# CHINA BILLION

# RESOURCES LIMITED

# 中富資源有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 274)


# 2014
# ANNUAL REPORT

* For identification only

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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

### Independent Non-executive Directors

Mr. Jin Shunxing
Mr. Chiang Tsung-Nien
Ms. Liu Shuang

## AUDIT COMMITTEE

Mr. Jin Shunxing *(Chairman of Audit Committee)*
Mr. Chiang Tsung-Nien
Ms. Liu Shuang

## REMUNERATION COMMITTEE

Mr. Jin Shunxing *(Chairman of Remuneration Committee)*
Mr. Chiang Tsung-Nien
Ms. Liu Shuang
Mr. Long Xiaobo

## NOMINATION COMMITTEE

Mr. Long Xiaobo *(Chairman of Nomination Committee)*
Mr. Chiang Tsung-Nien
Mr. Jin Shunxing
Ms. Liu Shuang
Mr. Zuo Weiqi

## COMPANY SECRETARY

Mr. Cheung Yuk Chuen

## AUTHORISED REPRESENTATIVES

Mr. Chen Yi Chung
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

## 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

25/F., 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 the impacts of the suspension of trading of the Company's shares ("Shares") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The suspension was mainly caused by the Company's delay in the publication of the audited financial reports which was in part attributable to the debt restructuring of the Company during the year 2011. 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 of the Company and its subsidiaries (collectively referred to as "Group").

During the year ended 31 December 2014, the Group recorded an increased turnover of approximately HK$20.1 million (as compared with the turnover of approximately HK$8.3 million in the year ended 31 December 2013) in the mining products business segment. For the remarkable outcome, we give thanks to the Group's investments in 2013 in modifying the existing tunnel structure and exploration process of the gold mine. Meanwhile, we also saw an increased turnover of approximately HK$23.6 million (as compared with the turnover of approximately HK$21.9 million in the year ended 31 December 2013) in the cosmetic and skincare products business segment. The board of directors ("Directors") of the Company ("Board"), together with the management of the Company ("Management"), has taken and will continue to take actions to adjust the business strategies of the Group to strive for success even in the new operating environment.

Although it is not mandatory for the Company to follow the new standards stated in the Chapter 18 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") updated in year 2010, the Board is of the view that for the sake of working towards better compliance results, the Board should have an updated technical report prepared in accordance with Chapter 18 pursuant to which other mineral companies that are obligated to follow. The Company therefore voluntarily engaged SRK Consulting China Ltd ("SRK") to prepare an updated and independent technical report for assisting the Management to assess the fair value of the mining right of the Group's Yuanling gold project ("Gold Mine") in Hunan Province, the People's Republic of China ("PRC"), in accordance with the Australian Joint Ore Reserves Committee Code 2012 Edition ("JORC Code 2012"). Based on the updated technical report, the Group is required to make a significant impairment loss on the mining right. Accordingly, the Group's financial results for the financial year ended 31 December 2014 shows a further loss, details of which are disclosed in the management discussion and analysis of this annual report. Nevertheless, the Board is confident in the potential development of the Gold Mine. The Company will continue to allocate suitable resources in the basic structural infrastructure and expertise in the Gold Mine. In the meantime, we will seek other investment opportunities to diversify our business portfolio and broaden the source of income of the Group.

As fully set out in auditor's report, the Board notes that ZHONGHUI ANDA CPA Limited, the auditor of the Group ("Auditor") has given an opinion of material uncertainty regarding the Company's ability to continue as a going-concern, which was mainly caused by the convertible bonds issued by the Company in March 2010. As at the date of this annual report, the Board and the Management has been trying their best endeavour to negotiate with the creditors of the Company regarding the possible debt restructuring, including but not limited to, converting the convertible bonds into Shares, to solve the going concern issue raised by the Auditor.

# CHAIRMAN'S STATEMENT

The Board also acknowledges the need for and the importance of good corporate governance practice and better internal control functions for safeguarding the Company and its shareholders' interests as a whole. In May 2015, the external internal control consultant, ZHONGHUI ANDA Risk Services Limited ("Internal Control Consultant") completed their follow-up review on the internal control system of the Group. The review concluded that the enhanced financial reporting procedures and internal control systems of the Group are adequate to meet the general principles and obligations regarding corporate governance issue under the Listing Rules.

In July 2015, the Company has also provided a comprehensive training session to all the Directors to update them with the latest relevant rules and regulations, so as to improve their supervision and management of the Company in accordance with the most recent corporate governance and compliance requirements in Hong Kong.

In mid May 2015, the outstanding annual results/reports for the three years ended 31 December 2011, 2012 and 2013 and the interim results/reports for the three 6 months ended 30 June 2012, 2013 and 2014 have been published, which have paved the way for the resumption of trading in the Shares ("Resumption").

Looking forward, we believe that the Resumption is our prime focus. We target to complete the Resumption as soon as practicable. At the same time, the Management 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 of the Board*

Hong Kong, 4 August 2015

## BUSINESS AND FINANCIAL REVIEW

The Group is principally engaged in provision of beauty treatment services and trading of cosmetic and skincare products in Hong Kong, and gold mining, exploration and trading of gold products in the PRC.

During the financial year ended 31 December 2014 ("Reporting Period"), the Group recorded a total turnover of approximately HK$43.7 million, which represented an approximately 44.7% increase as compared with approximately HK$30.2 million for the year ended 31 December 2013 ("Corresponding Period").

The revenue contributed by the mining products business segment during the Reporting Period was approximately HK$20.1 million, representing an approximately 142.2% increase as compared with approximately HK$8.3 million in the Corresponding Period. During 2013 and 2014, the Management has gradually re-assessed the exploration process in order to identify the high potential gold-bearing areas in the existing Gold Mine. The Management studied the relevant geological data and the existing tunnel structure of the Gold Mine. During the Reporting Period, the Group had been continuingly making further investment in modifying the existing tunnel structure and exploration process of the Gold Mine. The improvement efforts accordingly generated a growing turnover in the mining products business segment for the Reporting Period.

The revenue contributed by the cosmetic and skincare products business segment for the Reporting Period was approximately HK$23.6 million, representing an approximately 7.8% increase as compared with approximately HK$21.9 million for the Corresponding Period. The increase in turnover in this segment was mainly due to the Group's diligent efforts in marketing and promotion through our beauty salon outlets in Hong Kong.

The gross profit for the Reporting Period was approximately HK$32.1 million, which represented an increase of approximately 126.1% as compared with approximately HK$14.2 million in the Corresponding Period. The growth in gross profit is mainly benefited by the considerable increase in the production of the mining products.

The loss for the Reporting Period for the Group was approximately HK$742.8 million as compared with approximately HK$473.8 million for the Corresponding Period. The significant increase in the losses during the Reporting Period was mainly due to the impairment loss on mining right and the impairment loss on property, plant and equipment, which amounted to approximately HK$844.2 million and HK$34.9 million respectively.

