

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in doubt as to any aspect of this Circular or as to the action you should take, you should consult a licensed securities dealer or other registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Billion Resources Limited (“Company”), you should at once hand this Circular and the accompanying form of proxy to the purchaser or transferee or to the bank, the licensed securities dealer or registered institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

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**CHINA BILLION RESOURCES LIMITED**

**中富資源有限公司\***

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

**(Stock code: 274)**

- 1. PROPOSED CAPITAL REORGANISATION;**
- 2. OPEN OFFER ON THE BASIS OF TWO OFFER SHARES FOR EVERY ONE REORGANISED SHARE HELD ON THE OPEN OFFER RECORD DATE;**
- 3. ISSUE OF SETTLEMENT SHARES AND SETTLEMENT CONVERTIBLE BONDS UNDER DEBT SETTLEMENT AGREEMENTS;**
- 4. APPLICATION FOR WHITEWASH WAIVER;**
- 5. ADOPTION OF NEW ARTICLES OF ASSOCIATION;**
- 6. ADOPTION OF NEW SHARE OPTION SCHEME;**
- 7. PROPOSED CHANGE OF BOARD LOT SIZE;**
- AND**
- 8. NOTICE OF EGM**

**Financial adviser to the Company**



**ASIAN CAPITAL**  
**(CORPORATE FINANCE) LIMITED**  
**卓亞(企業融資)有限公司**

**Independent Financial Adviser to the Independent Shareholders**



**SOMERLEY CAPITAL LIMITED**

A letter from the Board is set out on pages 16 to 55 of this Circular. A letter of advice from the Independent Financial Adviser to the Independent Shareholders is set out on pages 58 to 89 of this Circular.

A notice convening the EGM of the Company to be held at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong at 10:00 a.m. on Monday, 22 February 2016 is set out on pages EGM-1 to EGM-7 of this Circular. Whether or not you are able to attend the EGM of the Company in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited as soon as possible and in any event not later than 48 hours before the time fixed for the holding of the EGM of the Company or any adjournment thereof. Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person in the EGM of the Company or any adjourned meeting should you so wish. In such event, the instrument appointing a proxy shall be deemed revoked.

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## DEFINITIONS

*In this Circular, the following expressions have the following meanings, unless the context otherwise requires:*

“Acceptance Date”	latest time for acceptance and payment of the Open Offer
“acting in concert”	having the meaning ascribed thereto under the Takeovers Code
“Adoption Date”	the date of EGM, being the date on which the New Share Option Scheme is to be conditionally adopted by ordinary resolution of the Shareholders
“Announcement”	the announcement of the Company dated 16 December 2015 in relation to the Capital Reorganisation, the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver
“Application Form(s)”	means the form(s) of application for the Offer Shares proposed to be issued to the Qualifying Shareholders under the Open Offer in such usual form as may be agreed between the Company and the Investor
“Articles of Association”	the articles of association of the Company
“associate(s)”	having the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“business day(s)”	a day (other than a Saturday, Sunday, public holidays or day on which a typhoon signal No. 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business
“Capital Cancellation”	the proposed cancellation of the unissued share capital of the Company in its entirety immediately after the Capital Reduction becoming effective
“Capital Reduction”	the proposed reduction of the nominal value of each Share from HK\$0.10 to HK\$0.005

## DEFINITIONS

“Capital Reorganisation”	the proposed capital reorganisation which involves the Capital Reduction, the Capital Cancellation, the Share Consolidation, the increase in authorised share capital and the Share Premium Reduction
“CB Settlement Agreement J”	the convertible bonds settlement agreement dated 9 November 2015 entered into between the Company and the Creditor J in relation to the settlement of the outstanding loan in the principal amount of HK\$36,300,000 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$1,881,633
“CB Settlement Agreement K”	the convertible bonds settlement agreement dated 9 November 2015 entered into between the Company and the Creditor K in relation to the settlement of the outstanding loan in the principal amount of HK\$13,310,000 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$660,030
“CB Settlement Agreement L”	the convertible bonds settlement agreement dated 9 November 2015 entered into between the Company and the Creditor L in relation to the settlement of the outstanding loan in the principal amount of HK\$1,210,000 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$55,693
“CB Settlement Agreements”	the CB Settlement Agreement J, the CB Settlement Agreement K and the CB Settlement Agreement L
“CB Settlement Creditors”	the Creditor J, the Creditor K and the Creditor L
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chairman”	the chairman of the Board
“China” or “PRC”	the People’s Republic of China, but for the purposes of this Circular and for geographical reference only (unless otherwise indicated), excludes the Macao Special Administrative Region of the PRC, Hong Kong and Taiwan

