



CHINA BILLION RESOURCES LIMITED  
中富資源有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 274)

Annual Report **2012**

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Long Xiaobo (*Chairman*)  
Mr. Zuo Weiqi (*Chief Executive Officer*)  
Mr. Chen Yi Chung (appointed on 27 July 2012)

### Independent Non-executive Directors

Mr. Jin Shunxing  
Mr. Chiang Tsung-Nien (appointed on 19 January 2012)  
Ms. Liu Shuang (appointed on 28 April 2014)

## AUDIT COMMITTEE

Mr. Jin Shunxing (*Chairman of Audit Committee*)  
Mr. Chiang Tsung-Nien (appointed on 19 January 2012)  
Ms. Liu Shuang (appointed on 28 April 2014)

## REMUNERATION COMMITTEE

Mr. Jin Shunxing (*Chairman of Remuneration Committee*)  
Mr. Chiang Tsung-Nien (appointed on 19 January 2012)  
Ms. Liu Shuang (appointed on 28 April 2014)  
Mr. Long Xiaobo

## NOMINATION COMMITTEE

Mr. Long Xiaobo (*Chairman of Nomination Committee*)  
Mr. Chiang Tsung-Nien (appointed on 19 January 2012)  
Mr. Jin Shunxing  
Ms. Liu Shuang (appointed on 28 April 2014)  
Mr. Zuo Weiqi

## COMPANY SECRETARY

Mr. Cheung Yuk Chuen (appointed on  
14 August 2013)

## AUTHORISED REPRESENTATIVES

Mr. Chen Yi Chung (appointed on 27 July 2012)  
Mr. Zuo Weiqi

## REGISTERED OFFICE

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2811, 28/F.,  
China Merchants Tower  
No.168-200 Connaught Road Central  
Hong Kong

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE Tricor Tengis Limited

Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## AUDITORS ZHONGHUI ANDA CPA Limited

Unit 701, 7/F., Citicorp Centre  
18 Whitfield Road, Causeway Bay  
Hong Kong

## COMPANY'S WEBSITE

[www.chinabillion.net](http://www.chinabillion.net)

## STOCK CODE

274

## PRINCIPAL BANKERS

### The Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road Central  
Hong Kong

### Agricultural Bank of China (Hong Kong) Ltd

25th Floor, Agricultural Bank of China Tower  
50 Connaught Road Central  
Hong Kong

# CHAIRMAN'S STATEMENT

Since 2011, China Billion Resources Limited ("Company") has undergone various challenges, especially that the shares of the Company have been suspended from trading on The Stock Exchange of Hong Kong Limited ("Stock Exchange") due to the delay in the publication of the audited financial reports which is in part due to the debt restructuring of the Company during the said year. I would like to express my heartfelt gratitude to our management, staff, customers, suppliers, business partners, professional parties and last but not the least, our shareholders, for their continuous support and efforts to the Company and its subsidiaries (collectively referred to as "Group").

During the year 2011, certain plants and equipment of the Group have been rendered redundant as a result of the debt restructuring and subsequently in year 2013, those plants and equipment together with the household and industrial products business segment have been disposed of to an independent third party. This is to better reallocate resources for future investment in any potential new lucrative projects that may arise.

The Company will continue our investment in the gold mining business by investing more resources into the basic structural infrastructure and expertise in gold mining.

Looking forward, the resumption of trading in the shares of the Company ("Resumption") is our prime focus and we target to complete the Resumption in 2015. At the same time, the management of the Company is looking for other investment opportunities to broaden the sources of income of the Group in order to create greater value for the shareholders of the Company ("Shareholders"). Up till the date of this annual report, the Group has not yet concluded any investment project nor signed any investment memorandum or agreement.

**Long Xiaobo**

*Chairman*

Hong Kong, 9 February 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the financial year under review, the turnover of the Group for the year ended 31 December 2012 was approximately HK\$37.3 million, a significant decrease compared to the last year's figure for the same period of approximately HK\$172.5 million, which represent an approximately 78.4% decrease. The turnover of approximately HK\$37.3 million was contributed by beauty salon outlets in Hong Kong under the cosmetic and skincare products business segment. The reason for the significant decrease in turnover for the Group was mainly due to a large part of the production facilities and/or assets in China under the cosmetic and skincare products business segment were transferred to the lenders, namely Sino Measure Limited, according to the contract for concurrent transfer of assets and debt and contract for assets replacement, in order to settle the indebtedness owed by the Company during the debt restructuring event in 2011 ("Debt Restructuring") (referring to the announcements dated 27 June 2011, 5 March 2012 and 14 March 2012). After the transfer, the remaining part of the production facilities were unable to produce as much products for sale such that the management of the Company decided to exit the production of cosmetic and skincare products business segment in China and only focus on the beauty salon outlets in Hong Kong. The loss for the financial year for the Group further reduced to approximately HK\$62.5 million from approximately HK\$979.0 million of the same period of last year. The reason for the significant reduction in loss for the year was mainly due to the fact that no further impairment losses were incurred on goodwill, property, plant and equipment and trade and other receivables in the year which they accounted for a total of approximately HK\$1,072.2 million for the financial year ended 31 December 2011. The gross margin from continuing operations for the financial year ended 31 December 2012 was approximately 71.4% which is higher than the gross margin of approximately 17.74% for the year ended 31 December 2011 due to the disposal of the household and industrial products business segment, where the segment had low gross margin during 2011. The administrative expenses of the Group for the financial year ended 31 December 2012 remain at a high level of approximately HK\$66.5 million due to high rental and staff costs for the beauty salon outlets in Hong Kong under the cosmetic and skincare products business segment. The finance costs reduced significantly for the financial year ended 31 December 2012 by approximately HK\$56.2 million from approximately HK\$75.7 million for same period of 2011 to HK\$19.6 million for the year 2012. The decrease in finance costs was mainly due to the convertible bonds becoming immediately due and repayable after trading in the shares of the Company on the Main Board of the Stock Exchange had been suspended for a period of 30 consecutive trading days since 29 June 2011 and no interest was incurred on the convertible bond during 2012.

For the financial year ended 31 December 2012, the auditor of the Company was unable to obtain sufficient evidence during the course of audit due to the frequent changes in directors of the Company ("Directors") and finance staff, the inability to obtain the relevant documents from certain then executive Directors at the material time ("Relevant Directors"), the loss of control of the subsidiaries after the Debt Restructuring such that the then management cannot access the relevant documents (referring to the "Independent Auditor's Report" set out on pages 33 to 37 of this annual report). The internal control system of the Company has apparent weaknesses, in particular those relating to financial and accounting system.

# MANAGEMENT DISCUSSION AND ANALYSIS

As a result, the current board of Directors (“Board”) is taking or has taken the following actions to address the abovementioned weaknesses:

- I. provide training on compliance with the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”), corporate governance and accounting and finance issues to the Directors and staff of the Group in order to strengthen the reporting and internal control system of the Group;
- II. engage an independent professional firm to conduct regular internal control review in order to identify any potential weakness for future improvement;
- III. discuss with the Company’s legal adviser on the follow up action regarding the misconduct of the Relevant Directors;
- IV. discuss with the Company’s legal adviser on whether any legal action should be taken in relation to the unfavorable terms arising from the debt restructuring occurred in 2011; and
- V. review the structure of the Board in order to diversify its expertise into different areas in particular into the areas of accounting, finance and risk management.

The Company will continue to review and monitor the above measures in order to further improve the internal control system of the Group.

The Group is currently focusing on seeking the Resumption and significant amount of resources of the Group have been applied to preparing for the Resumption. During the financial year under review, the Group is conducting the operations under the cosmetic and skincare products business in Hong Kong and the mining products business located in the PRC.

## OPERATIONAL REVIEW

**Cosmetic and skincare products business segment.** The revenue contributed by this business segment for the financial year ended 31 December 2012 was approximately HK\$37.3 million, representing an approximately 78.4% decrease compared to the revenue for the same period last year of approximately HK\$172.5 million from continuing operations under cosmetics and skincare products business segments. The turnover of approximately HK\$37.3 million was contributed by beauty salon outlets in Hong Kong under the cosmetic and skincare products business segment. A significant part of the production facilities in China was transferred to the lender in order to settle the indebtedness owed by the Group such that the cosmetic and skincare business segment was no longer be able to produce as much products thereby causing the shrinkage of the entire business segment resulting in a significant decrease in turnover. The remaining operation under this business segment is the beauty salon outlets and cosmetic products consignment in shopping malls in Hong Kong. However, both the beauty salon outlets and cosmetic products consignment in shopping malls are facing high inflationary pressure from increasing rental and staff costs in Hong Kong. Increasing competition from different brands, especially the brands from Korea, is another major problem in maintaining the profitability of the business segment. The management of the Company is considering restructuring the Group’s business portfolio by allocating more resources to the mining products business segment over the cosmetic and skincare products business segment.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Mining products business segment.** There was no revenue contributed by this business segment during the financial year under review mainly due to business process consolidation in order to improve the efficiency of the mining products business segment. In 2012, the management of the Company has further re-assessed the exploration process by identifying the high potential gold bearing area of the existing gold mine. The management studied the relevant geological data and the existing tunnel structure of the gold mine. After the re-assessment and study, the management believed that if certain modification to the existing exploration process and further investment into the gold mine can be conducted, the production of the gold mine would become more profitable. The management expects that the mining products business segment would generate more turnover beginning from year 2013 and onwards.

## PROSPECTS

Given the continual increase in rental and staff costs for our beauty salon outlets in Hong Kong due to significant increase in inflation, the keen competition in the cosmetic and skincare industry, the management of the Company is considering restructuring the Group's business portfolio by allocating more resources to the mining products business segment over the cosmetic and skincare products business segment. Although the gold mining business of the Group is still at the exploration stage, however, the management believes that the production from the gold mine will become more profitable when we invest more time and resources into the gold mine.

Looking forward, we target to complete the Resumption in 2015. At the same time the management of the Company is actively looking for other investment opportunities to broaden the sources of income of the Group in order to create greater value for the Shareholders. Up to the date of this annual report, the Group has not yet concluded any investment project nor signed any investment memorandum or agreement.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had unpledged cash and bank balances of approximately HK\$5.8 million (2011: approximately HK\$18.9 million). The gearing ratio for the Group was approximately 86.45% (2011: approximately 75.06%) and the borrowings and convertible bonds of the Group together was approximately HK\$375.9 million (2011: approximately HK\$327.6 million). The Group reported net current liabilities of approximately HK\$408.8 million as at 31 December 2012 (2011: approximately HK\$347.4 million).

## COMMITMENTS

Particulars of commitments of the Group as at 31 December 2012 and 2011 are set out in the note 31 to the consolidated financial statements of this annual report.

## CONTINGENT LIABILITY

As at 31 December 2012, the Group did not have any significant contingent liability (2011: nil).

## BANK BORROWINGS

As at 31 December 2012, the Group did not have any outstanding bank loan (2011: nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEES AND REMUNERATION

As at 31 December 2012, the Group employed 209 staff (2011: 269). The remuneration of employees was in line with the market trend and commensurate with the level of pay in the industry and the performance of individual employees that are regularly reviewed every year.

## FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2012, the Group mainly generated sales revenue and incurred costs in both Hong Kong dollar and Renminbi. In view of the fluctuation of Renminbi, the Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

# BIOGRAPHICAL DETAILS OF DIRECTORS

The followings are the details of the current Directors as at the date of this annual report

## EXECUTIVE DIRECTORS

**Mr. Long Xiaobo**, aged 48, joined the Group on 22 November 2010, is an executive Director of the Company (“Executive Director”) and Chairman of the Board (“Chairman”). He is also a chairman of the nomination and resumption committee, and a member of the remuneration committee of the Company. He is currently a director and general manager of Shenzheng City Boien Investment Limited Liability Company (深圳市柏恩投資有限責任公司). Mr. Long has served as the vice president of Dapeng Securities Company Limited, and was in charge of investment banking, asset management and the research business. He was also the founder and the first general manager of Dacheng Fund Management Company Limited. Mr. Long has more than 22 years of experience in the capital market business, and has specialised in asset management, securities investment, merger and acquisition, corporate reorganisation, financial consulting and real estates investment and integration. Mr. Long holds a Master of Economics Degree and a Bachelor of Engineering Degree from Fudan University, the People’s Republic of China (“PRC”).