Although it is not mandatory for the Company to follow the new standards stated in the Chapter 18 of the Listing Rules updated in year 2010, the Board is of the view that for the sake of working towards better compliance results, the Board should have an updated technical report prepared in accordance with Chapter 18 pursuant to which other mineral companies are obligated to follow. The Company therefore voluntarily engaged SRK to prepare an updated and independent technical report for assisting the Management to the fair value of the mining right of the Gold Mine, in accordance with JORC Code 2012. Under the Chapter 18 of the Listing Rules, all the Inferred Resources (as defined thereof) and all sources of potential value in the preparation of the valuation should be excluded. The Chapter 18 prescribes that only those Indicated Resources (as defined thereof) of the gold mines could be recognized. The exclusion, in effect, means that a valuation may not meet the definition of Fair Market Value under the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition ("VALMIN Code 2005") notwithstanding that any purchaser of a mine would normally consider the value of the Inferred Resources, which is subject to a high discount rate than Indicated Resource. Although the Gold Mine is currently producing gold, the limited funding resources caused by the long suspension of trading of Shares on the Stock Exchange, in turn, restricted the Group's capability in expanding channel sampling process at different levels and making in-fill holes for gathering information about the resource tonnage and the gold grading. Under such restrictions, the indicated gold reserve was reported to decrease dramatically. Apart from the above, the non-fully utilized production capacity and the sub-optimal rate in actual productions of the gold mines adversely affected the valuation of the Gold Mine. The continuing down trends of the gold price in the global market during the past few years, also played a significant role and caused a much distressed revaluation result. By reference to the SRK's technical report, the Management prepared the valuation of the mining right by adopting a conservative approach that the Management took into account an assessment of a mineral asset's future net economic benefit at the valuation date on a nominal basis, that is to say, accounting for inflation in costs and in gold prices under a set of assumptions deemed most appropriate by a relevant expert or specialist, and excluded any premium or discount to account for such factors (such as market or strategic considerations). The Management used the discounted cash flow method of the Income Based Approach as the valuation method, which is an estimation of the net present value of the forecast free cash flow produced by the Gold Mine. In order to present a more prudent and cautious fair value of the mining right, the median marketability discount for mining industry was also counted therein. The Management considered that the choice of the valuation methodology is appropriate in the circumstances, given that the development timing and the amount of capital expenditure can materially affect the project valuation.

All of above adverse factors were working together to significantly impair the value of the mining right. However, the Board is of the view that the gold reserves should be of greater amount, and the Gold Mine itself should be of greater value. The Board considers that the impairment loss and the valuation of the mining right could be adjusted if and when further funding resources are to be allocated for exploring the full potentials in a holistic manner.

The Board was informed that the fair value of the Gold Mine covered 100% Indicated Resources and 50% Inferred Resources was approximately HK$223,072,000. As mentioned above, in accordance with Chapter 18 of the Listing Rules, all the Inferred Resources and sources of potential value in the preparation of the valuation should be excluded under such a stricter approach, which means that the valuation does not meet the definition of Fair Market Value under the VALMIN Code 2005. However the Board is of the view that as the Gold Mine is located in the PRC, and the value of 50% Inferred Resources is still within the level of confidence to the PRC extrapolated resources, it is justified to consider the Gold Mine to be in compliant with Chinese criteria within the range of significant reference.

The Auditor has reviewed and assessed the valuation, including but not limited to, its methodology and assumptions, and is of the view that such valuation is fairly stated.

As fully set out in auditor's report, the Board notes that the Auditor has given, among others, an opinion of material uncertainty regarding the Company's ability to continue as a going-concern, which mainly related to the convertible bonds ("CB") issued by the Company in March 2010. However, the Board believes that such going concern issue could be solved by the debt restructuring plan to be conducted later on. As at the date of this annual report, the Board already received the preliminary indication of consents from the majority of the CB holders, and if and when the debt restructuring plan is implemented, the majority (if not all) CB holders will convert their outstanding CB into Shares. Given that the outstanding CB are, under the accounting treatment, reclassified in the auditor's report as the current liabilities, the conversion of the CB will materially improve the financial outlook of the Company if and when the plan has fully implemented. The Company will conduct further negotiation with the CB holders with a view of entering into formal debt restructuring agreements as soon as practicable.

As set out in notes 2 and 16 to the consolidated financial statements, the mining permit will expire on 11 September 2015. The Group is in the processing applying for the renewal of the mining permit. According to PRC legal opinion, given the records of the Company's compliance with the various PRC governments' requirements, there was no foreseeable legal impediment in obtaining the renewal approval, save for application timing and procedures.

During the Reporting Period, in order to streamline the Group's structure and business operations, the Group entered into agreements with independence third party to dispose of its entire interests in certain dormant subsidiaries of the Group ("Dormant Subsidiaries") at a token nominal price. The Dormant Subsidiaries had no operation at the time of the disposal and they were inevitably incurring maintenance costs. As set out in the 2013 annual report, due to the loss of the most important records, the Auditor is unable to obtain sufficient evidence on the opening balances of the contingent liabilities and the related party balances of the Dormant Subsidiaries during the Reporting Period.

## PROSPECTS

During the Reporting Period, as the mining products business segment began to generate revenue, the Management believed that, although the gold price may continue to decrease, the production of the Gold Mine would become profitable when the Company allocates sufficient time and resources into the mining products business segment.

In July 2015, GCC Finance Company Limited ("GCCF"), which is a wholly-owned subsidiary of the Company, re-applied for the money lender license, which GCCF held until year 2013. In view of the rapid economic growth in the PRC, the trend of globalisation and the unmet demand for financing, there are considerable PRC enterprises are experiencing various degrees of financing bottleneck problems for expanding their overseas business development. Some PRC enterprises are seeking financing from offshore entities, due to the stricter lending control policy imposed by the PRC government. Pending obtaining the approval for the money lending license, the Company will conduct further studies to explore the potential of the money lending business which show to be profitable business opportunities.

Looking forward, the Company targets to complete the Resumption as soon as practicable. At the same time, the Management is looking for other investment opportunities to broaden the sources of income of the Group in order to create greater value for the Shareholders.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group had unpledged cash and bank balances of approximately HK$4.7million (2013: approximately HK$3.9 million). The gearing ratio was not applicable to the Group (2013: approximately 157.4%) and the borrowings and convertible bonds of the Group together was approximately HK$457.3 million (2013: approximately HK$425.2 million). The Group reported net current liabilities of approximately HK$484.4 million as at 31 December 2014 (2013: approximately HK$448.3 million).

## COMMITMENTS

Particulars of commitments of the Group as at 31 December 2014 and 2013 are set out in the note 27 to the consolidated financial statements of this annual report.

## CONTINGENT LIABILITY

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

## BANK BORROWINGS

As at 31 December 2014, the Group did not have any outstanding bank loan (2013: nil).

## EMPLOYEES AND REMUNERATION

As at 31 December 2014, the Group employed 191 staff (2013: 202). The remuneration of employees was in line with the market trend and commensurate with the level of remuneration in the industry and the performance of individual employees that are regularly reviewed every year.

## FOREIGN EXCHANGE EXPOSURE

During the Reporting Period, 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 49, 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 23 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 estate investment and integration. Mr. Long holds a Master of Economics degree and a Bachelor of Engineering degree from Fudan University, the PRC.

**Mr. Zuo Weiqi**, aged 49, 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 41, 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 51, 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 56, 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 and Bacholor of Art degree, major in Economics, from the National Cheng-chi University, Taiwan. 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 43, 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