## DEFINITIONS

“Circular”	this circular containing, among other things, details of (i) the Capital Reorganisation; (ii) the Open Offer; (iii) the Debt Settlement Agreements; (iv) the Whitewash Waiver; (v) the adoption of New Articles of Association; (vi) the adoption of New Share Option Scheme; (vii) the proposed change of board lot size; (viii) all the transactions contemplated thereunder; (ix) the letter from the Independent Board Committee; (x) the letter from the Independent Financial Adviser; and (xi) a notice of the EGM, despatched by the Company to the Shareholders on 29 January 2016
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	China Billion Resources Limited, a company incorporated in the Cayman Islands with limited liability, shares of which are listed on the Stock Exchange
“Completion”	completion of the Debt Settlement Agreements
“Concert Group”	Mr. Long and the parties acting in concert with him (including Creditor A, Creditor F and the Investor)
“connected person(s)”	has the same meaning ascribed to it in the Listing Rules
“Conversion Price”	initially, HK\$0.10 per Conversion Share (subject to adjustments)
“Conversion Shares”	the Reorganised Shares that fall to be issued on exercise of the conversion rights attached to the Settlement Convertible Bonds
“Creditor A”	Star Sino International Limited, one of the Share Settlement Creditors and a company wholly and beneficially owned by Mr. Long
“Creditor B”	Successful Era Investments Limited, one of the Share Settlement Creditors and an independent third party
“Creditor C”	Premier Trend Capital Management Limited, one of the Share Settlement Creditors and an independent third party

## DEFINITIONS

“Creditor D”	Capital Mountain Investments Limited, one of the Share Settlement Creditors and an independent third party
“Creditor E”	Mr. Long, one of the Share Settlement Creditors
“Creditor F”	Billion Glory Capital Investment Limited, one of the Share Settlement Creditors and a company wholly and beneficially owned by Mr. Long
“Creditor G”	Oriental Hung Tai Investment Limited, one of the Share Settlement Creditors and an independent third party
“Creditor H”	Wang Bo, one of the Share Settlement Creditors and an independent third party
“Creditor I”	China United International Fortune Management Co., Limited, one of the Share Settlement Creditors and an independent third party
“Creditor J”	李鐵鍵, one of the CB Settlement Creditors and an independent third party
“Creditor K”	吳躍新, one of the CB Settlement Creditors and an independent third party
“Creditor L”	豆新虎, one of the CB Settlement Creditors and an independent third party
“Creditors”	the Share Settlement Creditors and CB Settlement Creditors
“Cut-off Date”	31 December 2015, or such later date the parties may agree for the purpose of determining the accrued interest up to the cut-off date under each of the Debt Settlement Agreements
“Debt Settlement Agreements”	the Share Settlement Agreements and the CB Settlement Agreements
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider, among others, the resolutions in relation to the Capital Reorganisation, the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver, the adoption of New Articles of Association, the adoption of New Share Option Scheme and all the transactions contemplated thereunder

## DEFINITIONS

“Excluded Shareholder(s)”	overseas Shareholders to whom the Company considers it necessary or expedient not to offer the Offer Shares where, in the opinion of the Board (having made relevant and necessary enquiries), it would or might be unlawful or impracticable to offer the Offer Shares in such places on account of any legal or regulatory restrictions or special formalities in such places
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or his delegate
“Existing Share Option Scheme”	the existing share option scheme adopted by the Company on 20 December 2001
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising Mr. Jin Shunxing, Mr. Chiang Tsung-Nien and Ms. Liu Shuang, all independent non-executive Directors
“Independent Financial Adviser”	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the recommendations to voting at the EGM on the resolutions in relation to the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than (i) Mr. Long, his associates and parties acting in concert with him; and (ii) those Shareholders who are interested or involved in the Underwriting Agreement, the Debt Settlement Agreements and the Whitewash Waiver

## DEFINITIONS

“independent third party(ies)”	third party(ies) independent of the Company and its connected persons as defined under the Listing Rules
“Investor”	Gain Faith Investments Limited, a Hong Kong incorporated company and wholly and beneficially owned by Mr. Long
“Last Trading Day”	28 June 2011, being the last full trading day immediately before the suspension of trading in the Shares
“Latest Practicable Date”	26 January 2016, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long-stop Date”	in respect of each Debt Settlement Agreement and the Underwriting Agreement, 31 May 2016 or such later date as the parties to that agreement may agree
“Mr. Long”	Mr. Long Xiaobo, the Chairman and as at the Latest Practicable Date, a substantial Shareholder interested in 762,022,000 Shares, representing approximately 14.56% of the issued share capital of the Company and the 2010 Convertible Bonds in the principal amount of HK\$139,191,200
“New Articles of Association”	the new articles of association of the Company to be adopted by the Shareholders at the EGM
“New Share Option Scheme”	the new share option scheme to be adopted by the Shareholders at the EGM
“Offering Circular”	the offering circular to be despatched to Shareholders on the Posting Date in connection with the Open Offer in such form as may be agreed between the Company and the Investor
“Offering Documents”	the Offering Circular and the Application Form(s)
“Offer Price”	HK\$0.03 for each of the Offer Shares
“Offer Shares”	new Reorganised Shares to be allotted and issued under the Open Offer, being 5,235,303,300 new Reorganised Shares