**Mr. Zuo Weiqi**, aged 48, joined the Group on 3 August 2011, is an Executive Director and the chief executive officer of the Company (“Chief Executive Officer”). Mr. Zuo is currently a member of the nomination and resumption committee of the Company. Mr. Zuo has years of experiences in property management, private equity investment and industrial investment. Mr. Zuo is currently an executive director and general manager of China High-tech Investment Management Co., Ltd. Mr. Zuo obtained a Master of Business Administration Degree from China Academy of Social Sciences, PRC.

**Mr. Chen Yi Chung**, aged 40, joined the Group on 27 July 2012 as deputy manager of the Company prior to his appointment as Executive Director. Mr. Chen is also a member of the resumption committee of the Company. Mr. Chen has obtained his Bachelor of Business Administration Degree from National Taiwan University. Mr. Chen has been worked experiences in various international financial institutions, such as Citigroup Asia-Pacific and the Principal Finance Group of the Standard Chartered Group.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Jin Shunxing**, aged 50, joined the Group on 3 August 2011, is an independent non-executive Director (“INED”). Mr. Jin is also the chairman of the audit, remuneration, investigation committee and a member of the nomination committee of the Company. Mr. Jin has years of experiences in corporate finance and accounting. Mr. Jin is currently a partner of Pan-China (H.K.) CPA Limited. Mr. Jin is a Chinese Certified Public Accountant and a Chinese Certified Appraiser. He obtained a Bachelor of Finance Degree from Central South University of Technology, PRC and a Master of Business Administration Degree from Northwestern Polytechnical University, PRC.

**Mr. Chiang Tsung-Nien**, aged 55, joined the Group on 19 January 2012, is an INED. Mr. Chiang is currently a member of audit, remuneration, nomination and investigation committee of the Company. Mr. Chiang obtained his Master of Business Administration Degree from the Wharton School of the University of Pennsylvania, the United States of America. Mr. Chiang specializes in corporate finance, initial public offerings, real estate and large trade and other services for clients. He has worked in several banks in United States of America such as Citibank N.A., China Trust Bank USA, UBS N.Y., Continental Illinois Bank Chicago, and Chase Manhattan Bank N.Y. He also served as the chief financial officer of China Aerospace International Investment Corporation, the managing director of China Link Investment Ltd. and the managing director of Asia Pacific Capital Partners Ltd.

**Ms. Liu Shuang**, aged 42, joined the Group on 28 April 2014, is an INED. Ms. Liu is currently a member of the audit, remuneration, nomination and investigation committee of the Company. Ms. Liu holds a Bachelor of Business Law Degree from Beijing Technology and Business University, PRC and a Master of Laws Degree from Northwest University of Politics & Law, PRC and has around 20 years’ experience in practicing law, specializing in overseas listing, merger and acquisition, private equity and overseas investment.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE

The Company acknowledges the need and importance of corporate governance as one of the key elements in enhancing Shareholders' value. The Company is committed to improving its corporate governance practices in compliance with regulatory requirements and in accordance with recommended practices. As at the date of this annual report, the Company has adopted the Corporate Governance Code as set out in Appendix 14 of the Listing Rules ("CG Code") to regulate the corporate governance issues of the Group. The existing Board has reviewed the Company's corporate governance practices for the financial year under review, and has formed the opinion that the existing Board was unable to comment on or to ensure compliance of certain of the then provisions of the CG Code for the year ended 31 December 2012 due to the loss of the most important records of the Company. The existing Board is of the view that aside from achieving the Resumption, one of its main priorities in 2015 is to improve the corporate governance of the Group.

This Corporate Governance Report was produced pursuant to the latest requirements prescribed in Appendix 14 of the Listing Rules. However, due to the loss of the most important records of the Company on 21 June 2013, and which was announced by the Company on 1 November 2013, the Board was unable to conduct and form a complete opinion in relation to the compliance of each of the codes in the CG Code except for the following.

<b>The then Code provisions</b>	<b>Non-compliance and the reason for the deviation</b>	<b>Improvement action taken or to be taken</b>
A.2.5	Non-compliance	The Chairman has confirmed that he will take active action to improve and monitor the corporate governance practice of the Group
A.2.7	Non-compliance	The Chairman has confirmed that he will hold annual meeting with the non-executive Directors including the INEDs in the absence of the Executive Directors
A.4.2	During the financial year under review no general meeting was held to resolve on the rotation of Directors, amongst other issues	All Directors will be subject to rotation in accordance with the articles of association of the Company ("Articles of Association") and with the Listing Rules. Every Director will be subject to retirement by rotation at least once every three years
A.5.1	Non-compliance	A nomination committee ("Nomination Committee") chaired by Mr. Long Xiaobo, the chairman of the Board, has been set up since 1 October 2013. The majority of the members of the nomination committee comprises of INEDs

# CORPORATE GOVERNANCE REPORT

The then Code provisions	Non-compliance and the reason for the deviation	Improvement action taken or to be taken
A.5.2	Non-compliance	A new terms of reference for the Nomination Committee has been adopted by the Board on 30 January 2015 setting out the functions of the Nomination Committee, including fostering the structure and composition of the Board for the Company's strategic operations, nominating candidates with appropriate qualifications to the Board, assessing the independence of the INEDs and to assist in succession planning
A.5.3	Non-compliance	A new terms of reference for the Nomination Committee was adopted by the Board on 30 January 2015 and was uploaded on the Stock Exchange and Company's website at the same date
A.6.5	Non-compliance	From 2015 onwards, the Company will arrange continuous training course(s) to all Directors
B.1.3	Non-compliance	A new terms of reference for the remuneration committee ("Remuneration Committee") was adopted by the Board on 30 January 2015 and was uploaded on the Stock Exchange and Company's website at the same date
C.1.2	Non-compliance	The management have confirmed to the Board that monthly updates, or if agreed not less frequent than quarterly interval updates, will be given to all Directors
C.2.1	Under Improvement	An external professional adviser was engaged by the Company on 31 December 2013 in order to address the deficiencies and to assist the management to improve the internal control system of the Group. Since then the Board has and will conduct a review of such system at least on annual basis to assess its effectiveness
C.2.6	No internal audit function was established by the Company during the year in question	An external professional adviser was engaged by the Company on 31 December 2013 in order to address any deficiency and to assist the management to establish and to improve the internal control system of the Group. Since then the Board has and will conduct a review of such system at least on annual basis to assess its effectiveness and make relevant disclosure in the corporate governance report

# CORPORATE GOVERNANCE REPORT

The then Code provisions	Non-compliance and the reason for the deviation	Improvement action taken or to be taken
C.3.4	Non-compliance	A new terms of reference for the audit committee ("Audit Committee") was adopted by the Board on 30 January 2015 and was uploaded on the Stock Exchange and the Company's website at the same date
E.1.1	During the financial year under review no general meeting was held	The annual general meeting of the Company ("AGM") for the year 2015 will be arranged in due course and issues to be resolved at the AGM or any general meeting will be separately proposed and resolved unless they relate to the same substantial issue or are otherwise interdependent
E.1.2	During the financial year under review no general meeting was held	The AGM for the year 2015 will be arranged in due course. The Chairman of the Board will attend the AGM and will also invite the chairmen of the Audit, Remuneration, Nomination and any other committees of the Board to attend
E.1.3	During the financial year under review no general meeting was held	The AGM for the year 2015 will be arranged in due course and due notice of at least 20 clear business days before the meeting will be sent to the shareholders. Due notice as required under the Listing Rules and the CG Code will also be given to the Shareholders in the case of any other general meetings
E.1.4	During the financial year under review no general meeting was held	A Shareholders' communication policy in accordance with the CG Code has been established by the Board. It will be reviewed on annual basis to ensure its effectiveness
E.2.1	During the financial year under review no general meeting was held	For the 2015 AGM and any other general meetings to be held onwards, the Chairman will ensure that explanation is provided for the procedure for conducting of poll and all questions from the Shareholders in that regard will be answered

# CORPORATE GOVERNANCE REPORT

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (“Model Code”) as the code of conduct governing Director’s securities transactions. Trading in the shares of the Company on the Stock Exchange has been suspended at the request of the Company since 29 June 2011. All the then Directors who are still on the Board currently have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the financial year ended 31 December 2012.

## BOARD OF DIRECTORS

The Board is responsible for overseeing the overall Group’s businesses and strategies, supervision of the management and affairs as well as monitoring of the overall operation and performance of the Group. The Board has delegated to the Chief Executive Officer, together with which the Directors also undertake, with the senior management of the Company, the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established various committees and has delegated to these committees various responsibilities as set out in their respective terms of reference.

The Board is collectively responsible for performing the corporate governance duties and has formalised the inclusion of the following corporate governance duties into the terms of reference of the Board:

- a. to develop and review the Company’s policies and practices on corporate governance and make recommendations to the Board;
- b. to review and monitor the training and continuous professional development of Directors and senior management;
- c. to review and monitor the Company’s policies and practices on compliance with legal and regulatory requirements;
- d. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- e. to review the Company’s compliance with the Corporate Governance Code and disclosure in the corporate governance report in the annual report of the Company.

On 30 January 2015, the Board had adopted a board diversity policy which aims to achieve the diversity of members of the Board to enhance the effectiveness of the Board. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board possesses diverse skills, experience and perspectives appropriate to the requirements of the Company’s business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates of Board members will be based on diversity in their respective background and experience, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

The Company will conduct a tailor-made training in respect of the compliance with the Listing Rules, corporate governance and accounting and finance issues to all the Directors and senior management of the Company. It is planned that the training will be conducted before the end of May 2015.

# CORPORATE GOVERNANCE REPORT

During the year 2012 and as at the date of this report, the composition of the Board is set out below:

## **Executive Directors as at the date of this report:**

Mr. Long Xiaobo (*Chairman*)

Mr. Zuo Weiqi (*Chief Executive Officer*)

Mr. Chen Yi Chung (appointed on 27 July 2012)

## **Executive Directors during the year 2012:**

Mr. Jia Xuelei (resigned on 1 October 2013)

Mr. Ng Ka Hong (resigned on 25 December 2012)

Mr. Wu Jun (resigned on 27 July 2012)

Mr. Yip Chung Wai, David (resigned on 1 October 2013)

## **INEDs as at the date of this report:**

Mr. Jin Shunxing

Mr. Chiang Tsung-Nien (appointed on 19 January 2012)

Ms. Liu Shuang (appointed on 28 April 2014)

## **INEDs during the year 2012:**

Dr. Zhu Jing (appointed on 19 January 2012 and resigned on 1 April 2014)

The current Directors have no financial, business, family or other material/relevant relationships with each other.

The biographical details of the current Directors are set out on pages 8 to 9 and whose respective interests in the Company's shares are set out on page 29 of this annual report.

Except for the period between 1 July 2011 to 18 January 2012, during which the Board did not comply with the requirements of the Listing Rules relating to the appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise during the year, the Board has complied with the requirements of the Listing Rules in relation to the Board composition.

The Company has received from each of the INEDs a written annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and is satisfied of their independence.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The current Chairman of the Board is Mr. Long Xiaobo and the current Chief Executive Officer is Mr. Zuo Weiqi. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balance of views and judgement.

# CORPORATE GOVERNANCE REPORT

With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the articles 86 and 87 of the Articles of Association, a person may be appointed as a member of the Board at any time either by the Shareholders in a general meeting or by the Board. Director appointed by the Board must retire at the next AGM after his appointment and shall then be eligible for re-election, and shall not be taken into account in determining the number of Directors who are to retire by rotation at that next AGM.

According to the article 87 of the Articles of Association, no less than one-third of the Directors for the time being shall retire from office by rotation at each AGM. The Chairman of the Board shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. Retiring Directors shall be eligible for re-election.

According to the article 86 of the Articles of Association, the Company may remove any Director by a special resolution at a general meeting.

## BOARD PRACTICES

As per the latest improved corporate governance practice of the Company, since 2015, notice of regular Board meetings has been and will be dispatched to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days (or any other agreed date) before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management of the Company where necessary.