The Company acknowledges the need for 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 Board has reviewed the Company's corporate governance practices for the Reporting Period and up to the date of this annual report, and has formed the opinion that the Company, throughout the Reporting Period and up to the date of this annual report, has complied with the code provisions ("Code Provisions") as set out in the CG Code except for the following deviations:

| The Code provisions | Non-compliance and the reason for the deviation | Improvement action taken or to be taken |
|---|---|---|
| A.1.1 | Non-compliance | Regular Board meetings are scheduled to be held at approximately quarterly intervals, and starting from 30 January 2015 (the first regular Board meeting of 2015), the Board has already fully complied with this CG Provision |
| A.1.3 | Non-compliance | Since 30 January 2015, due notices of all Board meetings have been given to all members of the Board |
| A.1.8 | No insurance cover could be arranged since 1 November 2013 in view of the suspension in trading of the Company's shares | Directors' insurance will be arranged for each Director if and when such can be arranged or immediately upon the resumption of trading of the Company's shares |
| A.2.5 | Non-compliance | The Chairman has confirmed that he has already took 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 |

| The Code provisions | Non-compliance and the reason for the deviation | Improvement action taken or to be taken |
|---|---|---|
| A.4.2 | During the Reporting Period, 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 and the Listing Rules. Every Director will be subject to retirement by rotation at least once every three years |
| A.5.3 | Non-compliance | A new terms of reference for the nomination committee ("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.5.6 | Non-compliance | A board diversity policy was adopted by the Nomination Committee on 30 January 2015 and a summary of such policy is disclosed in this corporate governance report |
| A.6.1 | Non-compliance | From 2015 onwards, a comprehensive, formal and tailored induction will be arranged for any new Director appointed on the first occasion of his/her appointment and regular updated information/training will be provided as necessary thereafter |
| A.6.5 | Non-compliance | On 8 July 2015, the Company arranged a comprehensive training 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 no less frequent than quarterly interval updates, will be given to all Directors. Since April 2015, timely monthly updates have already been provided to all Directors for their assessment |

| The 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 Company's website at the same date |
| E.1.1 | During the Reporting Period, 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 Reporting Period, 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 Committee, Remuneration Committee, Nomination Committee and any other committees of the Board to attend |
| E.1.3 | During the Reporting Period, 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 Reporting Period, 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 an annual basis to ensure its effectiveness |
| E.2.1 | During the Reporting Period, no general meeting was held | For the 2015 AGM and 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 |

As set out in section headed "Internal Controls" below, an independent internal control consultant was engaged by the Company to carry out an internal control review of the Group. Following the actions and steps taken by the Management based on the consultant's earlier recommendations, the follow-up review reported that the enhanced financial reporting procedures and internal control systems of the Group are adequate to meet the general principles and obligations regarding corporate governance issues under the Listing Rules.

## 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 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 Reporting Period.

## 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 CG 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 conducted 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 on 8 July 2015.

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

### Executive Directors:

Mr. Long Xiaobo *(Chairman)*
Mr. Zuo Weiqi *(Chief Executive Officer)*
Mr. Chen Yi Chung

### INEDs:

Mr. Jin Shunxing
Mr. Chiang Tsung-Nien
Ms. Liu Shuang
Dr. Zhu Jing *(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 9 to 10 and whose respective interests in the Company's shares are set out on pages 28 to 29 of this annual report.

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.

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 have 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 the Directors for their comments 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.

The attendance of the Directors at the Board meetings held during the Reporting Period is set out as follows:

| Name of Directors | Attendance/ Total no. of meetings held during the Reporting Period | Passed/Total written resolutions circulated during the Reporting Period |
|---|---|---|
| **Executive Directors** | | |
| Mr. Long Xiaobo *(Chairman)* | 4/4 | 11/11 |
| Mr. Zuo Weiqi *(Chief Executive Officer)* | 4/4 | 11/11 |
| Mr. Chen Yi Chung | 4/4 | 11/11 |
| **INEDs** | | |
| Mr. Jin Shunxing | 4/4 | 11/11 |
| Mr. Chiang Tsung-Nien | 0/4 | 11/11 |
| Ms. Liu Shuang | 3/4 | 5/11 |
| Dr. Zhu Jing *(resigned on 1 April 2014)* | 0/4 | 6/11 |

## 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

The Company established a Nomination Committee on 1 October 2013 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, and 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.

A board diversity policy was recommended and had been approved and adopted by the Board on 30 January 2015. The main objective of the policy is to provide a guideline to the Nomination Committee in selecting candidates in terms of their merits and business and professional backgrounds to the Board with reference to the Company's existing and future business development needs.

The attendance of the members of the Nomination Committee at the Nomination Committee meetings held during the Reporting Period is set out as follows:

| Name of Directors | Attendance/ Total no. of meetings held during the Reporting Period | Passed/Total written resolutions circulated during the Reporting Period |
|---|---|---|
| **Executive Directors** | | |
| Mr. Long Xiaobo *(Chairman of the committee)* | 1/1 | 0/0 |
| Mr. Zuo Weiqi | 1/1 | 0/0 |
| **INEDs** | | |
| Mr. Jin Shunxing | 1/1 | 0/0 |
| Mr. Chiang Tsung-Nien | 0/1 | 0/0 |
| Ms. Liu Shuang | 0/1 | 0/0 |
| Dr. Zhu Jing *(resigned on 1 April 2014)* | 0/1 | 0/0 |

## 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. As at the date of this annual report, 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.

The attendance of the members of the Remuneration Committee at the Remuneration Committee meetings held during the Reporting Period is set out as follows:

| Name of Directors | Attendance/ Total no. of meetings held during the Reporting Period | Passed/Total written resolutions circulated during the Reporting Period |
|---|---|---|
| **Executive Directors** | | |
| Mr. Long Xiaobo | 2/2 | 0/0 |
| **INEDs** | | |
| Mr. Jin Shunxing *(Chairman of the committee)* | 2/2 | 0/0 |
| Mr. Chiang Tsung-Nien | 0/2 | 0/0 |
| Ms. Liu Shuang | 1/2 | 0/0 |
| Dr. Zhu Jing *(resigned on 1 April 2014)* | 0/2 | 0/0 |

## 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 page 28 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.

## 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 13 to the consolidated financial statements of this annual report.

The contributions to pension scheme of Directors for the year are disclosed in note 13 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 Reporting Period, 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.

The attendance of the members of the Audit Committee at the Audit Committee meetings held during the Reporting Period is set out as follows:

| Name of Directors | Attendance/ Total no. of meetings held during the Reporting Period | Passed/Total written resolutions circulated during the Reporting Period |
|---|---|---|
| **INEDs** | | |
| Mr. Jin Shunxing *(Chairman of the committee)* | 4/4 | 1/1 |
| Mr. Chiang Tsung-Nien | 1/4 | 1/1 |
| Ms. Liu Shuang | 3/4 | 1/1 |
| Dr. Zhu Jing *(resigned on 1 April 2014)* | 1/4 | 1/1 |

## 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 Reporting Period. 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 Reporting Period 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 32 to 34 of this annual report which we would like to draw to the Shareholders' attention.

# CORPORATE GOVERNANCE REPORT

## 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 set out in the Company's announcement dated 31 December 2013, the Internal Control Consultant was engaged by the Company to perform an internal control review of the Group to assist the Board to assess whether the Group's financial reporting procedure and internal control system are adequate to enable the Company to meet its obligations under the Listing Rules.

As further announced by the Company on 3 October 2014, the Internal Control Consultant issued a preliminary draft internal control review report to the Company, which has identified a number of internal control issues and deficiencies of the Group. The Management has reviewed the preliminary internal control report and taken necessary actions and steps to address those internal control issues and deficiencies based on the recommendations of the Internal Control Consultant. Major deficiencies identified by the Internal Control Consultant and the Company's subsequent responses were set out in the Company's announcement dated 29 May 2015.

Following the actions and steps taken by the Management, the Internal Control Consultant has conducted a follow-up review in May 2015 on the internal control system of the Group. According to the follow-up review report issued by the Internal Control Consultant, the Internal Control Consultant has come to the conclusion that from the results of their enquiries, observations and discussions with the management and responsible personnel of the Group as well as examination of documents and records, there was no indication of any material irregularity or error on the financial reporting and systems of the internal control of the Group. The Internal Control Consultant concluded that the enhanced financial reporting procedures and internal control systems of the Group are adequate to meet the general principles and obligations regarding corporate governance issues under the Listing Rules.

Having considered the results of the follow-up review, the Directors (including all INEDs) are of the view that the Group's financial reporting procedure and internal control systems are sufficient to meet obligations under the Listing Rules.

## EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The Company's current independent external auditor is ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA"). The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding 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 auditor of the Group in respect of the consolidated financial statements for the Reporting Period and the corresponding audit fees estimation.