## DEFINITIONS

“Open Offer”	the proposed issue of the Offer Shares on the basis of two (2) Offer Shares for every one (1) Reorganised Share held by the Qualifying Shareholders on the Open Offer Record Date at the Offer Price
“Open Offer Record Date”	the date by reference to which entitlements under the Open Offer to be determined
“Option(s)”	an option/options granted or to be granted under the New Share Option Scheme
“Posting Date”	the date for the despatch of the Offering Documents to the Qualifying Shareholders and the Offering Circular, for information only, to the Excluded Shareholders, to the extent legally and practically permissible
“Qualifying Shareholders”	the Shareholders, other than the Excluded Shareholders (i.e. Shareholders whose address(es) as shown on the register of members is/are outside in a jurisdiction the laws of which may prohibit the making of the Open Offer to such Shareholders or otherwise require the Company to comply with additional requirements which are (in the opinion of the Directors) unduly onerous or burdensome), whose names appear on the register of members of the Company as at the close of business on the Open Offer Record Date
“Relevant Period”	the period commencing six months preceding the Announcement up to and including the Latest Practicable Date
“Reorganised Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company upon the Capital Reorganisation becoming effective
“Resumption”	the resumption of trading in the shares of the Company on the Stock Exchange
“Settlement Convertible Bonds”	the unsecured 10% convertible bonds in the aggregate principal amount of HK\$53,417,356.17 with a term of three years to be issued by the Company to the CB Settlement Creditors pursuant to the terms of the CB Settlement Agreements

## DEFINITIONS

“Settlement Date”	the third Business Day following the Acceptance Date (or such other time or date as the Investor and the Company may agree in writing as the date for settlement of the Open Offer)
“Settlement Share Price”	HK\$0.05 per Settlement Share
“Settlement Shares”	a maximum of 9,692,022,458 Reorganised Shares to be issued by the Company to the Share Settlement Creditors at the Settlement Share Price per Settlement Share pursuant to the Share Settlement Agreements
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company before the Capital Reorganisation
“Share Consolidation”	the consolidation of every two (2) shares of nominal value of HK\$0.005 each immediately following the Capital Reduction and Capital Cancellation into one (1) Reorganised Share of nominal value of HK\$0.01 each
“Share Premium Reduction”	the application of the entire credit standing in the Company’s share premium account towards offsetting the accumulated deficit of the Company or in such other manner as determined by the Directors, as described in this Circular
“Share Settlement Agreement A”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor A in relation to the full and final settlement of the outstanding 2010 Convertible Bonds in the principal amount of HK\$139,191,200 and interest accrued up to the Cut-off Date in the amount of approximately HK\$19,162,624
“Share Settlement Agreement B”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor B in relation to the full and final settlement of the outstanding 2010 Convertible Bonds in the principal amount of HK\$85,000,000 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$11,702,055

## DEFINITIONS

“Share Settlement Agreement C”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor C in relation to the full and final settlement of the outstanding 2010 Convertible Bonds in the principal amount of HK\$30,000,000 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$4,130,137
“Share Settlement Agreement D”	the share settlement agreement dated 23 November 2015 entered into between the Company and the Creditor D in relation to the full and final settlement of the outstanding 2010 Convertible Bonds in the principal amount of HK\$18,000,000 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$2,478,082
“Share Settlement Agreement E”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor E in relation to the full and final settlement of the outstanding working capital loans in the total principal amount of approximately HK\$42,906,804 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$9,429,207
“Share Settlement Agreement F1”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor F in relation to the full and final settlement of the outstanding working capital loans in the total principal amount of approximately HK\$40,586,042 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$1,798,434
“Share Settlement Agreement F2”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor F in relation to the full and final settlement of the HK\$20,000,000 loan facility granted to the Company that is expected to be fully drawn down by the Company and owing to the Creditor F as at close of business on the date immediately preceding the Completion
“Share Settlement Agreement G”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor G in relation to the full and final settlement of the outstanding loan in the principal amount of HK\$37,510,000 and the interest accrued up to the Cut-off Date in the amount of approximately HK\$1,971,803