The senior management of the Company, including Chief Executive Officer and finance manager, attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

Directors are required to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

# CORPORATE GOVERNANCE REPORT

As mentioned previously, due to the loss of the most important records of the Company, it was only able to locate the following information in relation to the Board meetings held during the year 2012. The attendance of the Directors at the said meetings is set out as follows:

Name of Directors	Attendance/ Total no. of meetings held during the year 2012	Passed/Total written resolutions circulated during the year 2012
<b>Executive Directors</b>		
Mr. Long Xiaobo ( <i>Chairman</i> )	7/9	1/1
Mr. Zuo Weiqi ( <i>Chief Executive Officer</i> )	8/9	1/1
Mr. Chen Yi Chung	5/9	0/1
		appointed on 27 July 2012
Mr. Yip Chung Wai, David	7/9	1/1
		resigned on 1 October 2013
Mr. Jia Xuelei	3/9	1/1
		resigned on 1 October 2013
Mr. Ng Ka Hong	7/9	1/1
		resigned on 25 December 2012
Mr. Wu Jun	1/9	1/1
		resigned on 27 July 2012
<b>INEDs</b>		
Mr. Jin Shunxing	2/9	1/1
Mr. Chiang Tsung-Nien	1/9	0/1
		appointed on 19 January 2012
Dr. Zhu Jing	1/9	0/1
		appointed on 19 January 2012 and resigned on 1 April 2014

# CORPORATE GOVERNANCE REPORT

## DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company's matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company ("Company Secretary"), with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management of the Group.

## NOMINATION COMMITTEE

During the year 2012, the Company had not established would then Nomination Committee and the Chief Executive Officer was mainly responsible for identifying appropriate candidates to fill the casual vacancy whenever it arises or to add additional member as and when required. The Chief Executive Officer would propose the qualified candidate(s) to the Board for consideration. The Board would then approve the appointment based on the suitability and qualification of the candidate.

Subsequently, on 1 October 2013, a Nomination Committee was established with written terms of reference adopted on the same date and updated on 30 January 2015. The primary function of the Nomination Committee is to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. As at the date of this annual report, the Nomination Committee currently consists of five members, comprising Mr. Long Xiaobo, Mr. Zuo Weiqi, Mr. Jin Shunxing, Mr. Chiang Tsung-Nien and Ms. Liu Shuang. Mr. Long Xiaobo is the chairman of the Nomination of Committee.

As at the date of this annual report, the Nomination Committee had reviewed the size, structure and composition of the Board to complement the Group's corporate strategy, nominated candidates to fill the casual vacancy arising from the resigning Director and made recommendation to the Board in order to share part of the duties and responsibilities of the Chairman of the Board.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The Company established a Remuneration Committee on 27 June 2008 with written terms of reference adopted on the same date and updated on 30 January 2015. The primary duties of the Remuneration Committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual Executive Director and senior management of the Company. The Remuneration Committee currently consists of four members, namely Mr. Jin Shunxing, Mr. Chiang Tsung-Nien, Ms. Liu Shuang and Mr. Long Xiaobo. Mr. Jin Shunxing is the chairman of the Remuneration Committee.

The Remuneration Committee has reviewed the Directors' fee (including Executive Directors and INEDs) in consideration of the increasingly level of duties and responsibilities of the Directors and the market condition and approval of the remuneration incentive structure of the Group as a whole taking consideration of factors such as salaries paid by comparable companies, time commitment and their responsibilities.

As mentioned previously, due to the loss of record of the Company, no record has been found in relation to the meeting held during the year 2012.

## REMUNERATION POLICY OF THE GROUP

The remuneration policy of the Group is designed to ensure that remuneration offered to the Directors and/or employees is appropriate for the respective duties performed, sufficiently compensate them for the effort and time dedicated to the affairs of the Group, and is competitive and effective in attracting, retaining and motivating employees. The key components of the Company's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds and share options granted (if any) under the share option scheme of the Company. Details of the share option scheme of the Company are set out on pages 88 to 89 of this annual report.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience, duties, performance of the Directors, prevailing market conditions and remuneration benchmark with Directors of listed companies of similar size and industry nature. They include incentive bonus primarily based on the results of the Group and share options granted (if any) under the share option scheme of the Company. The Remuneration Committee performs review on the emoluments of the Directors from time to time. No Director, or any of his associates or executive, is involved in deciding his own emoluments.

Employees' remuneration packages are determined with reference to the responsibilities, qualifications and experience, duties and performance of individuals as well as prevailing market compensation packages. The packages are reviewed annually and as required from time to time.

The Group will spend resources in training, retention and recruitment programs, and encouraging staff for self development and improvements. The Group keeps monitoring and evaluating the performance of managerial staff, aiming to achieve continuous improvements and correction of deficiencies.

# CORPORATE GOVERNANCE REPORT

## **DIRECTORS' AND THE FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS**

The Directors' fees and remuneration and the emoluments of the five highest paid individuals during the year are disclosed in note 14 to the consolidated financial statements of this annual report.

The contributions to pension scheme of Directors for the year are disclosed in note 14 to the consolidated financial statements of this annual report.

## **AUDIT COMMITTEE**

The Company established an Audit Committee on 28 October 2000 with written terms of reference adopted on the same date and updated on 30 January 2015. The primary duties of the Audit committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. As at the date of this annual report, the Audit Committee currently consists of three INEDs, being Mr. Jin Shunxing, Mr. Chiang Tsung-Nien and Ms. Liu Shuang. Mr. Jin Shunxing is the chairman of the Audit Committee.

The Audit Committee has discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

For the year ended 31 December 2012, the Audit Committee discussed with the management of the Company the internal controls and financial reporting matters, and reviewed the accounting principles and practices adopted by the Group and the effectiveness of the Group's internal control system.

As mentioned previously, due to the loss of the most important records of the Company, no record has been found in relation to the meeting held during the year 2012.

# CORPORATE GOVERNANCE REPORT

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the annual consolidated financial statements of the Company which give a true and fair view of the state of affairs, results and cash flows of the Group for the year ended 31 December 2012. Save as disclosed in the qualifications to the auditor's opinions, the Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of any other material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are put to the Board for approval.

The annual results of the Group for the year ended 31 December 2012 have also been reviewed by the Audit Committee. The auditor of the Company had given certain qualifications in their opinion which are set out on pages 33 to 37 of this annual report which we would like to draw to the Shareholders' attention.

## INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard Shareholders' investments and Company's assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

As mentioned above, due to the loss of record of the Company, the Company was unable to ascertain, whether during the year 2012, an internal control review was conducted. The Company had engaged an external professional adviser on 22 February 2012 to review the internal control system of the Group but, without any reason given by the then adviser, no report was provided to the Company for review. On 31 December 2013, another replacement external professional adviser, ZHONGHUI ANDA Risk Services Limited ("Internal Control Consultant") was engaged by the Company to evaluate the effectiveness of the financial reporting procedures and the system of internal control of the Group. A draft summary of the internal control review findings and recommendations was submitted for the Audit Committee and the Board's review and consideration.

Since then, based on the recommendations made by the Internal Control Consultant, the Board has been taking certain follow-up steps in order to improve and strengthen the internal control of the Group to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard the assets of the Group.

# CORPORATE GOVERNANCE REPORT

## EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The Company's current independent external auditors is ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA"). The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding the independence of the auditors. Up to the date of this annual report, the Audit Committee has considered and made recommendation to the Board on the engagement of ZHONGHUI ANDA as auditors of the Group in respect of the consolidated financial statements for the year ended 31 December 2012 and the corresponding audit fees estimation.

For the year ended 31 December 2012, the remuneration paid/payable by the Company to ZHONGHUI ANDA and other ZHONGHUI ANDA network firms in respect of their audit and other non-audit services were as follows:

	HKD
Annual audit services	600,000
*Non-audit services	6,000
Total fees	606,000

\* Non-audit services mainly included review of interim financial information, certain agreed-upon procedures and taxation-related services.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions. The general meetings of the Company provide a forum for face-to-face communication between the Board and the Shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at Shareholder's meetings.

To promote effective communication, the Company maintains on its website up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted and are available for public access.

No general meeting was held after 2011 and up to the date of this annual report. The last AGM was held on 30 June 2011.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors.

All resolutions put forward at Shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each Shareholders' meeting.

The procedures for Shareholders to convene an extraordinary general meeting of the Company ("EGM") are governed by Article 58 of the Articles of Association. A written requisition must be addressed to the Board or the Company Secretary. On the written requisition of Shareholders holding not less than one-tenth of such of the paid-up share capital of the Company as at the date of lodgment of the requisition and the Board must proceed duly to convene an EGM.

The written requisition must state the objectives (which must be capable of being effectively achieved) of the meeting, be signed by the Shareholders who propose to convene the meeting, and be lodged at the registered office of the Company. The Board must thereafter within 21 days from the lodgment of the requisition proceed duly to convene a meeting for a day not more than two months after the date on which the notice convening the meeting is given.

Whilst giving the above written requisition, Shareholders are recommended to provide written explanation of the reasons and material implications relating to the proposed resolution to enable all of the Shareholders to properly consider and determine the proposed resolution.

The Company will, upon receipt of a properly lodged requisition referred to above, issue a notice of extraordinary general meeting of the proposed resolutions and (if applicable) circulars containing further information relating to the proposed resolution in accordance with the Listing Rules.

Shareholders who intend to put forward their enquiries to the Board could send their enquiries to the Company's head office and principal place of business in Hong Kong or by email to [contact@chinabillion.net](mailto:contact@chinabillion.net). Shareholders can contact Tricor Tengis Limited, the Hong Kong branch share registrar and transfer office of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

## COMPANY SECRETARY

Mr. Ng Ka Hong acted as the Company Secretary until 25 December 2012. On 28 March 2013, Miss. Fok Joyce Sing Yan was appointed as Company Secretary and she resigned on 17 July 2013.

The Company has engaged Mr. Cheung Yuk Chuen of FE Corporate Services Limited as the Company Secretary effective from 14 August 2013. His primary contact person at the Company is Mr. Chen Yi Chung, Executive Director. The Company Secretary will report to Chairman of the Board and/or the Chief Executive Officer. Following the adoption of the new CG Code, the Company Secretary will take no less than 15 hours of relevant professional training.

# REPORT OF THE DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the year ended 31 December 2012.

## COMPANY INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY 1-1111, Cayman Islands. The address of its principal place of business is Room 2811, 28th Floor, China Merchants Tower, No. 168-200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange and have been suspended from trading since 29 June 2011.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Company, through its major subsidiaries, is principally engaged in:

- (i) gold exploration, development and mining; and
- (ii) provision of beauty treatment services and manufacture and trading of cosmetic and skincare products.

The activities of the subsidiaries are set out in note 19 to the consolidated financial statements of this annual report.

An analysis of the performance of the Group for the year by operating segments is set out in note 7 to the consolidated financial statement of this annual report.

## RESULTS AND RESERVES

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income statement on pages 38 to 39 of this annual report.

Details of movements in the reserves of the Group during the year 2012 are set out on page 42 in the consolidated statement of changes in equity of this annual report.

## DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: nil).

# REPORT OF THE DIRECTORS

## CHARITABLE DONATIONS

The Group made no charitable and other donations for the year ended 31 December 2012 (2011: nil).

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 93 and 94 of this annual report. This summary does not form part of the audited consolidated financial statements of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the Group's five largest suppliers accounted for 93% of the Group's total purchases, and the purchase from the Group's largest supplier included therein accounted for 34% of the total purchase for the year.

For the year ended 31 December 2012, the Group's sales to its five largest customers accounted for 13% of the Group's total sales, and the sales to the largest customer included therein accounted for 8% of the total sales for the year.

None of the Directors, 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 beneficial interest in the Group's top five largest customers and suppliers.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year 2012 are set out in note 17 to the consolidated financial statements of this annual report.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year 2012 are set out in note 28 to the consolidated financial statements of this annual report.

## CONVERTIBLE BONDS

Details of movements in the convertible bonds of the Company during the year 2012 are set out in note 25 to the consolidated financial statements of this annual report.

# REPORT OF THE DIRECTORS

## BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2012 amounted to HK\$85,691,000 (2011: approximately HK\$37,444,000). Particulars of bank loans and other borrowings are set out in note 24 to the consolidated financial statements of this annual report.

## DIRECTORS

The Directors during the year ended 31 December 2012 and up to the date of this report were:

### Executive Directors

Mr. Long Xiaobo (*Chairman*)

Mr. Zuo Weiqi (*Chief Executive Officer*)

Mr. Chen Yi Chung (appointed on 27 July 2012)

Mr. Jia Xuelei (resigned on 1 October 2013)

Mr. Lam Chi Man (appointed on 28 March 2013 and was disqualified on 17 October 2013)

Mr. Ng Ka Hong (resigned on 25 December 2012)

Mr. Wu Jun (resigned on 27 July 2012)

Mr. Yip Chung Wai. David (resigned on 1 October 2013)

### INEDs

Mr. Jin Shunxing

Mr. Chiang Tsung-Nien (appointed on 19 January 2012)

Ms. Liu Shuang (appointed on 28 April 2014)

Dr. Zhu Jing (resigned on 1 April 2014)

In accordance with the Articles of Association, Chairman of the Board is not subject to rotation at the AGM.