For the Reporting Period, 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 | 1,200,000 |
| Total fees | 1,200,000 |

## 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.

## 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. 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

The Company has engaged Mr. Cheung Yuk Chuen as its Company Secretary effective from 14 August 2013. His primary corporate 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.

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the Reporting Period.

## 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 17 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. And detailed management discussion and analysis is set out on pages 5 to 8 of this annual report.

## RESULTS AND RESERVES

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 35 of this annual report.

Details of movements in the reserves of the Group during the Reporting Period are set out on page 37 in the consolidated statement of changes in equity of this annual report.

Under the Companies Law of the Cayman Islands, share premium of the Company is available for distributions or paying dividends to the Shareholders subject to the provisions of the Articles of Association and a statutory solvency test. In accordance with the article 137 of the Articles of Association, dividends may be declared and paid out of the profits of the Company or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared or paid out of share premium account. As at 31 December 2014, the Company has no reserves available for distribution to the Shareholders (2013: nil).

## DIVIDENDS

The Board does not recommend the payment of a final dividend for the Reporting Period (2013: nil).

## CHARITABLE DONATIONS

The Group made no charitable and other donations for the Reporting Period (2013: 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 77 to 78 of this annual report. This summary does not form part of the audited consolidated financial statements of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the Group's five largest suppliers accounted for 88% of the Group's total purchases, and the purchase from the Group's largest supplier included therein accounted for 38% of the total purchase for the year.

For the Reporting Period, the Group's sales to its five largest customers accounted for 48% of the Group's total sales, and the sales to the largest customer included therein accounted for 41% 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 Reporting Period are set out in note 15 to the consolidated financial statements of this annual report.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 24 to the consolidated financial statements of this annual report.

## CONVERTIBLE BONDS

Details of movements in the convertible bonds of the Company during the Reporting Period are set out in note 22 to the consolidated financial statements of this annual report.

## BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2014 amounted to approximately HK$167,150,000 (2013: approximately HK$135,044,000). Particulars of bank loans and other borrowings are set out in note 21 to the consolidated financial statements of this annual report.

## DIRECTORS

The Directors during the Reporting Period 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

### INEDs

Mr. Jin Shunxing
Mr. Chiang Tsung-Nien
Ms. Liu Shuang
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.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors as at the date of this report are set out on pages 9 to 10 of this annual report.

## 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.

The Directors' services contracts of three Executive Directors, Mr. Long Xiaobo, Mr. Zuo Weiqi and Mr. Chen Yi Chung were renewed for a three-year term expiring on 30 July 2018.

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in notes 13 and 28 to the consolidated financial statements of this annual report, 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 2014.

## 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 Reporting Period.

## SHARE OPTION SCHEME

No share option scheme was adopted by the Company during the Reporting Period.

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Brief summary of the remuneration policy of the Group are set out in page 19 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 Reporting Period are set out in note 13 to the consolidated financial statements of this annual report.

## PENSION SCHEMES

Details of the pension schemes are set out in note 13 to the consolidated financial statements of this annual report.

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

As at 31 December 2014, 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 (Note 1) | 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.

Save as disclosed above, as at 31 December 2014, 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.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2014, 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:

| Name of Shareholder | Number of ordinary shares (Note 1) | Approximate percentage of shareholding |
|---|---|---|
| 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.

Save as disclosed and in the section of "Directors' and Chief Executive's 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 Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

# REPORT OF THE DIRECTORS

## 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.

## 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 Reporting Period.

## SUBSEQUENT EVENTS

The material subsequent event is disclosed in note 30 to the audited consolidated financial statements in this annual report.

## REVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee has reviewed with the Management and the Auditor, the accounting principles and policies as adopted by the Company, the practices of the Group and the audited consolidated financial statements for the Reporting Period.

## 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 11 to 24 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 Reporting Period and as at the date of this report.

## AUDITORS

Parker Randall CF (H.K.) CPA Limited was appointed as the auditor 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 the auditor of the Group on 11 August 2013.

Ting Ho Kwan & Chan CPA Limited was appointed as auditor 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 the auditor of the Group on 10 October 2014.

ZHONGHUI ANDA was appointed as the auditor of the Group on 10 October 2014 for conducting the audit works of the Group for the Reporting Period.

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 the auditor of the Group will be proposed at the forthcoming AGM.

On behalf of the Board
**Long Xiaobo**
*Chairman*

Hong Kong, 4 August 2015

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ZHONGHUI

## 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 35 to 76, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of 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 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 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 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 2013 ("2013 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 2013 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2013 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

### 2) Movement of mining right

Because of the matters as detailed in the paragraph headed "Opening balances and corresponding figures", we are unable to obtain sufficient evidence on the opening balance of the mining right. Thus, no sufficient evidence has been received by us up to the date of this report in respect of whether the amortisation and impairment loss on mining right of approximately HK$23,813,000 and HK$844,216,000 respectively charged to profit or loss were properly accounted for in the consolidated financial statements for the year ended 31 December 2014. However, we are satisfied that the mining right is fairly stated as at 31 December 2014.

### 3) Loss on disposal of subsidiaries

Because of the matters as detailed in the paragraph headed "Opening balances and corresponding figures", we are unable to obtain sufficient evidence on the opening balances of contingent liabilities and related party balances of certain subsidiaries being disposed of during the year ended 31 December 2014, as disclosed in note 26 to the consolidated financial statements. No sufficient evidence has been provided to satisfy ourselves as to the loss on disposal of subsidiaries of approximately HK$26,732,000 for the year ended 31 December 2014.

### 4) Deferred tax credit

Because of the matters as detailed in the paragraph headed "Opening balances and corresponding figures", we are unable to obtain sufficient evidence on the opening balance of the deferred tax liabilities. Thus, no sufficient evidence has been provided to satisfy ourselves as to the deferred tax credit of approximately HK$214,935,000 credited to profit or loss for the year ended 31 December 2014. However, we are satisfied that the deferred tax liabilities are fairly stated as at 31 December 2014.

Any adjustments to the figures as described from points 1 to 4 above might have a significant consequential effect on the Group's results and cash flows for the two years ended 31 December 2014 and 2013 and the financial position of the Group as at 31 December 2013, 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:

(a) the directors believe the convertible bonds of which has been reclassified as current liabilities since year ended 31 December 2011 will be converted into shares of the Company 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.

(b) the directors believe the Group will be able to renew the mining permit with Department of Land and Resources of Hunan Province, China continuously at insignificant cost.

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, (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 and (iii) the successful renewal of the mining permit.

The consolidated financial statements do not include any adjustments that would be necessary if the Company fails to convert the convertible bonds, the Group fails to obtain financial support from the major shareholder of the Company and the Group fails to renew the mining permit. We consider that adequate disclosures have been made. However, the uncertainties surrounding (i) the successful conversion of the Company's convertible bonds, (ii) the availability of funding from the major shareholder of the Company and (iii) the successful renewal of mining permit 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.