## DEFINITIONS

“Share Settlement Agreement H”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor H in relation to the full and final settlement of the outstanding working capital loan in the principal amount of HK\$10,000,000 and interest accrued up to the Cut-off Date in the amount of approximately HK\$1,313,973
“Share Settlement Agreement I”	the share settlement agreement dated 9 November 2015 entered into between the Company and the Creditor I in relation to the full and final settlement of the outstanding working capital loan in the principal amount of HK\$8,942,600 and interest accrued up to the Cut-off Date in the amount of approximately HK\$478,162
“Share Settlement Agreements”	the Share Settlement Agreement A, the Share Settlement Agreement B, the Share Settlement Agreement C, the Share Settlement Agreement D, the Share Settlement Agreement E, the Share Settlement Agreement F1, the Share Settlement Agreement F2, the Share Settlement Agreement G, the Share Settlement Agreement H and the Share Settlement Agreement I
“Share Settlement Creditors”	the Creditor A, the Creditor B, the Creditor C, the Creditor D, the Creditor E, the Creditor F, the Creditor G, the Creditor H and the Creditor I
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers,
“Underwriting Agreement”	the underwriting agreement dated 9 November 2015 entered into between the Company and the Investor in relation to the underwriting of the Offer Shares
“Underwritten Shares”	the total number of Offer Shares underwritten by the Investor pursuant to the terms of the Underwriting Agreement, being 4,473,281,300 Offer Shares
“Westralian Resources”	Westralian Resources Pty. Ltd., a company incorporated in Australia with limited liability and a wholly-owned subsidiary of the Company

## DEFINITIONS

“Whitewash Waiver”	a waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on the part of Mr. Long and parties acting in concert with him to make a general offer under Rule 26 of the Takeovers Code for all the shares of the Company not already owned or agreed to be acquired by Mr. Long and parties acting in concert with him as a results of the completion of the issuance of the Offer Shares and the Settlement Shares
“2010 Convertible Bonds”	the zero coupon convertible bonds issued by the Company on 31 March 2010 with aggregate outstanding principal amount of HK\$290,191,200 as at the Latest Practicable Date
“%”	per cent

## EXPECTED TIMETABLE

*The expected timetable set out below is for indicative purposes only and has been prepared based on the assumption that all the conditions of the Capital Reorganisation and the Open Offer will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.*

<b>Event</b>	<b>Expected date/time</b> <i>(note 1)</i>
Latest time to lodge transfer of Shares in order to qualify for attending the EGM .....	4:30 p.m., Wednesday, 17 February 2016
Closure of register of members of the Company (both days inclusive) .....	Thursday, 18 February to Monday, 22 February 2016
Record date for attendance and voting at the EGM .....	Monday, 22 February 2016
EGM .....	10:00 a.m., Monday, 22 February 2016
Announcement of results of the EGM .....	Monday, 22 February 2016
<i>The following events are conditional on the results of the EGM and the relevant hearings of the Grand Court of the Cayman Islands. The dates are therefore tentative.</i>	
Expected effective date of the Capital Reorganisation .....	Monday, 23 May 2016
First day of free exchange of existing share certificates for new share certificates for the Reorganised Shares ( <i>note 2</i> ) .....	Monday, 23 May 2016
Last day of dealing in Reorganised Shares on a cum-entitlement basis .....	Monday, 23 May 2016
First day of dealing in Reorganised Shares on an ex-entitlement basis .....	Tuesday, 24 May 2016
Latest time for lodging transfer of Reorganised Shares in order to qualify for the Open Offer .....	4:30 p.m., Wednesday, 25 May 2016
Closure of register of members of the Company (both days inclusive) .....	Thursday, 26 May to Friday, 27 May 2016
Open Offer Record Date .....	Friday, 27 May 2016
Despatch of the Offering Documents .....	Monday, 30 May 2016

## EXPECTED TIMETABLE

Latest time for acceptance and payment of the Offer Shares . . . . .	4:00 p.m., Tuesday, 14 June 2016
Latest time for termination of the Underwriting Agreement . . . . .	9:00 a.m., Friday, 17 June 2016
Announcement of the allotment results of the Open Offer . . . . .	Tuesday, 21 June 2016
Certificates for the Settlement Shares available for collection by the relevant Creditors ( <i>note 3</i> ) . . . . .	Tuesday, 21 June 2016
Despatch of certificates for the Offer Shares (or refund cheques for the Open Offer, if the Open Offer is terminated) . . . . .	Wednesday, 22 June 2016
Completion of all the Resumption Conditions and publication of an announcement relating to the Resumption . . . . .	Wednesday, 22 June 2016
Expected date of the Resumption and change in board lot size . . .	Monday, 27 June 2016
Dealings in the Reorganised Shares, Offer Shares and the Settlement Shares commence ( <i>note 4</i> ) . . . . .	9:00 a.m., Monday, 27 June 2016
Odd lot matching arrangement ( <i>note 5</i> ) . . . . .	Monday, 27 June to Monday, 18 July 2016
Latest time for free exchange of share certificates for the Reorganised Shares . . . . .	4:30 p.m., Wednesday, 20 July 2016