In accordance with the Articles of Association, all the current INEDs, and the two Executive Directors, Mr. Chen Yi Chung and Mr. Zuo Weiqi who were appointed as Directors after the last AGM are subject to retirement as Directors at the forthcoming AGM but, being eligible, will offer themselves for re-election.

Mr. Jin Shunxing, Mr. Chiang Tsung-Nien and Ms. Liu Shuang are the current INEDs and were appointed for a one-year term expiring on 29 January 2016.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the current Directors as at the date of this report are set out on pages 8 to 9 of this annual report.

# REPORT OF THE DIRECTORS

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the current INEDs, has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs to be independent in accordance with the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

No Director proposed for re-election at the forthcoming AGM has a services contract with the Company which exceeds three years and is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 24 to the consolidated financial statement, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year 2012.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year 2012.

## SHARE OPTIONS SCHEME

Due to the loss of the most important records of the Company which occurred on 21 June 2013, and which was announced by the Company on 1 November 2013, the Board was unable to ascertain the information in relation to the share option scheme. However, based on the published 2010 annual report and 2011 interim report of the Company, the following disclosure has already been made.

Pursuant to an ordinary resolution passed at an EGM held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 ("Old Scheme") was terminated and another share option scheme ("New Scheme") was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all share options granted prior to such termination continue to be valid and exercisable in accordance therewith. The exercisable period of the share options granted is determined by the Directors, and commences after a certain vesting period, if any, and ends on a date which is not later than 10 years from the date of the offer. The share options which are granted and remain unexercised immediately prior to the end of the expiry date of the New Scheme shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the New Scheme.

# REPORT OF THE DIRECTORS

The New Scheme was aimed to providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include the Company's Directors, including the non-executive Directors and INEDs, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any minority shareholders of the Company's subsidiaries and any other person or entity determined by the Directors as having contributed or may contribute to the development and growth of the Group.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. On 30 June 2011, share options could be granted under the New Scheme with the 10% general limit refreshed and approved by the shareholders in a general meeting. No general meeting has been held since then.

The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the New Scheme in any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options shall deemed to be accepted when the acceptance letter is duly signed by the grantee and the nominal consideration for the grant of HK\$1 is received by the Company within 28 days from the date of the offer.

The exercise price of the share option is determined by the Directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of Stock Exchange on the date of the offer of the grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

# REPORT OF THE DIRECTORS

As at 31 December 2012, there were no outstanding share options which were granted under the Old Scheme and the New Scheme was expired. Details of the share options outstanding as at 31 December 2012 which have been granted under the New Scheme are as follows:

Participant	Date of grant	Original exercise price HK\$	Number of share options			31 December 2012 HK\$	Company Share Price	
			1 January 2012 HK\$	Granted during the year	Lapsed during the year		At date of grant HK\$	At date of exercise
Suppliers of goods or services, customers and others								
In aggregate	7 July 2009 <sup>(1)</sup>	0.44	10,000,985	-	10,000,985	-	0.44	N/A
	25 February 2010 <sup>(1)</sup>	0.349	262,078,130	-	-	262,078,130	0.349	N/A
Share options granted under the New Scheme			272,079,115	-	10,000,985	262,078,130		

Notes:

- (1) The exercisable period of the above share options is 3 years from the date of grant as determined by the Directors. The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of grant of the share options.

Summary of details of the Company's share option schemes are also set out in note 30 to the consolidated financial statements of this annual report.

The fair value of share options granted is recognised in consolidated profit and loss account taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Brief summary of the remuneration policy of the Group are set out in page 18 of this annual report. Details of the Directors' fee and remuneration of the Directors and the emoluments of the five highest paid individuals during the year 2012 are set out in notes 14 to the consolidated financial statements of this annual report.

## PENSION SCHEMES

Details of the pension schemes are set out in note 14 to the consolidated financial statements of this annual report.

# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

Name of Director	Name of Group member/associated corporation	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Long Xiaobo ("Mr. Long")	The Company	Interest of controlled corporation (Note 2)	762,022,000 Ordinary shares (L)	14.56%

Notes:

1. The letter "L" denotes long position in the shares of the Company or the relevant associated corporation.
2. These 762,022,000 Shares were held through Star Sino International Limited which is wholly owned by Mr. Long, the Chairman and an Executive Director of the Company. Pursuant to the convertible bonds instrument dated 31 March 2010, the suspension of trading in the Company's shares on the Stock Exchange at the request of the Company since 29 June 2011 has triggered the Company's obligation to make an early redemption for all the then outstanding convertible bonds. No such redemption has been implemented and the convertible bonds have expired on 11 August 2011, representing debts due and payable to the bondholders on the aforementioned date. As a result, in year 2011, the convertible bonds held by the bondholders has been reclassified as current liabilities.

Save as disclosed above, as at 31 December 2012, none of the Directors, chief executives of the Company, nor their associates, had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year was the Company, any of its subsidiaries, its holding company or a subsidiary of its holding company a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive (including their spouse and children under 18 years of age) had an interest in, or been granted any rights to subscribe for the securities of the Company and its associated corporations (within the meaning of the SFO), or had exercised any such right.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2012, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company, as recorded in the register maintained by the Company pursuant to section 336 of the SFO:

<b>Name of shareholder</b>	<b>Number of ordinary shares</b> (note 1)	<b>Approximate percentage of shareholding</b>
Star Sino International Limited (Note 2)	762,022,000 (L)	14.56%

### Notes

1. The letter "L" denotes long position in the shares or the Company or the relevant associated corporation.
2. These 762,022,000 Shares were held through Star Sino International Limited which is wholly owned by Mr. Long, the Chairman and an Executive Director of the Company. Pursuant to the convertible bonds instrument date 31 March 2010 the suspension of trading in the Company's shares on the Stock Exchange at the request of the Company since 29 June 2011 has triggered the Company's obligation to make an early redemption for all the then outstanding convertible bonds. No such redemption has been implemented and the convertible bonds have expired on 11 August 2011, representing debts due and payable to the bondholders on the aforementioned date. As a result, in year 2011, the convertible bonds held by the bondholders has been reclassified as current liabilities.
3. Saved as disclosed above, due to the reclassification, Double Chance Investments Limited is no longer the substantial shareholder of the Company and is not obliged to make disclosure.

Save as disclosed and in the section of "Directors' and Chief Executives Interests in Shares of the Company" above, the Company has not been notified of any other relevant interest or short positions held by any other person in the shares or underlying shares of the Company as recorded in the register to be kept pursuant to section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates had, either directly or indirectly, an interest in a business which causes or may cause any significant competition with the businesses of the Group during the year 2012.

## SUBSEQUENT EVENTS

The material subsequent events disclosed in note 34 to the audited consolidated financial statements in this annual report.

## REVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee has reviewed with the management of the Group and the independent external auditor, ZHONGHUI ANDA, the accounting principles and policies as adopted by the Company, the practices of the Group and the audited consolidated financial statements for the year ended 31 December 2012.

## CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 10 to 22 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued share capital throughout the year ended 31 December 2012 and as at the date of this report.

## AUDITORS

Hopkins CPA Limited was appointed as auditors of the Group on 21 November 2008 for conducting the audit works of the Group for the years ended 31 December 2009 and 2010, and they resigned as auditors of the Group on 7 January 2011.

Parker Randall CF (H.K.) CPA Limited was appointed as auditors of the Group on 7 January 2011 for conducting the audit works of the Group for the years ended 31 December 2010 and 2011, and they resigned as auditors of the Group on 11 August 2013.

# REPORT OF THE DIRECTORS

Ting Ho Kwan & Chan CPA Limited was appointed as auditors of the Group on 14 August 2013 for conducting the audit works of the Group for the year ended 31 December 2011, and they resigned as auditors of the Group on 10 October 2014.

ZHONGHUI ANDA was appointed as auditors of the Group on 10 October 2014 for conducting the audit works of the Group for the years ended 31 December 2011, 2012, 2013 and 2014.

ZHONGHUI ANDA shall retire in the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of ZHONGHUI ANDA as auditors of the Group will be proposed at the forthcoming AGM.

On behalf of the Board

**Long Xiaobo**

*Chairman*

Hong Kong, 9 February 2015

# INDEPENDENT AUDITOR'S REPORT



## TO THE SHAREHOLDERS OF CHINA BILLION RESOURCES LIMITED

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

We were engaged to audit the consolidated financial statements of China Billion Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 92, which comprise the consolidated statement of financial position as at 31 December 2012, consolidated statement of 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 FINANCIAL STATEMENTS**

The Directors 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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. Because of the matters as described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **BASIS FOR DISCLAIMER OF OPINION**

#### **1) Opening balances and corresponding figures**

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2011 ("2011 Financial Statements"), which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit and the material uncertainty in relation to going concern, details of which are set out in our audit report dated 9 February 2015. Accordingly, we were then unable to form an opinion as to whether the 2011 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

# INDEPENDENT AUDITOR'S REPORT

## BASIS FOR DISCLAIMER OF OPINION (continued)

### 2) Transactions, income and expense items for the year

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the transactions of the Group for the year ended 31 December 2012 as follows:

	HK\$'000
Cost of sales and services rendered	6,683
Administrative expenses	25,122
Finance costs	6,277
Income tax expense	3,105
Exchange differences on translating foreign operations	7,050

There are no other satisfactory audit procedures that we could adopt to satisfy ourselves that the income and expense items are properly accounted for in the consolidated statement of comprehensive income for the year ended 31 December 2012 and that these items are properly disclosed in the consolidated financial statements.

### 3) Property, plant and equipment

No sufficient evidence has been provided to satisfy ourselves as to the carrying amount of property, plant and equipment of approximately HK\$82,508,000 as included in the property, plant and equipment of approximately HK\$109,949,000 in the consolidated statement of financial position as at 31 December 2012.

### 4) Intangible assets

No sufficient evidence has been provided to satisfy ourselves as to the carrying amount of intangible assets of approximately HK\$1,542,790,000 in the consolidated statement of financial position as at 31 December 2012.

### 5) Inventories

We were initially appointed as auditor of the Company subsequent to the end of the reporting period. As a result, we were unable to attend the physical count of the Group's inventories as at 31 December 2012. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the existence, quantities, conditions and valuation of the inventories of approximately HK\$9,651,000 in the consolidated statement of financial position as at 31 December 2012.

# INDEPENDENT AUDITOR'S REPORT

## **BASIS FOR DISCLAIMER OF OPINION** (continued)

### **6) Trade and other receivables**

No sufficient evidence has been provided to satisfy ourselves as to the carrying amount of the trade and other receivables of approximately HK\$931,000 as included in the trade and other receivables of approximately HK\$8,615,000 in the consolidated statement of financial position as at 31 December 2012.

### **7) Bank and cash balances**

No sufficient evidence has been provided to satisfy ourselves as to the bank and cash balances of approximately HK\$81,000 as included in the bank and cash balances of approximately HK\$5,767,000 in the consolidated statement of financial position as at 31 December 2012.

### **8) Trade and other payables**

No sufficient evidence has been provided to satisfy ourselves as to the carrying amount of the trade and other payables of approximately HK\$27,240,000 as included in the trade and other payables of approximately HK\$56,939,000 in the consolidated statement of financial position as at 31 December 2012.

### **9) Borrowings**

No sufficient evidence has been provided to satisfy ourselves as to the carrying amount of the borrowings of approximately HK\$6,535,000 as included in the borrowings of approximately HK\$85,691,000 in the consolidated statement of financial position as at 31 December 2012.

### **10) Deferred tax liabilities**

No sufficient evidence has been provided to satisfy ourselves as to the deferred tax expense of approximately HK\$3,105,000 for the year ended 31 December 2012 and the deferred tax liabilities of approximately HK\$347,725,000 in the consolidated statement of financial position as at 31 December 2012.

### **11) Commitments and contingent liabilities**

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities as at 31 December 2012.

