716,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Anhui Xinyu been acquired at the beginning of the year, the directors calculated depreciation of property, plant and equipment and amortisation of prepaid lease payments on the basis of the fair value arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

### (b) Acquisition took place during the year ended 31 December 2013

On 28 May 2013, the Group acquired 100% equity interests of China Timbers from an independent third party for an aggregate consideration of HK$280,000,000 which was settled by (i) cash of HK$136,000,000 (equivalent to approximately RMB108,293,000) and (ii) issue of promissory note with the principal amount of HK$144,000,000. China Timbers, through its subsidiaries established in the PRC (together with China Timbers referred to as "China Timbers Group"), is principally engaged in the operation and management of the forest in Jiange County, Sichuan Province.

This acquisition has been accounted for using the purchase method. The effect of the acquisition is summarised as follows:

***Consideration transferred***

| | RMB'000 |
|---|---|
| Cash | 108,293 |
| Note B (Note 26(b)) | 77,631 |
| | 185,924 |

Acquisition-related costs amounted to approximately RMB880,000 have been excluded from the cost of acquisition and have been recognised directly as an expense for the year ended 31 December 2013 and included in the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

## 36. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) Acquisition took place during the year ended 31 December 2013 (Continued)

Consolidated assets and liabilities of China Timbers Group recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 40 |
| Plantation forest assets | 223,930 |
| Prepaid lease payments | 7,990 |
| **Current assets** | |
| Trade and other receivables | 267 |
| Bank balances and cash | 100 |
| **Current liabilities** | |
| Trade and other payables | (13) |
| | 232,314 |

The plantation forest assets and prepaid lease payments have been recognised at their fair value of approximately RMB223,930,000 and RMB7,990,000 respectively at the date of acquisition based on the valuation carried out by Ascent Partners. The receivables acquired (which principally comprised trade receivables) in this transaction had gross amount of RMB267,000. No contractual cash flows from these receivables are expected not to be collected.

Bargain purchase gain arising on acquisition are as follows:

| | RMB'000 |
|---|---|
| Fair value of identifiable net assets acquired | 232,314 |
| Consideration transferred | (185,924) |
| Gain on bargain purchase | 46,390 |
| Net cash outflow arising on the acquisition: | |
| Cash consideration paid | 108,293 |
| Bank balances and cash acquired | (100) |
| | 108,193 |

Gain on bargain purchase arose from the excess of fair value of identifiable assets and liabilities of the subsidiaries acquired over the cost of acquisition.

## 37. DISPOSAL OF SUBSIDIARIES

### Year ended 31 December 2014

As referred to in Note 14, the Group completed the disposal of the Disposed Group on 30 June 2014 for a cash consideration of RMB34,012,000.

***Consideration received***

| | RMB'000 |
|---|---|
| Consideration received in cash | 34,012 |

***Analysis of assets and liabilities at the date of disposal over which control was lost***

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 3,409 |
| Prepaid lease payments | 1,835 |
| **Current assets** | |
| Trade and other receivables | 26,302 |
| Deposits and prepayments | 626 |
| Current tax recoverable | 233 |
| Bank balances and cash | 74 |
| **Current liabilities** | |
| Trade and other payables | (1,064) |
| Amounts due to a former controlling shareholder | (1,052) |
| Net assets disposed of | 30,363 |

***Gain on disposal of subsidiaries***

| | RMB'000 |
|---|---|
| Consideration received | 34,012 |
| Net assets disposed of | (30,363) |
| Cumulative exchange losses in respect of the net assets of the subsidiaries | (1,182) |
| Gain on disposal of subsidiaries | 2,467 |

***Net cash outflow arising from disposal***

| | RMB'000 |
|---|---|
| Consideration for disposal | 34,012 |
| Less: Bank balance and cash disposed of | (74) |
| | 33,938 |

## 37. DISPOSAL OF SUBSIDIARIES (Continued)

***Net cash outflow arising from disposal (Continued)***

No disposal of subsidiaries took place during the year ended 31 December 2013. The proceeds from disposal of subsidiaries of RMB13,800,000 for the year ended 31 December 2013 presented in the consolidated cash flow statements represents the proceeds received in that year from the disposal of a subsidiary in the year ended 31 December 2012.