*Notes:*

- (1) All references to time in this Circular are references to Hong Kong time.
- (2) Subject to completion of the Capital Reorganisation, the new share certificate(s) in the colour of blue for the Reorganised Shares will be available for exchange for free at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 22nd Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong during the period specified in this timetable. The old share certificates in the colour of yellow for the existing Shares will be void upon the exchange for the new share certificates.
- (3) The certificates for the Settlement Shares will be made available for collection at the principal place of business of the Company in Hong Kong at Room 2811, 28th Floor, China Merchants Tower, No. 168-200 Connaught Road Central, Hong Kong.
- (4) The expected timetable set out above in relation to the Resumption is tentative and for indicative purposes only, and should there be any changes, the Company will issue further announcement(s) on the timetable as and when appropriate.
- (5) Upon Resumption, in order to facilitate the trading of odd lots of the Reorganised Shares arising from the Capital Reorganisation, the change in board lot size, the Open Offer and the Debt Settlement Agreements, the Company will appoint an agent to arrange for matching services regarding the sale and purchase of odd lots of the Reorganised Shares, on a best effort basis, to those Shareholders who wish to top-up to a full board lot or sell their shareholdings of odd lots of the Reorganised Shares. Holders of the Reorganised Shares in odd lots should note that the matching of sale and purchase of odd lots of the Reorganised Shares is on best effort basis and successful matching of sale and purchase of odd lots of the Reorganised Shares is not guaranteed. Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility. Further announcement in respect of the details of the agent and the matching services will be made by the Company in due course.

<b>EXPECTED TIMETABLE</b>
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**EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OPEN OFFER**

If there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning
  - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Acceptance Date, the latest time for acceptance of and payment for the Offer Shares will not take place at 4:00 p.m. on the Acceptance Date, but will be extended to 5:00 p.m. on the same day instead;
  - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Acceptance Date, the latest time for acceptance of and payment for the Offer Shares will not take place on the Acceptance Date, but will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares does not take place on the Acceptance Date, the dates mentioned in the section headed “Expected Timetable” in this Circular may be affected. An announcement will be made by the Company in such event.



## TERMINATION OF THE UNDERWRITING AGREEMENT

The Investor may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company at any time prior to 9:00 a.m. on the Settlement Date if there occurs:

- (i) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (ii) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the opinion of the Investor, acting reasonably, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Open Offer or make it inadvisable or inexpedient to proceed with the Open Offer.

If, at or prior to 9:00 a.m. on the Settlement Date:

- (i) the Company commits any material breach of or omits to observe any of the obligations, undertakings, representations or warranties expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
- (ii) the Investor shall receive notification pursuant to, or shall otherwise become aware of, the fact that any of the representations, warranties or undertakings contained in under the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated pursuant to the Underwriting Agreement, and the Investor shall, in its reasonable opinion, determine that any such untrue representation, warranty or undertaking represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Open Offer; or
- (iii) the Company shall, after any matter or event referred to in the relevant provision of the Underwriting Agreement has occurred or come to the Investor's attention, fail promptly to send out any announcement or Circular (after the despatch of the Offering Documents), in such manner (and as appropriate with such contents) as the Investor may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company,

the Investor shall be entitled (but not be bound) by notice in writing issued by the Investor to the Company to elect to treat such matter or event as releasing and discharging the Investor from its obligations under the Underwriting Agreement.



**CHINA BILLION RESOURCES LIMITED**

**中富資源有限公司\***

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

**(Stock code: 274)**

*Executive Directors:*

Mr. Long Xiaobo (*Chairman*)  
Mr. Zuo Weiqi (*Chief executive officer*)  
Mr. Chen Yi Chung  
Mr. Xiao Jie

*Registered Office:*

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

*Independent non-executive Directors:*

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

*Principal place of business:*

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

29 January 2016

*To the Shareholders*

Dear Sir or Madam,

- 1. PROPOSED CAPITAL REORGANISATION;**
  - 2. OPEN OFFER ON THE BASIS OF TWO OFFER SHARES FOR EVERY ONE REORGANISED SHARE HELD ON THE OPEN OFFER RECORD DATE;**
  - 3. ISSUE OF SETTLEMENT SHARES AND SETTLEMENT CONVERTIBLE BONDS UNDER DEBT SETTLEMENT AGREEMENTS;**
  - 4. APPLICATION FOR WHITEWASH WAIVER;**
  - 5. ADOPTION OF NEW ARTICLES OF ASSOCIATION;**
  - 6. ADOPTION OF NEW SHARE OPTION SCHEME;**
- AND**
- 7. PROPOSED CHANGE OF BOARD LOT SIZE**

**INTRODUCTION**

Reference is made to the Announcement dated 16 December 2015 in relation to the proposed Capital Reorganisation, the Open Offer, the Debt Settlement Agreements and the application for Whitewash Waiver.

\* *For identification only*

## LETTER FROM THE BOARD

The purpose of this Circular is to provide the Shareholders with (i) further information of the proposed Capital Reorganisation, the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver; (ii) the letter from the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; (iv) the notice of the EGM; (v) information in relation to the adoption of New Articles and Association and New Share Option Scheme; (vi) the proposed change of board lot size; and (vii) other information as required under the Listing Rules and the Takeovers Code.

### **CAPITAL REORGANISATION**

As at the Latest Practicable Date, the existing authorised share capital of the Company is HK\$800 million, divided into 8,000 million Shares of HK\$0.10 each, of which 5,235,303,300 Shares were issued and fully paid up or credited as fully paid up in the amount of HK\$523,530,330.00.