## 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 2014 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, 4 August 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

| | Notes | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 8 | **43,679** | 30,166 |
| Cost of sales and services rendered | | **(11,606)** | (15,928) |
| **Gross profit** | | **32,073** | 14,238 |
| Other income and gains | 9 | **5,722** | 15,500 |
| Selling and distribution expenses | | **(1,316)** | (1,204) |
| Administrative expenses | | **(72,351)** | (61,841) |
| Impairment loss on mining right | | **(844,216)** | (475,813) |
| Impairment loss on property, plant and equipment | | **(34,884)** | (48,945) |
| **Loss from operations** | | **(914,972)** | (558,065) |
| Finance costs | 10 | **(15,995)** | (28,675) |
| Loss on disposal of subsidiaries | 26 | **(26,732)** | (3,739) |
| **Loss before tax** | | **(957,699)** | (590,479) |
| Income tax credit | 11 | **214,935** | 116,678 |
| **Loss for the year** | 12 | **(742,764)** | (473,801) |
| **Other comprehensive income after tax:** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences on translating foreign operations | | **(12,413)** | 17,478 |
| Exchange reserve released upon disposal of a subsidiary | | **–** | 5,706 |
| **Other comprehensive income for the year, net of tax** | | **(12,413)** | 23,184 |
| **Total comprehensive income for the year** | | **(755,177)** | (450,617) |
| **Loss for the year attributable to:** | | | |
| Owners of the Company | | **(601,987)** | (386,735) |
| Non-controlling interests | | **(140,777)** | (87,066) |
| | | **(742,764)** | (473,801) |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **(612,075)** | (369,715) |
| Non-controlling interests | | **(143,102)** | (80,902) |
| | | **(755,177)** | (450,617) |
| **Loss per share (HK cents)** | | | |
| Basic | 14 | **(11.50)** | (7.39) |
| Diluted | 14 | **N/A** | N/A |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **12,026** | 37,211 |
| Mining right | 16 | **214,361** | 1,096,000 |
| | | **226,387** | 1,133,211 |
| **Current assets** | | | |
| Inventories | 18 | **371** | 3,470 |
| Trade and other receivables | 19 | **12,397** | 10,336 |
| Current tax assets | | **–** | 159 |
| Bank and cash balances | | **4,705** | 3,908 |
| | | **17,473** | 17,873 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **44,491** | 40,891 |
| Borrowings | 21 | **167,150** | 135,044 |
| Convertible bonds | 22 | **290,191** | 290,191 |
| | | **501,832** | 466,126 |
| **Net current liabilities** | | **(484,359)** | (448,253) |
| **Total assets less current liabilities** | | **(257,972)** | 684,958 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 23 | **23,548** | 239,349 |
| **NET (LIABILITIES)/ASSETS** | | **(281,520)** | 445,609 |
| **Capital and reserves** | | | |
| Share capital | 24 | **523,530** | 523,530 |
| Reserves | 25 | **(789,127)** | (177,052) |
| Equity attributable to owners of the Company | | **(265,597)** | 346,478 |
| Non-controlling interests | | **(15,923)** | 99,131 |
| **TOTAL EQUITY** | | **(281,520)** | 445,609 |

The consolidated financial statements on pages 35 to 76 were approved and authorised for issue by the Board on 4 August 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 2014

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserve HK$'000 | Share-based payment reserve HK$'000 | Foreign currency translation reserve HK$'000 | Convertible bond reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-Controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2013 | 523,530 | 2,101,765 | 300 | 25,101 | 48,275 | 99,389 | (2,082,167) | 716,193 | 180,033 | 896,226 |
| Total comprehensive income and changes in equity for the year | – | – | – | – | 17,020 | – | (386,735) | (369,715) | (80,902) | (450,617) |
| At 31 December 2013 | 523,530 | 2,101,765 | 300 | 25,101 | 65,295 | 99,389 | (2,468,902) | 346,478 | 99,131 | 445,609 |
| At 1 January 2014 | **523,530** | **2,101,765** | **300** | **25,101** | **65,295** | **99,389** | **(2,468,902)** | **346,478** | **99,131** | **445,609** |
| Transfer to accumulated losses | **–** | **–** | **–** | **(25,101)** | **–** | **–** | **25,101** | **–** | **–** | **–** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **(10,088)** | **–** | **(601,987)** | **(612,075)** | **(143,102)** | **(755,177)** |
| Disposal of subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **28,048** | **28,048** |
| Changes in equity for the year | **–** | **–** | **–** | **(25,101)** | **(10,088)** | **–** | **(576,886)** | **(612,075)** | **(115,054)** | **(727,129)** |
| At 31 December 2014 | **523,530** | **2,101,765** | **300** | **–** | **55,207** | **99,389** | **(3,045,788)** | **(265,597)** | **(15,923)** | **(281,520)** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss before tax | **(957,699)** | (590,479) |
| Adjustments for: | | |
| Finance costs | **15,995** | 28,675 |
| Interest income | **(3)** | (2) |
| Depreciation | **3,406** | 4,746 |
| Amortisation of mining right | **23,813** | 8,292 |
| Gain on disposals of property, plant and equipment | **–** | (256) |
| Loss on disposal of subsidiaries | **26,732** | 3,739 |
| Impairment loss on property, plant and equipment | **34,884** | 48,945 |
| Impairment loss on mining right | **844,216** | 475,813 |
| Operating loss before working capital changes | **(8,656)** | (20,527) |
| Decrease in inventories | **3,099** | 6,181 |
| Increase in trade and other receivables | **(2,076)** | (1,721) |
| Increase in trade and other payables | **4,931** | 29,363 |
| Cash (used in)/generated from operations | **(2,702)** | 13,296 |
| Income tax refund/(paid) | **159** | (159) |
| **Net cash (used in)/generated from operating activities** | **(2,543)** | 13,137 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | **3** | 2 |
| Purchases of property, plant and equipment | **(13,251)** | (22,739) |
| Proceeds from disposals of property, plant and equipment | **–** | 100 |
| Disposal of subsidiaries | **–** | (80) |
| **Net cash used in investing activities** | **(13,248)** | (22,717) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Borrowings raised | **16,111** | 21,043 |
| **Net cash generated from financing activities** | **16,111** | 21,043 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **320** | 11,463 |
| Effect of foreign exchange rate changes | **477** | (13,322) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **3,908** | 5,767 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **4,705** | 3,908 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | **4,705** | 3,908 |

## 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 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 17 to the consolidated financial statements.

## 2. GOING CONCERN BASIS

The Group incurred a loss attributable to owners of the Company of approximately HK$601,987,000 for the year ended 31 December 2014 and as at 31 December 2014 the Group had net current liabilities and net liabilities of approximately HK$484,359,000 and HK$281,520,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group' s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

As disclosed in note 22 to the consolidated financial statements, the Group has breached certain covenants of the convertible bonds and the convertible bonds became due and payable. It is the Directors' belief that the convertible bonds which has been reclassified as current liabilities since year ended 31 December 2011 will be converted into Shares and that a major Shareholder 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 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.

As disclosed in note 16 to the consolidated financial statements, the mining permit of the Group's mine will expire on 11 September 2015. It is the Directors' belief that the Group will be able to renew the mining permit with Department of Land and Resources of Hunan Province, China, continuously at insignificant cost. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the renewal of the mining permit.

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 and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## 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 2014. HKFRSs comprise Hong Kong Financial Reporting Standards; 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 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.

## 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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

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 profit or loss and other 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

*(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 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currency translation (continued)

*(c) Translation on consolidation (continued)*

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.

### 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 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 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.

## 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.

### 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

*Operating leases (continued)*

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 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 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 profit or loss.

## 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 profit or loss.

Impairment losses are reversed in subsequent periods and recognised in 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.

## 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.

## 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 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 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 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 at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 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 profit or loss over the period to match them with the costs they are intended to compensate.

### 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 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

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.

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 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.

## 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 productions 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.

## 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 of disposal 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 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 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.

## 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 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 has 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, (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 requirments and (iii) the renewal of mining permit. Details are explained in note 2 to 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.

## 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 judgments. 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) 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.

### (b) Credit risk

The carrying amount of the cash and bank balances and trade and other receivables included in the consolidated 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.

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

### (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 other significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

### (e) Categories of financial instruments

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Financial assets:** | | |
| Loans and receivables | | |
| Trade and other receivables | **12,397** | 10,336 |
| Bank and cash balances | **4,705** | 3,908 |
| | **17,102** | 14,244 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | | |
| Trade and other payables | **44,491** | 40,891 |
| Borrowings | **167,150** | 135,044 |
| Convertible bonds | **290,191** | 290,191 |
| | **501,832** | 466,126 |

### (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. SEGMENT INFORMATION

The Group has two reportable segments as follows:

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

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.