## 38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2014, the Group's major non-cash transactions are as follows:

(i) As referred to in Note 32, the Company granted 37,000,000 share options to eligible directors and employees with the fair value of RMB12,877,000.

During the year ended 31 December 2013, the Group's major non-cash transactions are as follows:

(i) As referred to in Note 29, all the Convertible Bonds with principal amount of HK$21,300,000 were converted into 26,296,296 ordinary shares at conversion price HK$0.81 per share.

(ii) As referred to in Note 26(b), the Company issued promissory notes with an aggregate principal amount of HK$144,000,000 as part of the consideration for the acquisition for China Timbers Group.

## 39. PLEDGE OF ASSETS

As detailed in Notes 19 and 26(a), the Note A issued by the Company was secured by certain assets of the Group at the end of the reporting period.

## 40. RELATED PARTY TRANSACTIONS

In additions to those disclosed elsewhere in the consolidated financial statements, the Group entered into the following related party transactions during the year:

### (a) Rental expenses incurred

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Rentals paid to Mr. Tsoi Kam On | **14** | 29 |

Note: Mr. Tsoi Kam On is the brother of Mr. Cai Shuiyong. In the opinion of the directors of the Company, the transactions were conducted on normal commercial terms and in the ordinary course of business. Mr. Cai Shuiyong resigned as the director of the Company during the year.

## 40. RELATED PARTY TRANSACTIONS (Continued)

### (b) Remuneration of directors and other members of key management

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Salaries and other allowances | **1,687** | 859 |
| Share-based payments | **1,521** | – |
| Retirement benefits scheme contributions | **21** | 35 |
| | **3,229** | 894 |

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

## 41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes promissory notes payable and corporate bonds payable disclosed in Note 26 and Note 28 respectively and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the raising of new debts or the repayment of existing debts.

## 42. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Financial assets | | |
| Loan and receivables at amortised cost (including bank balances and cash) | **42,025** | 75,922 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | **180,100** | 242,933 |

## 42. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, promissory notes payable, amount due to a former controlling shareholder, corporate bonds payable and convertible bonds payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***(a) Currency risk***

No revenue derived by the Group in respect of the year ended 31 December 2014 was denominated in foreign currencies. For the year ended 31 December 2013, approximately 6% of the Group's revenue were denominated in foreign currencies. Substantially all of the costs incurred for both of the years ended 31 December 2014 and 31 December 2013 were denominated in functional currencies of the group entities.

As 31 December 2014 and 31 December 2013, the Group had no significant monetary assets and liabilities which were denominated in foreign currencies.

The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

*Sensitivity analysis*

As the Group had no material foreign currency denominated monetary assets and liabilities at 31 December 2014 and 31 December 2013, no significant impacts on the results of the Group would arise from the changes in foreign currency rates, accordingly sensitivity analysis in this respect is not presented.

***(b) Interest rate risk***

As at 31 December 2014 and 2013, the Group was also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing floating market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for bank deposits as at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates have been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2014 would decrease/increase by approximately RMB78,000 (2013: RMB99,000). This is mainly attributable to the Group's exposure to interest rates on its bank deposit which carried interest at floating rates.

## 42. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

***(c) Credit risk***

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group has concentration of credit risk as 72% (2013: 33%) and 97% (2013: 90%) of the total trade receivables was due from the Group's largest customer and the five largest customers.

The Group's concentration of credit risk by geographical location is mainly in the PRC which accounted for all of the total trade receivables as at 31 December 2014 and 31 December 2013.

***(d) Liquidity risk***

As referred to in Note 2, the Group had net current liabilities of RMB10,180,000 at 31 December 2014. Having considered that the Company has made certain measures and arrangements subsequent to 31 December 2014 as detailed in Note 2, the directors are of the view that the Group has sufficient cash resources to satisfy its working capital and other financial obligations for the next twelve months from the date of approval of these consolidated financial statements.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and other source of funding and considers the risk is minimal.

*Liquidity tables*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated by interest rate curve.

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these no-derivative financial assets is necessary in order to understand the Group's liquidity risk management at the liquidity is managed on a net asset and liability basis.