# INDEPENDENT AUDITOR'S REPORT

## **BASIS FOR DISCLAIMER OF OPINION** (continued)

### **12) Related party transactions and balances**

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of the related party transactions for the year ended 31 December 2012 and the balances as at that date as required by Hong Kong Accounting Standard 24 (Revised) "Related Party Disclosures".

### **13) Other disclosures in the consolidated financial statements**

No sufficient evidence has been provided to satisfy ourselves as to the accuracy and completeness of the disclosures in relation to the segment, finance costs, income tax expense, loss for the year, Directors' and five highest paid individual remuneration, the movement of property, plant and equipment, the movement of intangible assets, inventories, trade and other receivables, trade and other payables, borrowings and share-based payments as disclosed in notes 7, 10, 11, 13, 14, 17, 18, 20, 21, 23, 24 and 30 to the consolidated financial statements respectively.

Any adjustments to the figures as described from points 1 to 13 above might have a significant consequential effect on the Group's results and cash flows for the two years ended 31 December 2012 and 2011 and the financial positions of the Group as at 31 December 2012 and 2011, and the related disclosures thereof in the consolidated financial statements.

## **MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements that the Directors believe the Company is not liable to repay the convertible bonds because such convertible bonds will be converted into shares and the Directors have also been advised that a major shareholder of the Company has indicated his intention to provide financial support to the Group.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on (i) the successful outcome that the convertible bonds will be converted into shares of the Company and (ii) the availability of funding from the major shareholder of the Company to the Group to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. The consolidated financial statements do not include any adjustments that would be necessary if the Company fails to convert the convertible bonds and the Group fails to obtain financial support from the major shareholder of the Company. We consider that adequate disclosures have been made. However, the uncertainties surrounding the successful conversion of the Company's convertible bonds and the availability of funding from the major shareholder of the Company raise significant doubt about the Company's ability to continue as a going concern. We therefore disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

# INDEPENDENT AUDITOR'S REPORT

## DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **ZHONGHUI ANDA CPA Limited**

*Certified Public Accountants*

### **Ng Ka Lok**

Practising Certificate Number P06084

Hong Kong, 9 February 2015

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 HK\$'000	2011 HK\$'000
<b>Continuing operations</b>			
<b>Turnover</b>	8	<b>37,322</b>	172,519
Cost of sales and services rendered		<b>(10,680)</b>	(141,918)
<b>Gross profit</b>			
Other income and gains	9	<b>1,048</b>	1,353
Selling and distribution expenses		<b>(1,003)</b>	(25,904)
Administrative expenses		<b>(66,510)</b>	(66,406)
Impairment loss on goodwill		–	(322,458)
Impairment loss on property, plant and equipment		–	(455,341)
Impairment loss on trade and other receivables		–	(294,436)
<b>Loss from operations</b>			
Finance costs	10	<b>(19,551)</b>	(75,732)
<b>Loss before tax</b>			
Income tax expense	11	<b>(3,105)</b>	(27,141)
<b>Loss for the year from continuing operations</b>			
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	12	–	256,446
<b>Loss for the year</b>			
<b>Other comprehensive income after tax:</b>			
Exchange differences on translating foreign operations		<b>7,050</b>	76,416
Exchange reserve released upon disposal of subsidiaries		–	(208,602)
<b>Other comprehensive income for the year, net of tax</b>			
<b>Total comprehensive income for the year</b>			
		<b>(55,429)</b>	(1,111,204)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 HK\$'000	2011 HK\$'000
<b>Profit/(Loss) for the year attributable to:</b>			
Owners of the Company			
– Continuing operations		(56,348)	(1,176,046)
– Discontinued operations		–	244,728
Loss attributable to owners of the Company	15	(56,348)	(931,318)
Non-controlling interests			
– Continuing operations		(6,131)	(59,418)
– Discontinued operations		–	11,718
Loss attributable to non-controlling interests		(6,131)	(47,700)
		(62,479)	(979,018)
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		(49,151)	(1,082,461)
Non-controlling interests		(6,278)	(28,743)
		(55,429)	(1,111,204)
<b>Loss per share (HK cents)</b>			
From continuing and discontinued operations			
Basic	16(a)	(1.08)	(18.02)
Diluted	16(a)	N/A	N/A
From continuing operations			
Basic	16(b)	(1.08)	(22.76)
Diluted	16(b)	N/A	N/A

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	2012 HK\$'000	2011 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	17	109,949	96,293
Intangible assets	18	1,542,790	1,547,277
		<b>1,652,739</b>	1,643,570
<b>Current assets</b>			
Inventories	20	9,651	7,008
Trade and other receivables	21	8,615	15,362
Bank and cash balances	22	5,767	18,946
		<b>24,033</b>	41,316
<b>Current liabilities</b>			
Trade and other payables	23	56,939	61,053
Borrowings	24	85,691	37,444
Convertible bonds	25	290,191	290,191
		<b>432,821</b>	388,688
<b>Net current liabilities</b>		<b>(408,788)</b>	(347,372)
<b>Total assets less current liabilities</b>		<b>1,243,951</b>	1,296,198
<b>Non-current liabilities</b>			
Deferred tax liabilities	26	347,725	344,543
<b>NET ASSETS</b>		<b>896,226</b>	951,655

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	2012 HK\$'000	2011 HK\$'000
<b>Capital and reserves</b>			
Share capital	28	<b>523,530</b>	523,530
Reserves	29	<b>192,663</b>	241,814
Equity attributable to owners of the Company		<b>716,193</b>	765,344
Non-controlling interests		<b>180,033</b>	186,311
<b>TOTAL EQUITY</b>		<b>896,226</b>	951,655

The consolidated financial statements on pages 38 to 92 were approved and authorised for issue by the board of Directors on 9 February 2015 and are signed on its behalf by:

Approved by:

**Long Xiaobo**  
Director

**Chen Yi Chung**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of the Company											
	Share capital	Share premium*	Capital reserve*	Capital redemption reserve*	Share-based payment reserve*	Statutory reserve*	Foreign currency translation reserve*	Convertible bond reserve*	Accumulated losses*	Total	Non-Controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	487,530	1,976,007	166,159	300	25,101	91,428	192,221	148,708	(1,352,088)	1,735,366	215,054	1,950,420
Transfer to retained profits	-	-	(166,159)	-	-	(91,428)	-	-	257,587	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	(151,143)	-	(931,318)	(1,082,461)	(28,743)	(1,111,204)
Exercise of convertible bonds	36,000	125,758	-	-	-	-	-	(49,319)	-	112,439	-	112,439
Changes in equity for the year	36,000	125,758	(166,159)	-	-	(91,428)	(151,143)	(49,319)	(673,731)	(970,022)	(28,743)	(998,765)
At 31 December 2011	523,530	2,101,765	-	300	25,101	-	41,078	99,389	(2,025,819)	765,344	186,311	951,655
At 1 January 2012	523,530	2,101,765	-	300	25,101	-	41,078	99,389	(2,025,819)	765,344	186,311	951,655
Total comprehensive income and changes in equity for the year	-	-	-	-	-	-	7,197	-	(56,348)	(49,151)	(6,278)	(55,429)
At 31 December 2012	523,530	2,101,765	-	300	25,101	-	48,275	99,389	(2,082,167)	716,193	180,033	896,226

\* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 HK\$'000	2011 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	(59,374)	(951,877)
Adjustments for:		
Finance costs	19,551	84,376
Interest income	(3)	(5)
Depreciation	5,106	5,452
Amortisation of intangible assets	4,380	1,209
(Gain)/loss on disposals of property, plant and equipment	(97)	70,958
Amortisation of prepaid land lease payments	–	168
Gain on disposal of discontinued operations	–	(301,492)
Impairment loss on property, plant and equipment	–	455,341
Impairment loss on goodwill	–	322,458
Impairment loss on prepaid land lease payments	–	14,422
Impairment loss on trade and other receivables	–	294,436
Operating loss before working capital changes	(30,437)	(4,554)
(Increase)/Decrease in inventories	(2,643)	231
Decrease/(Increase) in trade and other receivables	6,747	(675,053)
(Decrease)/Increase in trade and other payables	(4,114)	787,758
Cash (used in)/generated from operations	(30,447)	108,382
Income tax paid	–	(481)
<b>Net cash (used in)/generated from operating activities</b>	<b>(30,447)</b>	<b>107,901</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	3	5
Purchases of property, plant and equipment	(18,604)	(6,371)
Proceeds from disposals of property, plant and equipment	112	–
Disposal of subsidiaries	–	20,903
<b>Net cash (used in)/generated from investing activities</b>	<b>(18,489)</b>	<b>14,537</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 HK\$'000	2011 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings raised	28,696	–
Repayment of borrowings	–	(147,985)
Other borrowing costs paid	–	(10,566)
<b>Net cash flows generated from/(used in) financing activities</b>	<b>28,696</b>	<b>(158,551)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(20,240)</b>	<b>(36,113)</b>
Effect of foreign exchange rate changes	7,061	(29,159)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>18,946</b>	<b>84,218</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>5,767</b>	<b>18,946</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	5,767	18,946

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Room 2811, 28th Floor, China Merchants Tower, No. 168-200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and have been suspended for trading since 29 June 2011.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 19 to the consolidated financial statements.

## 2. GOING CONCERN BASIS

The Group incurred a loss attributable to owners of the Company of approximately HK\$56,348,000 for the year ended 31 December 2012 and as at 31 December 2012 the Group had net current liabilities of approximately HK\$408,788,000. 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. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

As disclosed in note 25 to the consolidated financial statements, the Group has breached certain covenants of the convertible bonds. It is the Directors' belief that the Company is not liable to repay the convertible bonds because such convertible bonds will be converted into shares and the Directors have also been advised that a major shareholder of the Company has indicated his intention to provide financial support to the Group. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on (i) the successful outcome that the convertible bonds will be converted into shares of the Company and (ii) the availability of funding from the major shareholder of the Company to the Group to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. The Directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention. These consolidated financial statements are presented in Hong Kong dollars (HK\$) and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 5 to these consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

### Foreign currency translation

#### (a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in HK\$, which is the Company's functional and presentation currency.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currency translation (continued)

#### (b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### (c) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in consolidated profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	20%
Leasehold improvements	20%-50%
Plant and machinery	20%
Furniture, fixtures and equipment	15%-25%
Motor vehicles	10%

Depreciation of mining infrastructure is calculated using the Units of Production ("UOP") method to write off the cost of the assets proportionately to the extraction of the proved and probable mineral reserves.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in consolidated profit or loss.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less any impairment losses. Depreciation begins when the relevant assets are available for use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and subsequently amortised over the life of the mine on a UOP basis.

Stripping costs incurred subsequently during the production phase of its operation are deferred for those operations where this is the most appropriate basis for matching the cost against the related economic benefits and the effect is material. This is generally the case where there are fluctuations in stripping costs over the life of the mine. The amount of stripping costs deferred is based on the strip ratio obtained by dividing the tonnage of waste mined by the quantity of minerals contained in the ore. Stripping costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of the mine strip ratio. Such deferred costs are then charged to profit or loss to the extent that, in subsequent periods, the current period ratio falls short of the life of mine ratio. The life of mine ratio is based on economically recoverable reserves of the mine. Changes are accounted for prospectively, from the date of the change.

Deferred stripping costs are included as part of "Mining infrastructure". These form part of the total investment in the relevant cash generating units, which are reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

### Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. Mining rights include the cost of acquiring mining licenses, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortised over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the UOP method. Mining rights are written off to profit or loss if the mining property is abandoned.

### Licenses

Licences comprise licence rights acquired from independent third parties to exploit technical knowhow for the manufacture of certain biotechnology products with medical applications. The underlying products relating to the licences acquired have been put into commercial production. Amortisation on the cost of licences has been provided on a straight-line basis over their estimated useful lives to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases

#### *Operating leases*

The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in consolidated profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in consolidated profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in consolidated profit or loss.

Impairment losses are reversed in subsequent periods and recognised in consolidated profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as convertible bond reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

### Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.
- (b) Service income is recognised when the services are provided.
- (c) Interest income is recognised on a time-proportion basis using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits

#### (a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (b) *Pension obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") in Hong Kong under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to consolidated profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also participates in a defined contribution retirement scheme organised by the government in the People's Republic of China (the "PRC"). The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to consolidated profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

#### (c) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments

The Group issues equity-settled share-based payments to certain employees (including Directors). Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

### 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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

### Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in consolidated profit or loss over the period to match them with the costs they are intended to compensate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Discontinued operations

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in consolidated profit or loss 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 is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in consolidated profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties (continued)

- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables 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 any impairment loss. Where 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.