The Board proposes to implement the Capital Reorganisation which will be subject to Shareholders' approval at the EGM. The Capital Reorganisation will entail the Capital Reduction, the Capital Cancellation, the Share Consolidation, the increase in authorised share capital and the Share Premium Reduction with details as follows:

#### **Capital Reduction**

The nominal value of each issued Share shall be reduced from HK\$0.10 to HK\$0.005 by the reduction of HK\$0.095 for each issued Share. The credit balance arising from the Capital Reduction of HK\$497,353,813.50 will be applied in a manner as permitted by the Companies Law, the existing Articles of Association and other applicable laws to, including but not limited to, the setting off of part of the accumulated deficit of the Company as at the effective date of the Capital Reduction.

#### **Capital Cancellation**

The existing 2,764,696,700 unissued Shares in the un-issued share capital of the Company of HK\$276,469,670 will, immediately after the completion of the Capital Reduction, be cancelled in its entirety resulting in the authorized share capital being reduced to the amount of the Company's issued share capital, namely HK\$26,176,516.50.

#### **Share Consolidation**

Immediately after the Capital Reduction and Capital Cancellation becomes effective, every two (2) shares of HK\$0.005 each will be consolidated into one Reorganised Share of HK\$0.01 each. As a result, 5,235,303,300 issued shares of the Company of HK\$0.005 each will be consolidated into 2,617,651,650 issued Reorganised Shares of HK\$0.01 each.

## LETTER FROM THE BOARD

### **Increase in Authorised Share Capital**

Immediately after the Share Consolidation becomes effective, the Company proposes to increase the authorised share capital of the Company from HK\$26,176,516.50 to HK\$250,000,000.00 by the creation of 22,382,348,350 new Reorganised Shares.

### **Share Premium Reduction**

The entire amount standing to the credit of the share premium account of the Company, which as at 30 June 2015 amounted to approximately HK\$2,101,765,000, will be applied to set off against the accumulated deficit of the Company or in such manner determined by the Directors as permitted by the Companies Law, the Articles of Association and other applicable laws.

### **Conditions precedent of the Capital Reorganisation**

The effectiveness of the proposed Capital Reorganisation is conditional upon:

- (a) the passing of the necessary resolutions for (i) the Capital Reduction; (ii) the Capital Cancellation; (iii) the Share Consolidation; (iv) the increase in authorised share capital; and (v) the Share Premium Reduction, by the Shareholders at the EGM;
- (b) the approval of the Capital Reduction by the Grand Court of the Cayman Islands;
- (c) compliance with any conditions which the Grand Court of the Cayman Islands may impose in relation to the Capital Reduction;
- (d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Reorganised Shares in issue immediately upon the Capital Reorganisation becoming effective; and
- (e) registration by the Registrar of Companies in the Cayman Islands of the order of the Grand Court of the Cayman Islands confirming the Capital Reduction and the minutes approved by the Grand Court of the Cayman Islands containing the particulars required under the Companies Law with respect to the Capital Reduction.

## LETTER FROM THE BOARD

### Effects of the Capital Reorganisation

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company before and after completion of the Capital Reorganisation:

	Before the Capital Reorganisation	After the Capital Reorganisation
Nominal value	HK\$0.10	HK\$0.01
Number of authorised shares	8,000,000,000	25,000,000,000
Authorised share capital	HK\$800,000,000.00	HK\$250,000,000.00
	divided into 8,000,000,000 Shares	divided into 25,000,000,000 Reorganised Shares
Number of issued and paid-up shares	5,235,303,300	2,617,651,650
Issued and paid-up share capital	HK\$523,530,330.00	HK\$26,176,516.50

### Reasons for the Capital Reorganisation

Under the Companies Law, the Company is restricted in its ability to issue Shares at a price lower than their par value. The Capital Reorganisation will reduce the par value of the Shares, enable the re-capitalisation of the share capital of the Company and facilitate the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares. The issuance of the Settlement Shares will enable the Company to discharge most of its liabilities while the issuance of the Settlement Convertible Bonds which are convertible into Conversion Shares enable the rescheduling of the relevant debts for an additional three years. Such settlement together, with the funds to be raised from the Open Offer will improve the financial position of the Group. The Capital Reorganisation will also provide the Company with the flexibility to accommodate issue of new Reorganised Shares in the future when necessary.

Accordingly, the Directors are of the view that the implementation of the Capital Reorganisation is in the best interests of the Company and the Shareholders as a whole.

### OPEN OFFER

Subject to the Capital Reorganisation becoming effective, the Board proposes that the Company makes the Open Offer on the basis of two (2) Offer Shares for every one (1) Reorganised Share held on the Open Offer Record Date by the Qualifying Shareholders. A total of 5,235,303,300 Offer Shares will be allotted and issued by the Company to the Qualifying Shareholders at the Offer Price of HK\$0.03 for each Offer Share and the gross proceeds to be raised from the issuance of the Offer Shares is expected to be approximately HK\$157.1 million.