## 42. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

***(d) Liquidity risk (Continued)***

*Liquidity tables (Continued)*

The amount included below for variable interest rate instruments for the non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**As at 31 December 2014**

| | On demand or within one year RMB'000 | 2 to 5 years RMB'000 | Over 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount as at 31 December 2014 RMB'000 |
|---|---|---|---|---|---|
| Non-derivative financial assets | | | | | |
| Trade and other receivables | 24,975 | – | – | 24,975 | 24,975 |
| Bank balances and cash | 17,050 | – | – | 17,050 | 17,050 |
| | 42,025 | – | – | 42,025 | 42,025 |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 20,868 | – | – | 20,868 | 20,868 |
| Amount due to a controlling shareholder | – | – | – | – | – |
| Promissory notes payable | 57,071 | 27,959 | – | 85,030 | 74,389 |
| Corporate bonds payable | 5,495 | 33,499 | 90,218 | 129,212 | 84,843 |
| | 83,434 | 61,458 | 90,218 | 235,110 | 180,100 |

## 42. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

***(d) Liquidity risk (Continued)***

*Liquidity tables (Continued)*

As at 31 December 2013

| | On demand or within one year RMB'000 | 2 to 5 years RMB'000 | Over 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount as at 31 December 2013 RMB'000 |
|---|---|---|---|---|---|
| Non-derivative financial assets | | | | | |
| Trade and other receivables | 54,078 | – | – | 54,078 | 54,078 |
| Bank balances and cash | 21,844 | – | – | 21,844 | 21,844 |
| | 75,922 | – | – | 75,922 | 75,922 |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 5,917 | – | – | 5,917 | 5,917 |
| Amount due to a controlling shareholder | 1,345 | – | – | 1,345 | 1,345 |
| Promissory notes payable | 25,369 | 300,828 | – | 326,197 | 235,671 |
| Corporate bonds payable | – | – | – | – | – |
| | 32,631 | 300,828 | – | 333,459 | 242,933 |

***(e) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)***

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values. The fair values, which are included in Level 3 categories, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflect the credit risk of counterparties.

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investments in subsidiaries | | **204,808** | 205,133 |
| Property, plant and equipment | | **421** | 714 |
| Deposit paid for acquisition of subsidiaries | | **3,000** | – |
| | | **208,229** | 205,847 |
| Current assets | | | |
| Other receivables | | **4,738** | – |
| Deposits and prepayments | | **5,746** | 885 |
| Amount due from a subsidiary | (a) | **27,804** | 1,487 |
| Bank balances and cash | | **3,721** | 14,149 |
| | | **42,009** | 16,521 |
| Current liabilities | | | |
| Other payables | | **12,268** | 2,680 |
| Amount due to a subsidiary | (a) | **–** | 8,391 |
| Promissory notes payable | | **56,322** | – |
| | | **68,590** | 11,071 |
| Net current (liabilities) assets | | **(26,581)** | 5,450 |
| Total assets less current liabilities | | **181,648** | 211,297 |
| Non-current liabilities | | | |
| Promissory notes payable | | **18,067** | 235,671 |
| Corporate bonds payable | | **84,843** | – |
| | | **102,910** | 235,671 |
| Net assets (liabilities) | | **78,738** | (24,374) |
| Capital and reserves | | | |
| Share capital | | **4,431** | 3,465 |
| Reserves | (b) | **74,307** | (27,839) |
| Total equity | | **78,738** | (24,374) |

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) The amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

(b) Reserves

| | Share premium RMB'000 | Convertible bonds equity reserves RMB'000 (Note 29) | Warrant reserves RMB'000 (Note 31) | Share option reserves RMB'000 (Note 32) | Translation reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 10,642 | 12,444 | – | – | (22) | (13,584) | 9,480 |
| Loss for the year | – | – | – | – | – | (62,663) | (62,663) |
| Other comprehensive income for the year | – | – | – | – | – | – | – |
| Total comprehensive expense for the year | – | – | – | – | – | (62,663) | (62,663) |
| Issue of warrants | – | – | 12,297 | – | – | – | 12,297 |
| Issue of shares upon conversion of convertible bonds | 25,491 | (12,444) | – | – | – | – | 13,047 |
| At 31 December 2013 and 1 January 2014 | **36,133** | **–** | **12,297** | **–** | **(22)** | **(76,247)** | **(27,839)** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **(46,756)** | **(46,756)** |
| Other comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **–** | **–** | **(46,756)** | **(46,756)** |
| Issue of shares | **137,822** | **–** | **–** | **–** | **–** | **–** | **137,822** |
| Share issue expenses | **(1,797)** | **–** | **–** | **–** | **–** | **–** | **(1,797)** |
| Recognition of equity-settled share-based payments | **–** | **–** | **–** | **12,877** | **–** | **–** | **12,877** |
| Warrants lapsed during the year | **–** | **–** | **(2,033)** | **–** | **–** | **2,033** | **–** |
| At 31 December 2014 | **172,158** | **–** | **10,264** | **12,877** | **(22)** | **(120,970)** | **74,307** |