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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

#### (a) *Going concern basis*

These consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on (i) the successful outcome that the convertible bonds will be converted into shares of the Company and (ii) the availability of funding from the major shareholder to the Group to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. Details are explained in note 2 to the consolidated financial statements.

### Key sources of estimation uncertainty

The key assumptions 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, are discussed below.

#### (a) *Property, plant and equipment and depreciation*

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

### Key sources of estimation uncertainty (continued)

#### (b) *Income taxes*

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### (c) *Impairment of receivables, deposits and prepayments*

Impairment of receivables, deposits, and prepayments is made based on an assessment of the recoverability of receivables, deposits and prepayments. The assessment of impairment of receivables, deposits and prepayments involves the use of estimates and judgements. An estimate for doubtful debts is made when collection of the full amount is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying amount of receivables, deposits and prepayments and thus the impairment loss in the period in which such estimate is changed.

#### (d) *Write-down of inventories*

The Group determines the write-down for obsolescence of inventories with reference to aged inventory analyses and projections of expected future saleability of goods. Based on this review, write-down of inventories will be made when the carrying amounts of inventories are lower than their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

### Key sources of estimation uncertainty (continued)

#### (e) *Amortisation of intangible assets*

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The Group reassesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

#### (f) *Mine reserves*

Mining rights and mining development assets are amortised over the estimated useful lives of the mines in accordance with the production plans of the entities concerned and the mineral resources and reserves of the mines using the UOP method.

The process of estimating the quantities of the Group's gold reserve and resources is inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting mineral prices and costs change. Changes in reported reserves and resources estimated can impact the carrying value of intangible asset.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) **Foreign currency risk**

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (b) Credit risk

The carrying amount of the cash and bank balances and trade and other receivables included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise credit risk, the Directors review the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

### (c) Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its own funding sources.

### (d) Interest rate risk

The Group's borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks. Except as stated above, the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (e) Categories of financial instruments

	2012 HK\$'000	2011 HK\$'000
<b>Financial assets:</b>		
Loans and receivables		
Trade and other receivables	8,615	15,362
Bank and cash balances	5,767	18,946
	<b>14,382</b>	34,308
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost		
Trade and other payables	56,939	61,053
Borrowings	85,691	37,444
Convertible bonds	290,191	290,191
	<b>432,821</b>	388,688

## 7. SEGMENT INFORMATION

The Group has two (2011: three) reportable segments as follows:

Mining products segment – engaged in gold exploration, development and mining;

Cosmetics and skincare products segment – provision of beauty treatment services and trading of cosmetics and skincare products to authorised distributors and retailers in the general consumer market (including discontinued operations), and

Household and industrial products segment – manufacture of household and industrial products for sale to manufacturers, traders, wholesalers and retailers in the general consumer market (discontinued operations since 2011).

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment liabilities do not include convertible bonds.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 7. SEGMENT INFORMATION (continued)

Information about reportable segment profits or losses, assets and liabilities:

	Mining products HK\$'000	Cosmetics and skincare products (Including discontinued operations of 2011) HK\$'000	Household and industrial products (Discontinued operations) HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2012</b>				
Revenue from external customers	–	37,322	–	37,322
Segment loss	(30,101)	(438)	–	(30,539)
Depreciation	4,027	1,029	–	5,056
Income tax expense	(3,105)	–	–	(3,105)
Additions to segment non-current assets	17,946	658	–	18,604
<b>As at 31 December 2012</b>				
Segment assets	1,618,865	13,303	–	1,632,168
Segment liabilities	416,893	25,686	–	442,579
<b>For the year ended 31 December 2011</b>				
Revenue from external customers	2,375	176,185	95,757	274,317
Segment loss	(68,332)	(34,251)	(28,176)	(130,759)
Depreciation	3,503	1,453	473	5,429
Income tax (expense)/credit	(27,699)	36	–	(27,663)
Additions to segment non-current assets	5,357	771	–	6,128
<b>As at 31 December 2011</b>				
Segment assets	1,605,499	35,227	–	1,640,726
Segment liabilities	380,616	47,169	–	427,785

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 7. SEGMENT INFORMATION (continued)

### Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2012 HK\$'000	2011 HK\$'000
<b>Revenue</b>		
Total revenue of reportable segments	37,322	274,317
Elimination of discontinued operations	–	(101,798)
Consolidated revenue from continuing operations	37,322	172,519
<b>Profit or loss</b>		
Total profit or loss of reportable segments	(30,539)	(130,759)
Impairment of goodwill	–	(322,458)
Impairment loss on property, plant and equipment	–	(453,655)
Impairment loss on trade and other receivables	–	(294,436)
Other profit or loss	(31,940)	(79,202)
Elimination of discontinued operations	–	45,046
Consolidated loss for the year from continuing operations	(62,479)	(1,235,464)
<b>Assets</b>		
Total assets of reportable segments	1,632,168	1,640,726
Other assets	44,604	44,160
Consolidated total assets	1,676,772	1,684,886
<b>Liabilities</b>		
Total liabilities of reportable segments	442,579	427,785
Convertible bonds	290,191	290,191
Other liabilities	47,776	15,255
Consolidated total liabilities	780,546	733,231

Apart from the above, the totals of other material items disclosed in the segment information are the same as the consolidated totals.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 7. SEGMENT INFORMATION (continued)

### Geographical information:

#### (a) Revenue from external customers

	2012 HK\$'000	2011 HK\$'000
Hong Kong	37,322	170,144
PRC	–	2,375
	<b>37,322</b>	172,519

#### (b) Non-current assets

	2012 HK\$'000	2011 HK\$'000
Hong Kong	1,710	2,008
PRC	1,651,029	1,641,562
	<b>1,652,739</b>	1,643,570

In presenting the geographical information, revenue is based on the locations of the customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 8. TURNOVER

The Group's turnover which represents sales of goods to customers are as follows:

	2012 HK\$'000	2011 HK\$'000
<b>Revenue</b>		
Sales of goods:		
– Household and industrial products	–	95,757
– Cosmetics and skincare products	37,322	176,185
– Mining products	–	2,375
	37,322	274,317
<b>Representing:</b>		
Continuing operations	37,322	172,519
Discontinued operations	–	101,798
	37,322	274,317

## 9. OTHER INCOME AND GAINS

	2012 HK\$'000	2011 HK\$'000
Interest income	3	5
Gain on disposal of property, plant and equipment	97	–
Government subsidies	723	–
Others	225	17,774
	1,048	17,779
<b>Representing:</b>		
Continuing operations	1,048	1,353
Discontinued operations	–	16,426
	1,048	17,779

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 10. FINANCE COSTS

	2012 HK\$'000	2011 HK\$'000
Convertible bond interests	–	73,810
Other borrowings costs		
– Wholly repayable within five years	21,176	10,566
Less: interests capitalised	(1,625)	–
	<b>19,551</b>	84,376
<b>Representing:</b>		
Continuing operations	19,551	75,732
Discontinued operations	–	8,644
	<b>19,551</b>	84,376

## 11. INCOME TAX EXPENSE

	2012 HK\$'000	2011 HK\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
– Under-provision in prior years	–	(245)
<b>Current tax – PRC Enterprise Income Tax</b>		
– Under-provision in prior years	–	(23)
Subtotal	–	(268)
<b>Deferred tax (note 26)</b>	<b>(3,105)</b>	(26,873)
	<b>(3,105)</b>	(27,141)
<b>Representing:</b>		
Continuing operations	(3,105)	(27,141)
Discontinued operations	–	–
	<b>(3,105)</b>	(27,141)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 11. INCOME TAX EXPENSE (continued)

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

No Provision for Hong Kong profits tax is required since the Company has no assessable profit for the year.

The applicable income tax rate for the subsidiaries of the Group in the PRC in the current year is 25% (2011: 15% – 25%).

The reconciliation between income tax expense and the product of loss before tax multiplied by the applicable tax rate is as follows:

	2012 HK\$'000	2011 HK\$'000
Loss before tax		
Continuing operations	(59,374)	(906,831)
Discontinued operations	–	(45,046)
	(59,374)	(951,877)
Tax at the domestic income tax rate	(9,797)	(157,060)
Tax effect of income that is not taxable	(136)	(1)
Tax effect of expenses that are not deductible	178	196
Tax effect of tax losses not recognised	9,755	156,865
Under-provision in prior years	–	268
Income tax expense	–	268

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 12. DISCONTINUED OPERATIONS

In 2011, the Group entered into a debt restructuring agreement with third party lenders (“Lenders”) to dispose of the Group’s PRC household and industrial products manufacturing business. The disposal was completed on 26 May 2011 and the Group discontinued its Household and Industrial Products Business.

On 18 April, 2011, the Group entered into a sales and purchase agreement with a third party to dispose of the Group’s PRC cosmetic products manufacturing business (“Cosmetic Products Business”).

The profit for the year ended 31 December 2011 from the discontinued operations is analysed as follows:

	2011 HK\$'000
Loss from discontinued operations	(45,046)
Gain on disposal of subsidiaries	301,492
	256,446

The results of the discontinued operations for the period from 1 January 2011 to the completion date, which have been included in consolidated profit or loss, are as follows:

	<b>Household and Industrial Products Business</b>	<b>Cosmetic Products Business</b>	<b>Total</b>
	2011 HK\$'000	2011 HK\$'000	2011 HK\$'000
Turnover	95,757	6,041	101,798
Cost of sales and services rendered	(88,589)	(3,427)	(92,016)
Gross profit	7,168	2,614	9,782
Other income and gains	16,426	–	16,426
Selling and distribution expenses	(5,107)	(582)	(5,689)
Impairment loss on prepaid lease payments for land use rights	(14,422)	–	(14,422)
Administrative expenses	(24,176)	(18,323)	(42,499)
Loss from operations	(20,111)	(16,291)	(36,402)
Finance costs	(8,065)	(579)	(8,644)
Loss for the period	(28,176)	(16,870)	(45,046)

No tax charge or credit arose on loss on disposal of the discontinued operations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 13. LOSS FOR THE YEAR

The Group's loss from continuing operations for the year is stated after charging/(crediting) the followings:

	2012 HK\$'000	2011 HK\$'000
Continuing operations:		
Auditor's remuneration	600	600
Amortisation of intangible assets	4,380	1,209
Cost of sales and services rendered*	10,680	141,918
(Gain)/loss on disposals of property, plant and equipment	(97)	70,958
Depreciation	5,106	4,962
Operating lease charges	16,052	14,938
Staff costs including Directors' emoluments		
Salaries, bonus and allowances	27,475	31,245
Retirement benefits scheme contributions	850	2,077
	<b>28,325</b>	<b>33,322</b>

\* Cost of sales and services rendered includes staff costs, depreciation and operating lease charges of approximately HK\$3,747,000 (2011: approximately HK\$15,358,000) which are included in the amounts disclosed separately above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION

The emoluments of each director were as follows:

		For the year ended 31 December 2012					
		Fees	Salaries and allowances	Discretionary bonus	Share-based payments	Retirement benefit scheme contributions	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive Directors:</b>							
Mr. YIP Chung Wai	(i)	-	603	-	-	14	617
Mr. JIA Xuelei	(i)	-	171	-	-	9	180
Mr. LONG Xiaobo		-	586	-	-	14	600
Mr. WU Jun	(iv)	-	48	-	-	3	51
Mr. CHEN Yi Chung	(ix)	-	916	-	-	9	925
Mr. NG Ka Hong	(ii)	-	577	-	-	14	591
Mr. ZUO Weiqi	(v)	-	906	-	-	14	920
<b>Independent non-executive Directors:</b>							
Mr. JIN Shunxing	(v)	120	-	-	-	-	120
Dr. ZHU Jing	(x)	114	-	-	-	-	114
Mr. CHIANG Tsung-Nien	(viii)	114	-	-	-	-	114
		348	3,807	-	-	77	4,232

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION (continued)

		For the year ended 31 December 2011					
		Fees	Salaries and allowances	Discretionary bonus	Share-based payments	Retirement benefit scheme contributions	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive Directors:</b>							
Mr. YIP Chung Wai	(i)	-	1,002	-	-	12	1,014
Mr. NG Ka Hong	(ii)	-	50	-	-	-	50
Mr. JIA Xuelei	(i)	-	186	-	-	10	196
Mr. LIN Jan	(iii)	-	467	-	-	9	476
Mr. CHAI Xiaojun	(iii)	-	356	-	-	9	365
Mr. DONG Jixu	(iii)	-	356	-	-	9	365
Mr. XUE Bing	(iii)	-	356	-	-	9	365
Mr. LONG Xiaobo		-	596	-	-	13	609
Mr. WU Jun	(iv)	-	359	-	-	10	369
Mr. ZUO Weiqi	(v)	-	245	-	-	4	249
<b>Independent non-executive Directors:</b>							
Ms. CHAN Wing	(vi)	40	-	-	-	-	40
Mr. DING Yongshun	(iii)	60	-	-	-	-	60
Mr. XIONG Wei	(iii)	60	-	-	-	-	60
Mr. JIN Shunxing	(v)	50	-	-	-	-	50
		210	3,973	-	-	85	4,268

Notes:

- (i) Resigned on 1 October 2013
- (ii) Appointed on 4 January 2011 and resigned on 25 December 2012
- (iii) Retired on 30 June 2011
- (iv) Resigned on 27 July 2012
- (v) Appointed on 3 August 2011
- (vi) Appointed on 7 March 2011 and retired on 30 June 2011
- (vii) Resigned on 4 January 2011
- (viii) Appointed on 19 January 2012
- (ix) Appointed on 27 July 2012
- (x) Appointed on 19 January 2012 and resigned on 1 April 2014

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION (continued)

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2011: Nil).