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.

### Information about reportable segment profit or loss, assets and liabilities:

| | Mining products HK$'000 | Cosmetics and skincare products HK$'000 | Total HK$'000 |
|---|---|---|---|
| **For the year ended 31 December 2014** | | | |
| Revenue from external customers | **20,091** | **23,588** | **43,679** |
| Segment loss | **(703,885)** | **(1,130)** | **(705,015)** |
| Depreciation | **2,427** | **930** | **3,357** |
| Income tax credit | **214,935** | **–** | **214,935** |
| Additions to segment non-current assets | **10,758** | **2,488** | **13,246** |
| **As at 31 December 2014** | | | |
| Segment assets | **225,514** | **17,005** | **242,519** |
| Segment liabilities | **154,614** | **31,492** | **186,106** |
| **For the year ended 31 December 2013** | | | |
| Revenue from external customers | 8,266 | 21,900 | 30,166 |
| Segment loss | (435,296) | (4,396) | (439,692) |
| Depreciation | 3,759 | 874 | 4,633 |
| Income tax credit | 116,678 | – | 116,678 |
| Additions to segment non-current assets | 21,602 | 1,137 | 22,739 |
| **As at 31 December 2013** | | | |
| Segment assets | 1,138,446 | 11,640 | 1,150,086 |
| Segment liabilities | 351,125 | 27,262 | 378,387 |

## 7. SEGMENT INFORMATION (continued)

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

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **Revenue** | | |
| Total revenue of reportable segments and consolidated revenue | **43,679** | 30,166 |
| **Profit or loss** | | |
| Total loss of reportable segments | **(705,015)** | (439,692) |
| Other profit or loss | **(37,749)** | (34,109) |
| Consolidated loss for the year | **(742,764)** | (473,801) |
| **Assets** | | |
| Total assets of reportable segments | **242,519** | 1,150,086 |
| Other assets | **1,341** | 998 |
| Consolidated total assets | **243,860** | 1,151,084 |
| **Liabilities** | | |
| Total liabilities of reportable segments | **186,106** | 378,387 |
| Convertible bonds | **290,191** | 290,191 |
| Other liabilities | **49,083** | 36,897 |
| **Consolidated total liabilities** | **525,380** | 705,475 |

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

## 7. SEGMENT INFORMATION (continued)

### Geographical information:

(a) *Revenue from external customers*

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Hong Kong | **23,588** | 21,900 |
| PRC | **20,091** | 8,266 |
| | **43,679** | 30,166 |

(b) *Non-current assets*

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Hong Kong | **3,315** | 1,802 |
| PRC | **223,072** | 1,131,409 |
| | **226,387** | 1,133,211 |

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

## 8. TURNOVER

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Sales of goods: | | |
| – Cosmetics and skincare products | **23,588** | 21,900 |
| – Mining products | **20,091** | 8,266 |
| | **43,679** | 30,166 |

## 9. OTHER INCOME AND GAINS

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Reversal of provision of management fee | 3,000 | – |
| Interest income | 3 | 2 |
| Gain on disposal of property, plant and equipment | – | 256 |
| Government subsidies | – | 1,039 |
| Others | 2,719 | 14,203 |
| | 5,722 | 15,500 |

## 10. FINANCE COSTS

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Other borrowings costs | | |
| – Wholly repayable within five years | 16,765 | 31,109 |
| Less: interests capitalised | (770) | (2,434) |
| | 15,995 | 28,675 |

## 11. INCOME TAX CREDIT

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Deferred tax (note 23) | 214,935 | 116,678 |

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% (2013: 25%).

## 11. INCOME TAX CREDIT (continued)

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Loss before tax | **(957,699)** | (590,479) |
| Tax at the domestic income tax rate | **(236,117)** | (144,347) |
| Tax effect of income that is not taxable | **–** | (214) |
| Tax effect of expenses that are not deductible | **6,424** | 128 |
| Tax effect of utilisation of tax losses not previously recognised | **(3)** | – |
| Tax effect of tax losses not recognised | **14,761** | 27,755 |
| Income tax credit | **(214,935)** | (116,678) |

## 12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the followings:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Auditor's remuneration | **1,200** | 800 |
| Amortisation of mining right | **23,813** | 8,292 |
| Cost of sales and services rendered* | **11,606** | 15,928 |
| Depreciation | **3,406** | 4,746 |
| Loss on disposal of subsidiaries | **26,732** | 3,739 |
| Operating lease charges | **5,607** | 14,521 |
| Staff costs including directors' emoluments | | |
| Salaries, bonus and allowances | **21,757** | 21,917 |
| Retirement benefits scheme contributions | **1,768** | 1,331 |
| | **23,525** | 23,248 |

* Cost of sales and services rendered includes staff costs, depreciation and operating lease charges of approximately HK$7,887,000 (2013: approximately HK$9,700,000) which are included in the amounts disclosed separately above.

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

The emoluments of each director were as follows:

| | | For the year ended 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Fees HK$'000 | Salaries, allowances HK$'000 | Discretionary bonus HK$'000 | Share-based payments HK$'000 | Retirement benefit cheme contributions HK$'000 | Total HK$'000 |
| Executive directors: | | | | | | | |
| Mr. LONG Xiaobo | | – | 356 | – | – | 13 | 369 |
| Mr. ZUO Weiqi | | – | 588 | – | – | 15 | 603 |
| Mr. CHEN Yi Chung | | – | 1,132 | – | – | 15 | 1,147 |
| Independent non-executive directors: | | | | | | | |
| Mr. JIN Shunxing | | 120 | – | – | – | – | 120 |
| Dr. ZHU Jing | (iii) | 30 | – | – | – | – | 30 |
| Mr. CHIANG Tsung-Nien | | 90 | – | – | – | – | 90 |
| Ms. LIU Shuang | (iv) | 81 | – | – | – | – | 81 |
| | | 321 | 2,076 | – | – | 43 | 2,440 |

| | | For the year ended 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Fees HK$'000 | Salaries, allowances HK$'000 | Discretionary bonus HK$'000 | Share-based payments HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
| Executive directors: | | | | | | | |
| Mr. LONG Xiaobo | | – | 288 | – | – | 12 | 300 |
| Mr. ZUO Weiqi | | – | 343 | – | – | 12 | 355 |
| Mr. YIP Chung Wai | (i) | – | 230 | – | – | 9 | 239 |
| Mr. JIA Xuelei | (i) | – | 128 | – | – | 6 | 134 |
| Mr. CHEN Yi Chung | | – | 899 | – | – | 13 | 912 |
| Mr. Lam Chi Man | (ii) | – | 39 | – | – | 2 | 41 |
| Independent non-executive directors: | | | | | | | |
| Mr. JIN Shunxing | | 120 | – | – | – | – | 120 |
| Dr. ZHU Jing | (iii) | 120 | – | – | – | – | 120 |
| Mr. CHIANG Tsung-Nien | | 60 | – | – | – | – | 60 |
| | | 300 | 1,927 | – | – | 54 | 2,281 |

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

Notes:

(i) Resigned on 1 October 2013

(ii) Appointed on 1 April 2013 and resigned on 17 Oct 2013

(iii) Resigned on 1 April 2014

(iv) Appointed on 28 April 2014

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2013: Nil).

The five highest paid individuals in the Group during the year included three (2013: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2013: three) individuals are set out below:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Basic salaries and allowances | 1,274 | 1,080 |
| Retirement benefit scheme contributions | 34 | 43 |
| | 1,308 | 1,123 |

The emoluments fell within the following band:

| | Number of individuals | |
|---|---|---|
| | 2014 | 2013 |
| Nil to HK$1,000,000 | 2 | 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.