## 44. SUBSIDIARIES

Details of the material subsidiaries at the end of the reporting period are set out below:

| Name of company | Place of incorporation/ establishment/ operations | Class of shares held | Paid up registered capital | Proportion of ownership interests held by the Company Directly 2014 | Directly 2013 | Indirectly 2014 | Indirectly 2013 | Proportion of voting power held by the Company 2014 | 2013 | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|
| Newshine International Limited [4]<br>新光國際有限公司 | BVI | Ordinary | US$1 | – | 100% | – | – | – | 100% | Investment holding |
| Sino Prosper (Asia) Limited [4]<br>華盛（亞洲）有限公司 | Hong Kong | Ordinary | HK$1 | – | – | – | 100% | – | 100% | Investment holding |
| Wannianxian Xiefeng Textiles and Garments Co., Ltd. [1,3,4]<br>萬年縣協豐紡織服飾有限公司 | The PRC | Contributed capital | HK$3,200,000 | – | – | – | 100% | – | 100% | Manufacturing and wholesaling of apparels |
| Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. [1,3,4]<br>萬年縣祥雲纖維紡織有限公司 | The PRC | Contributed capital | US$1,300,000 | – | – | – | 100% | – | 100% | Manufacturing and wholesaling of apparels |
| Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd. [1,3,4]<br>江西省萬年興紡織服裝有限公司 | The PRC | Contributed capital | US$1,300,000 | – | – | – | 100% | – | 100% | Manufacturing and wholesaling of apparels |
| Rongxuan Forestry Investment Holding Limited<br>榮軒林業投資控股有限公司 | BVI | Ordinary | US$50,000 | 100% | 100% | – | – | 100% | 100% | Investment holding |
| Rongxuan Forestry Investment Group Limited<br>榮軒林業投資集團有限公司 | Hong Kong | Ordinary | HK$10,000 | – | – | 100% | 100% | 100% | 100% | Investment holding |
| YuePengDa Forestry (Shenzhen) Ltd. [1,3]<br>岳鵬達木業（深圳）有限公司 | The PRC | Contributed capital | RMB6,680,000 | – | – | 100% | 100% | 100% | 100% | Investment holding |
| Dalinanhai Forestry Ltd. [1,3]<br>大理藍海林業有限公司 | The PRC | Contributed capital | RMB1,000,000 | – | – | 100% | 100% | 100% | 100% | Management of plantation forest assets |
| China Timbers Limited [5]<br>中國木業有限公司 | BVI | Ordinary | US$1 | 100% | 100% | – | – | 100% | 100% | Investment holding |
| China Timbers Limited [5]<br>中國木業投資集團有限公司 | Hong Kong | Ordinary | HK$1 | – | – | 100% | 100% | 100% | 100% | Investment holding |
| Shenzhen Junlifa Timbers Limited.[1,3,5]<br>深圳市君利發木業有限公司 | The PRC | Contributed capital | RMB500,000 | – | – | 100% | 100% | 100% | 100% | Investment holding |

## 44. SUBSIDIARIES (Continued)

Details of the material subsidiaries at the end of the reporting period are set out below: (Continued)

| Name of company | Place of incorporation/ establishment/ operations | Class of shares held | Paid up registered capital | Proportion of ownership interests held by the Company | | | | Proportion of voting power held by the Company | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Directly | | Indirectly | | | | |
| | | | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | |
| Qingchuan Boyuan Ecological Forestry Development Company Limited [2,3,6] 青川博源生態林業開發有限公司 | The PRC | Contributed capital | RMB1,000,000 | – | – | – | 100% | – | 100% | Inactive |
| Jiange Hengchang Low-Carbon Forestry Development Co., Ltd. [2,3] 劍閣縣恒昌低碳林業開發有限公司 | The PRC | Contributed capital | RMB1,000,000 | – | – | 100% | 100% | 100% | 100% | Forestry management |
| Jiange Hengfa Biomass Energy Development Co., Ltd. [2,3] 劍閣縣恒發生物質能源開發有限公司 | The PRC | Contributed capital | RMB5,000,000 | – | – | 100% | 100% | 100% | 100% | Production and sales of biomass fuel products |
| Liangzhou City Hengfa Biomass Energy Development Co., Ltd. [2,3] 連州市恒發生物質能源開發有限公司 | The PRC | Contributed capital | RMB6,026,203 | – | – | 100% | – | 100% | – | Production and sales of biomass fuel products |
| Anhui Xinyu [2,3,7] 安徽新宇 | The PRC | Contributed capital | RMB14,165,692 | – | – | 70% | – | 70% | – | Production and sales of biomass fuel products |