The five highest paid individuals in the Group during the year included five (2011: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining zero (2011: three) individuals are set out below:

	2012 HK\$'000	2011 HK\$'000
Basic salaries and allowances	–	1,839
Retirement benefit scheme contributions	–	33
	–	1,872

The emoluments fell within the following band:

	Number of individuals	
	2012	2011
Nil to HK\$1,000,000	0	3

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 15. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss for the year attributable to owners of the Company included a loss of approximately HK\$49,151,000 (2011: approximately HK\$1,082,461,000) which has been dealt with in the financial statements of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 16. LOSS/(EARNINGS) PER SHARE

### (a) From continuing and discontinued operations

#### *Basic loss per share*

The calculation of basic loss per share attributable to owners of the Company for the year ended 31 December 2012 is based on the loss for the year attributable to owners of the Company of approximately HK\$56,348,000 (2011: approximately HK\$931,318,000) and the weighted average number of ordinary shares of approximately 5,235,303,000 (2011: approximately 5,167,248,000) in issue during the year.

#### *Diluted loss per share*

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2012 and 2011.

### (b) From continuing operations

#### *Basic loss per share*

The calculation of basic loss per share from continuing operations attributable to owners of the Company for the year ended 31 December 2012 is the same as that detailed above for basic loss per share from continuing and discontinued operations.

The calculation of basic loss per share from continuing operations attributable to owners of the Company for the year ended 31 December 2011 is based on the loss for the year from continuing operations attributable to owners of the Company of approximately HK\$1,176,046,000 and the denominator used is the same as that detailed above for basic loss per share from continuing and discontinued operations.

#### *Diluted loss per share*

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2012 and 2011.

### (c) From discontinued operations

#### *Basic earnings per share*

Basic earnings per share from the discontinued operations for the year ended 31 December 2011 is HK4.74 cents per share, based on the profit for the year from discontinued operations attributable to the owners of the Company of approximately HK\$244,728,000 and the denominator used is the same as that detailed above for basic loss per share.

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2012 and 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvement HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Mining infrastructure HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>Cost</b>								
At 1 January 2011	72,048	89,084	630,193	27,781	9,585	-	427,351	1,256,042
Transfers	-	-	-	-	-	36,892	(36,892)	-
Additions	2,500	-	126	1,069	-	2,676	-	6,371
Disposal of subsidiaries, disposals and write-off	(68,404)	(78,842)	(107,777)	(12,612)	(7,772)	-	(390,459)	(665,866)
Exchange differences	179	-	692	176	125	2,108	-	3,280
At 31 December 2011 and 1 January 2012	6,323	10,242	523,234	16,414	1,938	41,676	-	599,827
Additions	276	258	325	412	273	17,060	-	18,604
Disposals	-	-	(42)	(576)	-	-	-	(618)
Exchange differences	7	-	7	-	7	248	-	269
At 31 December 2012	6,606	10,500	523,524	16,250	2,218	58,984	-	618,082
<b>Accumulated depreciation and impairment</b>								
At 1 January 2011	33,456	46,129	293,191	23,942	6,915	-	138,566	542,199
Charge for the year	770	286	2,325	1,839	216	16	-	5,452
Impairment loss	-	-	455,341	-	-	-	-	455,341
Transfers	-	-	-	-	-	1,790	(1,790)	-
Disposal of subsidiaries, disposals and write-off	(32,290)	(36,293)	(275,883)	(12,502)	(6,475)	-	(136,776)	(500,219)
Exchange differences	76	-	426	115	31	113	-	761
At 31 December 2011 and 1 January 2012	2,012	10,122	475,400	13,394	687	1,919	-	503,534
Charge for the year	1,282	154	1,839	1,472	197	162	-	5,106
Disposals	-	-	(27)	(576)	-	-	-	(603)
Exchange differences	31	-	43	13	5	4	-	96
At 31 December 2012	3,325	10,276	477,255	14,303	889	2,085	-	508,133
<b>Carrying amount</b>								
At 31 December 2012	3,281	224	46,269	1,947	1,329	56,899	-	109,949
At 31 December 2011	4,311	120	47,834	3,020	1,251	39,757	-	96,293

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 18. INTANGIBLE ASSETS

	Mining right HK\$'000	Licenses HK\$'000	Total HK\$'000
<b>Cost</b>			
At 1 January 2011, as restated	1,435,000	112,686	1,547,686
Written-off	–	(112,686)	(112,686)
Exchange differences	118,021	–	118,021
At 31 December 2011 and 31 December 2012	1,553,021	–	1,553,021
<b>Accumulated amortisation and impairment</b>			
At 1 January 2011, as restated	4,161	112,686	116,847
Amortisation for the year	1,209	–	1,209
Written back on write-off	–	(112,686)	(112,686)
Exchange differences	374	–	374
At 31 December 2011	5,744	–	5,744
Amortisation for the year	4,380	–	4,380
Exchange differences	107	–	107
At 31 December 2012	10,231	–	10,231
<b>Carrying amount</b>			
At 31 December 2012	1,542,790	–	1,542,790
At 31 December 2011	1,547,277	–	1,547,277

Mining right includes the cost of acquiring mining licenses, costs transferred from exploration right and exploration and evaluation assets upon determination that an exploration property is capable of commercial production and land compensation costs. Land compensation costs represent the compensation paid to inhabitants for relocating them from the areas nearby the mining sites so that the Group can use the land as leaching piles and dumping areas for waste ores. The mining right will expire in 2015 and in the opinion of the Directors of the Company, the Group will be able to renew the mining rights with the relevant government authority continuously at insignificant cost. Mining right is amortised over the estimated useful lives of the mines in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the UOP method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 19. SUBSIDIARIES

Particulars of the Company's major subsidiaries are set out below:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/voting power/ profit sharing		Principal activities and place of operation
			Direct	Indirect	
Bio Beauty Group Limited	The Cayman Islands	90,850,000 Ordinary shares of HK\$0.1 each	93.2%	–	Investment holding in Hong Kong
Global Success Properties Limited	The British Virgin Islands ("BVI")	200 Ordinary shares of US\$1 each	100.0%	–	Investment holding in Hong Kong
GCC Finance Company Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100.0%	–	Dormant
Supreme China Limited	BVI	50,000 Ordinary shares of US\$1 each	100.0%	–	Investment holding in Hong Kong
Westralian Resources Pty Ltd	Australia	80,000 Ordinary shares of AUD1 each	100.0%	–	Investment holding in Hong Kong
Global Bio-Engineering Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100.0%	–	Inactive
Bishop Logistics Limited	BVI	100 Ordinary shares of US\$1 each	100.0%	–	Investment holding in Hong Kong
Global Idea (Int'l) Co., Limited	Hong Kong	1,000 Ordinary shares of HK\$1 each	–	93.2%	Trading of cosmetics and skincare products in Hong Kong
Critstal Marketing Management Company Limited	Hong Kong	5,010,000 Ordinary shares of HK\$1 each	–	100.0%	Retailing of cosmetics and provision of beauty treatment services in Hong Kong and Macau
Dongguan Polygene Biotech R&D Co., Limited (Note (i))	The People's Republic of China ("PRC")	Approximately HK\$16,000,000	–	100.0%	Dormant
High Billion Investment Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	–	93.2%	Holding of license in Hong Kong

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 19. SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/voting power/ profit sharing		Principal activities and place of operation
			Direct	Indirect	
Hunan Westralian Mining Co., Limited (Note (ii))	PRC	US\$29,700,000	-	80.0%	Gold exploration, development and mining in PRC
Cosmos World Limited	BVI	1 Ordinary shares of US\$1 each	-	100.0%	Not yet commence business
Global Chemical Overseas Limited	BVI	1 Ordinary shares of US\$1 each	-	100.0%	Inactive
Global Chemical Investment Limited	BVI	100 Ordinary shares of US\$1 each	-	93.2%	Investment holding in Hong Kong
Globe Wealthy Limited	BVI	1 Ordinary shares of US\$1 each	-	93.2%	Not yet commence business
Global Kingdom International Limited	BVI	1 Ordinary shares of US\$1 each	-	93.2%	Investment holding in Hong Kong
Global Marketing (Int'l) Co., Limited	Hong Kong	1,000 Ordinary shares of HK\$1 each	-	93.2%	Not yet commence business
Enzymes Technology Limited	Hong Kong	6,153,846 Ordinary shares of HK\$1 each	-	65.0%	Dormant

Note:

- (i) Dongguan Polygene Biotech R&D Co., Limited is a wholly-owned foreign enterprises established in the PRC.
- (ii) Hunan Westralian Mining Co., Ltd. is a foreign owned enterprise established in the PRC.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 20. INVENTORIES

	2012 HK\$'000	2011 HK\$'000
Raw materials	1,228	949
Work in progress	4,734	1,381
Finished goods	3,689	4,678
	<b>9,651</b>	7,008

## 21. TRADE AND OTHER RECEIVABLES

	2012 HK\$'000	2011 HK\$'000
Trade receivables	2,052	4,703
Prepayments, deposits and other receivables	6,563	10,659
	<b>8,615</b>	15,362

The Group normally allows credit terms to customers except for retail customers ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2012 HK\$'000	2011 HK\$'000
Current to 30 days	1,690	1,721
31 – 60 days	244	372
61 – 90 days	57	1
Over 90 days	61	2,609
	<b>2,052</b>	4,703

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

## 22. BANK AND CASH BALANCES

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 23. TRADE AND OTHER PAYABLES

	2012 HK\$'000	2011 HK\$'000
Trade payables	6,409	2,536
Accrued liabilities and other payables	50,530	58,517
	<b>56,939</b>	61,053

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2012 HK\$'000	2011 HK\$'000
Current to 30 days	109	170
31 – 60 days	4	727
61 – 90 days	4	250
Over 90 days	6,292	1,389
	<b>6,409</b>	2,536

## 24. BORROWINGS

	2012 HK\$'000	2011 HK\$'000
Other loans		
– unsecured, interest-free and due within one year	9,948	16,641
Other loans		
– unsecured, bear interest at 30% per annum and due within one year	–	15,973
Loan from a related party		
– unsecured, bear interest at 30% per annum and due within one year	55,312	–
Loan from a director		
– unsecured, bear interest at 12% per annum and due within one year	20,431	4,830
	<b>85,691</b>	37,444

Notes: The Directors consider that the fair values of borrowings at 31 December 2012 and 2011 approximate to their carrying amounts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 25. CONVERTIBLE BONDS

On 31 March 2010, the Company issued HK\$895,191,200 zero coupon convertible bonds as part of the consideration for the acquisition 100% equity interest of Westralian Resources Pty. Ltd. and its subsidiary (collectively referred to as "Westralian Resources Group") with a maturity date of 30 March 2013.