## LETTER FROM THE BOARD

### Issue statistics of the Open Offer

Basis of the Open Offer:	Two (2) Offer Shares for every one (1) Reorganised Share to be held on the Open Offer Record Date
Number of Shares in issue as at the Latest Practicable Date:	5,235,303,300 Shares
Number of Reorganised Shares in issue upon the Capital Reorganisation becoming effective:	2,617,651,650 Reorganised Shares
Number of Offer Shares to be issued:	5,235,303,300 Offer Shares
Total number of Reorganised Shares in issue immediately upon completion of the Open Offer (without taking into account the issuance of Settlement Shares and any Conversion Shares):	7,852,954,950 Reorganised Shares
Offer Price:	HK\$0.03 per Offer Share
Underwriter:	The Investor will underwrite the Open Offer on the fully underwritten basis
Number of Underwritten Shares fully underwritten by the Investor:	4,473,281,300 Offer Shares (after deducting the 762,022,000 Offer Shares to be taken up by Star Sino International Limited, a substantial Shareholder which is interested in approximately 14.56% of the existing issued Shares, as a Qualifying Shareholder pursuant to the irrevocable undertaking as described below)

## LETTER FROM THE BOARD

### Offer Shares

5,235,303,300 Offer Shares represent:

- (a) 100.00% of the existing issued share capital of the Company;
- (b) 200.00% of the issued share capital of the Company upon completion of the Capital Reorganisation;
- (c) approximately 66.67% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares;
- (d) approximately 29.84% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares; and
- (e) approximately 28.96% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares.

### Offer Price

The Offer Price being HK\$0.03 for each of the Offer Shares represents:

- (a) a discount of approximately 82.76% to the theoretical closing price of HK\$0.174 per Reorganised Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.087 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 83.66% to the average theoretical closing price of HK\$0.1836 per Reorganised Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0918 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (c) a discount of approximately 84.36% to the average theoretical closing price of HK\$0.1918 per Reorganised Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0959 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

## LETTER FROM THE BOARD

The Offer Price has been determined after arm's length negotiations between the Company and the Investor having regard to the financial position of the Company, the prolonged suspension of trading in the Shares on the Stock Exchange, the prevailing stock market conditions and the prospects of the business operations of the Group. In order to give incentive to the Shareholders to participate in the Open Offer, the Offer Price is fixed at a lower level than the Settlement Share Price and the Conversion Price.

### **Qualifying Shareholders**

The Open Offer will only be available to the Qualifying Shareholders. The Company will send (i) the Offering Documents to the Qualifying Shareholders; and (ii) the Offering Circular, for information only, to the Excluded Shareholders on or before the Posting Date.

To qualify for the Open Offer, the Shareholder must be registered as a member of the Company on the Open Offer Record Date and not be an Excluded Shareholder.

### **Rights of Excluded Shareholders**

If, on the Open Offer Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Offering Documents are not intended to be registered and/or filed under the applicable securities legislation of any jurisdictions outside Hong Kong.

In compliance with Rule 13.36(2) of the Listing Rules, the Board will make enquiries, to be based on legal advice, regarding the feasibility of extending the Open Offer to the overseas Shareholders, if any. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient on account either of the legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory bodies or stock exchanges in that place, not to offer the Offer Shares to the Excluded Shareholders, the Open Offer will not be made available to such overseas Shareholders. Accordingly, the Open Offer will not be extended to the Excluded Shareholders.

The Company will send the Offering Circular, for information only, to the Excluded Shareholders (if any) and will not send any Application Form in respect of the assured allotment of Offer Shares to the Excluded Shareholders. However, so long as the Excluded Shareholders are Independent Shareholders, they are entitled to vote on the resolution(s) in relation to the Open Offer at the EGM.

### **Share certificates for the fully paid Offer Shares**

Subject to fulfillment of the conditions of the Open Offer, share certificates for all fully paid Offer Shares are expected to be posted to the Qualifying Shareholders who have successfully applied and paid for them, after the latest time for termination of the Underwriting Agreement, at their own risk.



## LETTER FROM THE BOARD

### **No transfer of nil-paid entitlements, no application for excess Offer Shares**

The invitation to subscribe for Offer Shares to be made to the Qualifying Shareholders will not be transferable. There will not be any trading in nil-paid entitlements on the Stock Exchange. The Company has also decided that the Qualifying Shareholders will not be entitled to subscribe for any Offer Share in excess of their respective assured entitlements. Considering that each Qualifying Shareholder will be given an equal and fair opportunity to participate in the Company's future development by subscribing for their respective entitlements under the Open Offer, the Company considers it appropriate not to put in additional effort and costs to administer the excess application procedures. Any Offer Shares not taken up by the Qualifying Shareholders will be underwritten by the Investor.