1 These entities are registered as wholly-foreign owned enterprises under the PRC laws.
2 These entities are registered as limited liability enterprises under the PRC laws.
3 The English transliteration of the Chinese name is for identification purpose only and should not be regarded as the official English name.
4 The subsidiaries were fully disposed of on 30 June 2014.
5 The subsidiaries were acquired by the Group on 28 May 2013.
6 The subsidiary was deregistered on 19 August 2014.
7 The subsidiary was acquired by the Group on 1 December 2014.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 44. SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests.

| Name of company | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interest | | Loss allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | | **%** | % | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Anhui Xinyu | (Note below) | **30%** | – | **235** | – | **11,465** | – |

Notes: Anhui Xinyu was incorporated in the PRC and, through its subsidiaries, is principally engaged in production and sale of biomass fuel products in the PRC.

Summarised financial information in respect of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| Anhui Xinyu | **31 December 2014 RMB'000** |
|---|---|
| Current assets | **27,458** |
| Non-current assets | **14,537** |
| Current liabilities | **(3,778)** |
| Equity attributable to owners of the Company | **26,752** |
| Non-controlling interests | **11,465** |

## 44. SUBSIDIARIES (Continued)

| | Year ended 31 December 2014 RMB'000 |
|---|---|
| Revenue | **143** |
| Expenses | **(925)** |
| Loss for the year | **(782)** |
| Loss attributable to: | |
| — owners of the Company | **(547)** |
| — non-controlling interests | **(235)** |
| Loss for the year | **(782)** |
| Total comprehensive expense attributable to: | |
| — owners of the Company | **(547)** |
| — non-controlling interests | **(235)** |
| Total comprehensive expense for the year | **(782)** |
| Net cash outflows from operating activities | **(1,068)** |
| Net cash outflows from investing activities | **(153)** |
| Net cash inflows from financing activities | **1,171** |
| Net cash outflow | **(50)** |

## 45. EVENTS SUBSEQUENT TO THE END OF REPORTING PERIOD

In addition to those disclosed elsewhere in the consolidated financial statements, the following events took place subsequent to the end of the reporting period:

(a) In January 2015, the Company entered into a loan agreement with Victor Charm Investment Limited ("Victor Charm"), a shareholder of the Company, under which Victor Charm made a loan to the Company amounted to HK$11,000,000. The loan, which is unsecured and carries interest at 8% per annum, is repayable in July 2015.

(b) In March 2015, the Company issued zero coupon corporate bonds with the aggregate principal amounts of HK$21,000,000 for a cash proceed of HK$19,110,000 (before expenses). The corporate bonds are unsecured and repayable in June 2015.

(c) In March 2015, the Company issued corporate bond with the principal amount of HK$10,000,000 for a cash proceed of HK$9,850,000 (before expenses). The corporate bond, which is unsecured and carries interest at 5.5% per annum, is repayable on the maturity date after 7 years from the date of issue.

(d) In March 2015, the Company entered into the subscription agreement with a third party, pursuant to which the third party has agreed to subscribe the corporate bonds with the aggregate principal amount of RMB70,000,000 to be issued by the Company. The corporate bonds, which are unsecured and carry interest at 8% per annum, are repayable on the maturity dates after 2 years from the dates of issues. Up to the date of approval of these consolidated financial statements, such corporate bonds have not yet been issued by the Company.

(e) On 24 March 2015, the Company and the Vendor entered into the deed of termination to terminate the acquisition agreement as referred to Note 20. Pursuant to the deed of termination, the vendor shall return the refundable deposit of RMB3,000,000 to the Company.