## 14. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share attributable to owners of the Company for the year ended 31 December 2014 is based on the loss for the year attributable to owners of the Company of approximately HK$601,987,000 (2013: approximately HK$386,735,000) and the weighted average number of ordinary shares of 5,235,303,000 (2013: 5,235,303,000) 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 2014 and 2013.

## 15. 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 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2013 | 6,606 | 10,500 | 523,524 | 16,250 | 2,218 | 58,984 | 618,082 |
| Additions | 15 | 275 | 48 | 862 | 313 | 21,226 | 22,739 |
| Disposals | – | (572) | (512,755) | (3,255) | – | – | (516,582) |
| Exchange differences | 190 | – | 310 | 109 | 68 | 1,996 | 2,673 |
| At 31 December 2013 | 6,811 | 10,203 | 11,127 | 13,966 | 2,599 | 82,206 | 126,912 |
| Additions | – | 66 | – | 2,427 | – | 10,758 | 13,251 |
| Exchange differences | (45) | – | (73) | (26) | (17) | (577) | (738) |
| At 31 December 2014 | 6,766 | 10,269 | 11,054 | 16,367 | 2,582 | 92,387 | 139,425 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 January 2013 | 3,325 | 10,276 | 477,255 | 14,303 | 889 | 2,085 | 508,133 |
| Charge for the year | 1,322 | 211 | 1,595 | 983 | 216 | 419 | 4,746 |
| Disposals | – | (572) | (469,605) | (3,197) | – | – | (473,374) |
| Impairment loss for the year | – | – | – | – | – | 48,945 | 48,945 |
| Exchange differences | 114 | – | 242 | 99 | 29 | 767 | 1,251 |
| At 31 December 2013 | 4,761 | 9,915 | 9,487 | 12,188 | 1,134 | 52,216 | 89,701 |
| Charge for the year | 818 | 92 | 426 | 938 | 246 | 886 | 3,406 |
| Impairment loss for the year | 994 | – | 986 | 171 | 970 | 31,763 | 34,884 |
| Exchange differences | (37) | – | (67) | (25) | (11) | (452) | (592) |
| At 31 December 2014 | 6,536 | 10,007 | 10,832 | 13,272 | 2,339 | 84,413 | 127,399 |
| **Carrying amount** | | | | | | | |
| At 31 December 2014 | 230 | 262 | 222 | 3,095 | 243 | 7,974 | 12,026 |
| At 31 December 2013 | 2,050 | 288 | 1,640 | 1,778 | 1,465 | 29,990 | 37,211 |

The Group carried out reviews of the recoverable amount of its property, plant and equipment in 2014. The review led to the recognition of an impairment loss of approximately HK$34,884,000 for property, plant and equipment that have been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their fair value less costs of disposal using discounted cash flow method (level 3 fair value measurements). The discount rate used was 13.76%.

## 16. MINING RIGHT

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2013 | 1,553,021 |
| Exchange differences | 44,552 |
| At 31 December 2013 | 1,597,573 |
| Exchange differences | (10,532) |
| At 31 December 2014 | 1,587,041 |
| **Accumulated amortisation and impairment** | |
| At 1 January 2013 | 10,231 |
| Amortisation for the year | 8,292 |
| Impairment loss for the year | 475,813 |
| Exchange differences | 7,237 |
| At 31 December 2013 | 501,573 |
| Amortisation for the year | 23,813 |
| Impairment loss for the year | 844,216 |
| Exchange differences | 3,078 |
| At 31 December 2014 | 1,372,680 |
| **Carrying amount** | |
| At 31 December 2014 | 214,361 |
| At 31 December 2013 | 1,096,000 |

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 permit will expire on 11 September 2015 and in the opinion of the Directors, the Group will be able to renew the mining permit with Department of Land and Resources of Hunan Province, China 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.

The Group carried out reviews of the recoverable amount of its mining right in 2014. The review led to the recognition of an impairment loss of approximately HK$844,216,000 for mining right that have been recognised in profit or loss. The recoverable amount of the relevant assets of approximately HK$214,361,000 has been determined on the basis of their fair value less costs of disposal using discounted cash flow method (level 3 fair value measurements). The discount rate used was 13.76%.

## 17. 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 | |
| GCC Finance Company Limited | Hong Kong | HK$2 Ordinary shares | 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 |
| Bishop Logistics Limited | BVI | 100 Ordinary shares of US$1 each | 100.0% | – | Investment holding in Hong Kong |
| Excellent Wealth Asia Limited | BVI | 50,000 Ordinary shares of US$1 each | 100.0% | – | Dormant |
| Critstal Marketing Management Company Limited | Hong Kong | HK$5,010,000 Ordinary shares | – | 100.0% | Retailing of cosmetics and provision of beauty treatment services in Hong Kong |
| Hunan Westralian Mining Co., Limited (Note (i)) | PRC | US$29,700,000 | – | 80.0% | Gold exploration, development and mining in PRC |
| Enzymes Technology Limited | Hong Kong | HK$6,153,846 Ordinary shares | – | 65.0% | Dormant |

Note:

(i) 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.

## 17. SUBSIDIARIES (continued)

The following table shows information of subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

| Name | Hunan Westralian Mining Co., Limited | | Bio Beauty Group Limited | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Principal place of business/ country of incorporation % of ownership interests and voting rights held by NCI | **PRC/PRC 20.0%** | PRC/PRC 20.0% | **Hong Kong/ Cayman Islands 6.8%** | Hong Kong/ Cayman Islands 6.8% |
| At 31 December: | | | | |
| Non-current assets | **212,134** | 1,120,471 | **–** | – |
| Current assets | **2,441** | 6,890 | **–** | 807,699 |
| Current liabilities | **(274,338)** | (255,842) | **–** | (1,220,087) |
| Non-current liabilities | **(23,548)** | (239,349) | **–** | – |
| Net assets/(liabilities) | **(83,311)** | 632,170 | **–** | (412,388) |
| Accumulated NCI | **(16,662)** | 126,434 | **–** | (28,042) |
| Year ended 31 December: | | | | |
| Revenue | **20,091** | 8,266 | **–** | – |
| Loss for the year | **(703,875)** | (435,279) | **(80)** | (168) |
| Total comprehensive loss | **(715,479)** | (404,447) | **(80)** | (168) |
| Loss allocated to NCI | **(140,775)** | (87,055) | **(5)** | (11) |
| Dividends paid to NCI | **–** | – | **–** | – |
| Net cash used in operating activities | **(4,591)** | (18,695) | **–** | (1,005) |
| Net cash used in investing activities | **(10,758)** | (21,601) | **–** | (80) |
| Net cash generated from financing activities | **6,591** | 49,827 | **–** | – |
| Effect of foreign exchange rate changes | **8,625** | (9,489) | **–** | – |
| Net (decrease)/increase in cash and cash equivalents | **(133)** | 42 | **–** | (1,085) |

## 18. INVENTORIES

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Raw materials | – | 1,281 |
| Finished goods | 371 | 2,189 |
| | 371 | 3,470 |

## 19. TRADE AND OTHER RECEIVABLES

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Trade receivables | 2,739 | 2,129 |
| Prepayments, deposits and other receivables | 9,658 | 8,207 |
| | 12,397 | 10,336 |

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:

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Current to 30 days | 2,182 | 783 |
| 31 – 60 days | 557 | 1,346 |
| | 2,739 | 2,129 |

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

## 20. TRADE AND OTHER PAYABLES

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Trade payables | **2,872** | 806 |
| Accrued liabilities and other payables | **41,619** | 40,085 |
| | **44,491** | 40,891 |

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Current to 30 days | **230** | 806 |
| 31 – 60 days | **690** | – |
| 61 – 90 days | **360** | – |
| Over 90 days | **1,592** | – |
| | **2,872** | 806 |

## 21. BORROWINGS

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Other loans<br>– unsecured, interest-free and due within one year | **5,841** | 4,045 |
| Other loans<br>– unsecured, bear interest at 11% per annum and due within one year | **10,214** | – |
| Loan from a related party<br>– unsecured, bear interest at 12%-18% (2013: 30%) per annum and due within one year | **116,226** | 99,474 |
| Loan from a director<br>– unsecured, bear interest at 12% per annum and due within one year | **34,869** | 31,525 |
| | **167,150** | 135,044 |

## 22. 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 ("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 ("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.