The principal terms of the convertible bonds (the "Bonds") are as follows:

Each Bond will, at the option of the holders ("Bondholders"), be convertible (unless previously redeemed, converted, purchased or cancelled) after 31 March 2010 up to and including 30 March 2013 into fully paid ordinary shares of the Company with a par value of HK\$0.1 each at an initial conversion price (the "Conversion Price") of HK\$0.4 per share, subject to adjustments in accordance with the terms and conditions of the Bonds agreement as a result of dilutive events.

Pursuant to the Bonds agreement, the Bondholders has the rights to give notice to the Company that the Bonds are immediately due and repayable in the event that the shares of the Company are suspended for trading for a period of 30 consecutive trading days (other than any suspension of trading pending the release of any announcement as required under Chapter 14 or Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange) or listing of the shares on the Stock Exchange are being revoked or withdrawn.

Upon any such notice being given to the Company, the Bonds will become due and are repayable on the business day falling seven business days of the date of such notice at their principal amount.

Unless previously redeemed, converted, purchased or cancelled, the Bonds will be automatically converted into new shares of the Company upon maturity date at the then prevailing Conversion Price.

The movement of the liability component of the Bonds for the year is set out below:

	2012 HK\$'000	2011 HK\$'000
At 1 January	290,191	328,820
Converted during the year	–	(112,439)
Interest charged	–	73,810
At 31 December	290,191	290,191

Trading in the Company's shares on the Stock Exchange has been suspended at the request of the Company since 29 June 2011 and therefore has triggered the Company's early redemption obligation. The Company is liable to repay the Bonds to the Bondholders and therefore the liability component of the Bonds as at 31 December 2011 is reclassified as current liabilities.

The interest charged for 2011 is calculated by applying an effective interest rate of 13.17% to the liability component for the 12-month period since the Bonds were issued.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 26. DEFERRED TAX LIABILITIES

	Revaluation of intangible assets HK\$'000	Impairment loss HK\$'000	Total HK\$'000
At 1 January 2011	301,365	826	302,191
Debit/(Credit) to profit or loss for the year	27,699	(826)	26,873
Exchange differences	15,479	–	15,479
At 31 December 2011	344,543	–	344,543
Debit to profit or loss for the year	3,105	–	3,105
Exchange differences	77	–	77
At 31 December 2012	347,725	–	347,725

No deferred tax asset have been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

## 27. EMPLOYEE BENEFIT OBLIGATIONS

### Provision for long service payments

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of services with the Group. The amount payable is dependent on the employees' final salary and years of services, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

### PRC employee severance compensation

Pursuant to the new PRC Labour Contract Law which became effective on 1 January 2008, the Group is required to pay the severance compensation to its employees if the employment contract expires and is not renewed unless the Group has offered the employment contract on the same terms and conditions but the offer is rejected by the employee.

Under the Labour Contract Law, the severance compensation is calculated based on one month's salary for each year of employment completed by the employee and is capped at 12 months' salary or 12 times of 300% of the average monthly salary of the previous year at the place where the employer is located, whichever is lower. At the end of each reporting period, the Group has made the provision for severance compensation for the existing employees in the PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 28. SHARE CAPITAL

	Note	Number of shares '000	Amount HK'000
Authorised:			
Ordinary shares of HK\$0.10 each			
At 1 January 2011, 31 December 2011 and 31 December 2012		8,000,000	800,000
Issued and fully paid:			
Ordinary shares of HK\$0.10 each			
At 1 January 2011		4,875,303	487,530
Issue of shares upon conversion of convertible bonds	(a)	360,000	36,000
At 31 December 2011 and 31 December 2012		5,235,303	523,530

- (a) In 2011, 360,000,000 shares of HK\$0.1 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK\$0.4 per share.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total liabilities (including current and non-current liabilities as shown in the consolidated statement of financial position) less bank and cash balances. Total equity represents the equity as shown in the consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 28. SHARE CAPITAL (continued)

The gearing ratios at 31 December 2012 and 2011 are as follows:

	2012 HK\$'000	2011 HK\$'000
Total debt	780,546	733,231
Less: bank and cash balances	(5,767)	(18,946)
Net debt	774,779	714,285
Total equity	896,226	951,655
Gearing ratio	86.45%	75.06%

The increase in gearing ratio during the year ended 31 December 2012 resulted primarily from the decrease of equity by loss for the year.

The Group is not subject to any externally imposed capital requirements.

## 29. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 29. RESERVES (continued)

### (b) Company

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible bond reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2011	1,976,007	89,247	300	25,101	148,708	(991,527)	1,247,836
Transfer to retained profits	-	(89,247)	-	-	-	89,247	-
Total comprehensive income for the year	-	-	-	-	-	(1,082,461)	(1,082,461)
Exercise of convertible bonds	125,758	-	-	-	(49,319)	-	76,439
At 31 December 2011	2,101,765	-	300	25,101	99,389	(1,984,741)	241,814
Total comprehensive income for the year	-	-	-	-	-	(49,151)	(49,151)
At 31 December 2012	2,101,765	-	300	25,101	99,389	(2,033,892)	192,663

### (c) Nature and purpose of reserves

#### (i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

#### (ii) Capital reserve

The capital reserve of the Group includes the difference between the nominal value of the share/registered capital of the subsidiaries acquired pursuant to the Group reorganisation carried on 28 November 2000, over the nominal value of the share capital of the Company issued in exchange; and amount arising from the acquisition by the Group in respect of additional interest of 13% in Global Cosmetics (Hong Kong) Company Limited for a consideration of approximately HK\$274,058,000 which was paid by the Company on behalf of Bio Beauty Group Limited by transfer of 13,936,390 ordinary shares of HK\$0.10 each of Bio Beauty Group Limited on 29 October 2007.

The capital reserve of the Company arose as a result of the above-mentioned Group reorganisation and represents the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 29. RESERVES (continued)

### (c) Nature and purpose of reserves (continued)

#### (iii) *Capital redemption reserve*

Capital redemption reserve arises from the reduction of the nominal value of the issued capital of the Company upon the cancellation of the repurchased shares.

#### (iv) *Share-based payment reserve*

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 4.

#### (v) *Foreign currency translation reserve*

Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in note 4.

#### (vi) *Convertible bond reserve*

Convertible bond reserve represents the amount allocated to the equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 4.

## 30. SHARE-BASED PAYMENTS

The Company has a share option scheme which was adopted on 20 December 2001 whereby the Directors of the Company are authorised, at their discretion, to invite employees and other eligible suppliers and customers of the Group, including directors of any Company in the Group, to take up options at nil consideration to subscribe for shares of the Company. The options vest immediately from the date of grant and are then exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 30. SHARE-BASED PAYMENTS (continued)

For the years ended 31 December 2012 and 2011 no share option had been granted under the share option scheme.

- (a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments '000	Vesting conditions	Contractual life of options
Options granted to others – on 25 February 2010	262,078	Immediately from the date of grant	up to 24 Feb 2013

- (b) The number and weighted average exercise prices of share options

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2012		2011	
	Average exercise price per share HK\$	Number of share options '000	Average exercise price per share HK\$	Number of share options '000
Outstanding at 1 January	0.352	272,079	0.352	272,079
Expired	0.440	(10,001)	–	–
Outstanding and exercisable at 31 December	0.349	262,078	0.352	272,079

The options outstanding at 31 December 2012 had exercise price of HK\$0.349 (2011: ranging from HK\$0.349 to HK\$0.440) and a remaining contractual life of 0.15 year (2011: weighted average remaining contractual life of 1.14 years).

The exercise in full of the outstanding 262,078,000 (2011: 272,079,000) share options at 31 December 2012 would, under the present capital structure of the Company, result in the issue of 262,078,000 (2011: 272,097,000) additional shares for a total cash consideration, before expenses, of approximately HK\$91,465,000 (2011: approximately HK\$95,866,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 31. LEASE COMMITMENTS

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2012 HK\$'000	2011 HK\$'000
Within one year	4,594	6,645
In the second to fifth years, inclusive	1,972	4,099
After five years	–	–
	<b>6,566</b>	10,744

Operating lease payments represent rentals payable by the Group for certain of its office premises and warehouses.

## 32. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

During the years ended 31 December 2012 and 2011, the Group had the following material transactions with related parties:

	2012 HK\$'000	2011 HK\$'000
Loan interest expense paid to a related company	13,286	–
Loan interest expense paid to a director	1,440	158

A director has control over the related company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	2012 HK\$'000	2011 HK\$'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	172	220
Investments in subsidiaries	999,205	1,033,376
	<b>999,377</b>	1,033,596
<b>CURRENT ASSETS</b>		
Trade and other receivables	755	404
Amounts due from subsidiaries	260,406	274,921
Bank and cash balances	448	146
	<b>261,609</b>	275,471
<b>CURRENT LIABILITIES</b>		
Trade and other payables	4,233	2,409
Other borrowings	20,432	4,830
Amounts due to subsidiaries	229,937	246,293
Convertible bonds	290,191	290,191
	<b>544,793</b>	543,723
<b>NET CURRENT LIABILITIES</b>	<b>(283,184)</b>	(268,252)
<b>NET ASSETS</b>	<b>716,193</b>	765,344
<b>EQUITY</b>		
Share capital	523,530	523,530
Reserves	192,663	241,814
<b>Total equity</b>	<b>716,193</b>	765,344

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 34. EVENTS AFTER THE REPORTING PERIOD

- (i) On 31 December 2013, the Company and a third party entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to dispose of the machinery of Dongguan Polygene Biotech R&D Co., Limited, an indirectly held subsidiary of the Group, at the consideration of RMB 35,000,000 (approximately HK\$ 44,765,000).
- (ii) On 17 October 2014, the Company entered into a loan agreement (“Loan Agreement”) with a third party (“Lender”), pursuant to which the Lender agreed to lend the Company a loan in the principal amount of HK\$10 million with a simple interest rate of 11% per annum (“Loan”) with a term of one year. The principal amount of the Loan together with the relevant accrued interest under the Loan Agreement is repayable on the maturity date, i.e. 16 October 2015. The Loan is not secured by any of the assets of the Group.

## 35. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 9 February 2015.

# FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the published results and of the assets and liabilities of the Group prepared on the bases set out in the note below:

	<b>Year ended 31 December</b>				
	<b>2012</b> <b>HK\$'000</b>	2011 HK\$'000	2010 HK\$'000 (Restated)	2009 HK\$'000	2008 HK\$'000
<b>RESULTS</b>					
Turnover	<b>37,322</b>	274,317	341,739	397,219	1,339,707
Continuing operations	<b>37,322</b>	172,519	108,726	397,219	1,339,707
Discontinued operations	–	101,798	233,013	–	–
(Loss)/Profit before tax	<b>(59,374)</b>	(1,208,323)	(325,511)	(621,667)	85,060
Income tax (expense)/credit	<b>(3,105)</b>	(27,141)	1,035	(7,839)	(51,495)
(Loss)/Profit for the year from continuing operations	<b>(62,479)</b>	(1,235,464)	(324,476)	(629,506)	33,565
(Loss)/Profit from discontinued operation	–	256,446	(1,448,413)	–	–
(Loss)/Profit for the year	<b>(62,479)</b>	(979,018)	(1,772,889)	(629,506)	33,565
Attributable to:					
Owners of the Company	<b>(56,348)</b>	(931,318)	(1,736,921)	(620,412)	8,187
Non-controlling interests	<b>(6,131)</b>	(47,700)	(35,968)	(9,094)	25,378
	<b>(62,479)</b>	(979,018)	(1,772,889)	(629,506)	33,565

# FIVE YEARS FINANCIAL SUMMARY

## ASSETS AND LIABILITIES

	As at 31 December				
	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000 (Restated)	2009 HK\$'000	2008 HK\$'000
Non-current assets	<b>1,652,739</b>	1,643,570	2,583,333	2,549,045	2,546,412
Current assets	<b>24,033</b>	41,316	374,229	262,906	624,545
Current liabilities	<b>(432,821)</b>	(388,688)	(376,131)	(321,300)	(482,784)
Non-current liabilities	<b>(347,725)</b>	(344,543)	(631,011)	(1,106)	(1,111)
Net assets	<b>896,226</b>	951,655	1,950,420	2,489,545	2,687,062
Attributable to:					
Owners of the Company	<b>716,193</b>	765,344	1,735,366	2,432,938	2,620,208
Non-controlling interests	<b>180,033</b>	186,311	215,054	56,607	66,854
Total equity	<b>896,226</b>	951,655	1,950,420	2,489,545	2,687,062