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 is reclassified as current liabilities since the year ended 31 December 2011.

## 23. DEFERRED TAX LIABILITIES

| | Revaluation of mining right HK$'000 |
|---|---|
| At 1 January 2013 | 347,725 |
| Credit to profit or loss for the year | (116,678) |
| Exchange differences | 8,302 |
| At 31 December 2013 | 239,349 |
| Credit to profit or loss for the year | (214,935) |
| Exchange differences | (866) |
| At 31 December 2014 | 23,548 |

No deferred tax asset have been recognised in respect of approximately HK$49,686,000 due to the unpredictability of future profit streams.

## 24. SHARE CAPITAL

| | Number of shares '000 | Amount HK'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.10 each | | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | 8,000,000 | 800,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.10 each | | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | 5,235,303 | 523,530 |

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.

## 24. SHARE CAPITAL (continued)

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.

The gearing ratio at 31 December 2014 and 2013 are as follows:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Total debt | **525,380** | 705,475 |
| Less: bank and cash balances | **(4,705)** | (3,908) |
| Net debt | **520,675** | 701,567 |
| Total equity | **(281,520)** | 445,609 |
| Gearing ratio | **N/A** | 157.44% |

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

## 25. RESERVES

### (a) Group

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

## 25. RESERVES (continued)

### (b) Company

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Share-based payment reserve HK$'000 | Convertible bonds reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 2,101,765 | 300 | 25,101 | 99,389 | (2,033,892) | 192,663 |
| Loss for the year | – | – | – | – | (369,715) | (369,715) |
| At 31 December 2013 | 2,101,765 | 300 | 25,101 | 99,389 | (2,403,607) | (177,052) |
| Transfer to accumulated losses | – | – | (25,101) | – | 25,101 | – |
| Loss for the year | – | – | – | – | (612,075) | (612,075) |
| At 31 December 2014 | 2,101,765 | 300 | – | 99,389 | (2,990,581) | (789,127) |

### (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 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.

#### *(iii) 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. There is no share-based payment reserve since no unexercised share options as at 31 December 2014.

## 25. RESERVES (continued)

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

#### *(iv) 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.

#### *(v) Convertible bonds reserve*

Convertible bonds 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.

## 26. DISPOSAL OF SUBSIDIARIES

On 31 October 2014, the Group entered into an agreement with an independent third party to dispose of its entire interests in Global Success Properties Limited and its subsidiaries at a token nominal price. The disposal was completed on 31 October 2014.

On 29 December 2014, the Group entered into an agreement with an independent third party to dispose of its entire interests in Bio Beauty Group Limited and its subsidiaries, and Global Bio-Engineering Limited at a token nominal price. The disposal was completed on 29 December 2014.

Net liabilities at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Trade and other receivables | 15 |
| Trade and other payables | (1,331) |
| Net liabilities disposed of | (1,316) |
| Non-controlling interests | 28,048 |
| Loss on disposal of subsidiaries | (26,732) |
| Consideration | – |
| Net cash flow arising on disposal: | |
| Cash and cash equivalents disposed of | – |

## 27. LEASE COMMITMENTS

At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Within one year | **3,455** | 5,579 |
| In the second to fifth years, inclusive | **201** | 3,656 |
| | **3,656** | 9,235 |

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

## 28. 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:

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Loan interest expense paid to a related company | **12,726** | 16,553 |
| Loan interest expense paid to a director | **3,667** | 2,863 |

A Director has control over the related company.

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 79 | 123 |
| Investments in subsidiaries | 44,424 | 641,202 |
| | 44,503 | 641,325 |
| **CURRENT ASSETS** | | |
| Trade and other receivables | 305 | 179 |
| Amounts due from subsidiaries | 30,319 | 260,410 |
| Bank and cash balances | 946 | 680 |
| | 31,570 | 261,269 |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | 4,007 | 4,040 |
| Other borrowings | 46,547 | 31,525 |
| Amounts due to subsidiaries | 925 | 230,360 |
| Convertible bonds | 290,191 | 290,191 |
| | 341,670 | 556,116 |
| **NET CURRENT LIABILITIES** | (310,100) | (294,847) |
| **NET (LIABILITIES)/ASSETS** | (265,597) | 346,478 |
| **EQUITY** | | |
| Share capital | 523,530 | 523,530 |
| Reserves | (789,127) | (177,052) |
| **Total equity** | (265,597) | 346,478 |

## 30. EVENT AFTER THE REPORTING PERIOD

On 19 June 2015, 2 July 2015 and 16 July 2015, the Company entered into certain loan agreements ("Loan Agreements") with independent third parties ("Lenders"). The Loan Agreements are all of three years duration. Collectively, the Lenders agreed to lend the Company a total principal loan amounts of RMB42 million ("Loans") with simple rate of 10% per annum. The principal amounts of the Loans together with relevant accrued interests under the Loan Agreements are repayable on the respective maturity date. The Loans are not secured by any of the assets of the Group. The Loan Agreements are on normal business terms.

## 31. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 4 August 2015.

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:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | | | (Restated) |
| **RESULTS** | | | | | |
| Turnover | **43,679** | 30,166 | 37,322 | 274,317 | 341,739 |
| Continuing operations | **43,679** | 30,166 | 37,322 | 172,519 | 108,726 |
| Discontinued operation | **–** | – | – | 101,798 | 233,013 |
| Loss before tax | **(957,699)** | (590,479) | (59,374) | (1,208,323) | (325,511) |
| Income tax credit/(expense) | **214,935** | 116,678 | (3,105) | (27,141) | 1,035 |
| Loss for the year from continuing operations | **(742,764)** | (473,801) | (62,479) | (1,235,464) | (324,476) |
| (Loss)/Profit from discontinued operation | **–** | – | – | 256,446 | (1,448,413) |
| Loss for the year | **(742,764)** | (473,801) | (62,479) | (979,018) | (1,772,889) |
| Attributable to: | | | | | |
| Owners of the Company | **(601,987)** | (386,735) | (56,348) | (931,318) | (1,736,921) |
| Non-controlling interests | **(140,777)** | (87,066) | (6,131) | (47,700) | (35,968) |
| | **(742,764)** | (473,801) | (62,479) | (979,018) | (1,772,889) |

# FIVE YEARS FINANCIAL SUMMARY

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 (Restated) |
| Non-current assets | **226,387** | 1,133,211 | 1,652,739 | 1,643,570 | 2,583,333 |
| Current assets | **17,473** | 17,873 | 24,033 | 41,316 | 374,229 |
| Current liabilities | **(501,832)** | (466,126) | (432,821) | (388,688) | (376,131) |
| Non-current liabilities | **(23,548)** | (239,349) | (347,725) | (344,543) | (631,011) |
| Net (liabilities)/assets | **(281,520)** | 445,609 | 896,226 | 951,655 | 1,950,420 |
| Attributable to: | | | | | |
| Owners of the Company | **(265,597)** | 346,478 | 716,193 | 765,344 | 1,735,366 |
| Non-controlling interests | **(15,923)** | 99,131 | 180,033 | 186,311 | 215,054 |
| Total equity | **(281,520)** | 445,609 | 896,226 | 951,655 | 1,950,420 |