### **Fractions of Offer Shares**

Fractions of Offer Shares will not be allotted to Qualifying Shareholders and fractional entitlements will be rounded down to the nearest whole number of Offer Shares. Any Offer Shares created from the aggregation of fractions of Offer Shares will be aggregated and taken up by the Investor in accordance with the Underwriting Agreement.

### **Irrevocable Undertaking**

Star Sino International Limited (being a substantial Shareholder and Creditor A, wholly and beneficially owned by Mr. Long) has irrevocably undertaken to each of the Company and the Investor as follows:

- (i) to take up and pay for the 762,022,000 Offer Shares which will constitute its assured entitlement of Offer Shares in respect of the Shares beneficially owned by it pursuant to the terms of the Open Offer or procure they are taken up and paid for on the terms of the Open Offer;
- (ii) that the shares referred to in paragraph (i) above will remain registered in its name or beneficially owned by it at the close of business on the Open Offer Record Date as they are on the date of the Underwriting Agreement;
- (iii) to procure that the application for the aforesaid Offer Shares is lodged with the registrar of the Company, with payment in full therefor in cash (whether by cheque, bank cashier's order or such other form as the Company may approve), by no later than 4:00 p.m. on the Acceptance Date.

If Creditor A should fail to comply with the undertakings given above, it has irrevocably authorised the Company in its discretion to treat the undertaking as its application for such 762,022,000 Offer Shares comprised in its assured entitlement on the terms of the Offering Documents (save as regards the time for acceptance and payment) and against payment therefor to allot and issue the same in its name and to procure the registration of the same in its name.

In the event that the Underwriting Agreement does not become unconditional in accordance with its terms, the undertaking given by Star Sino International Limited shall lapse.

## LETTER FROM THE BOARD

### The Underwriting Agreement

Date:	9 November 2015
Issuer:	the Company
Underwriter:	the Investor (being wholly and beneficially owned by Mr. Long)
Underwritten Shares:	the Offer Shares other than the 762,022,000 Offer Shares to be taken up by Star Sino International Limited as a Qualifying Shareholder pursuant to the irrevocable undertaking described above, i.e. 4,473,281,300 Underwritten Shares
Commission:	3.0% of the aggregate Offer Price of the Underwritten Shares together with all costs, fees and out-of pocket expensed properly incurred by the Investor in connection with the underwriting of the Underwritten Shares and agreed in advance by the Company in writing but excluding sub-underwriting fees and expenses relating to the sub-underwriting
Fees and Expenses:	The Company shall pay all reasonable costs, charges and expenses (if any) howsoever of or incidental to the Open Offer and the arrangements hereby contemplated, printing and translation charges, any capital duty, the fees of the Company's auditors, solicitors and registrar, and the fees payable to the Stock Exchange, but excluding sub-underwriting fees and expenses relating to any sub-underwriting

The underwriting commission rate is determined after arm's length negotiation between the Company and the Investor with reference to, among others, the existing financial position of the Company, the size of the Open Offer, the long suspension status of the Shares, the prevailing market rate for the underwriting commission. The Directors consider that the terms of the Underwriting Agreement including the underwriting commission rate are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole. The ordinary business of the Investor does not include underwriting.

### Conditions precedent to the Underwriting Agreement

The Underwriting Agreement is subject to the following conditions:

- (i) the posting of copies of the Offering Documents to the Qualifying Shareholders on the Posting Date;

## LETTER FROM THE BOARD

- (ii) the Shares remaining listed on the Stock Exchange at all times prior to the Settlement Date and the current listing of the Shares not having been withdrawn and no indication being received before 9:00 a.m. on the Settlement Date from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of the Open Offer or in connection with the terms of the Underwriting Agreement or for any other reason;
- (iii) resolutions being passed by the Shareholders in general meeting (other than those who are required to abstain from voting or to vote in favour of the relevant resolutions) as required by the Companies Law, the Listing Rules and the Takeovers Code (as applicable) to approve the Capital Reorganisation, the issuance of the Settlement Shares or (as the case may be) in respect of the Settlement Convertible Bonds and the Conversion Shares (falling to be issued upon conversion thereof) pursuant to the Debt Settlement Agreements, the Offer Shares, and the Whitewash Waiver;
- (iv) the Executive granting the Whitewash Waiver and any other necessary consent and/or approval under the Takeovers Code;
- (v) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Reorganised Shares, the Offer Shares, the Settlement Shares and Conversion Shares and not having withdrawn or revoked such listing and permission on or before 9:00 a.m. on the Settlement Date;
- (vi) the Stock Exchange granting permission for the resumption of trading in the Reorganised Shares, the Offer Shares and the Settlement Shares on the Stock Exchange no later than the trading day on the Stock Exchange next following Completion and (to the extent that such permission is subject to conditions) the fulfilment all such conditions that needs to be fulfilled prior to Completion;
- (vii) the Capital Reorganisation becoming effective at or before the Long-stop Date; and
- (viii) completion of the Debt Settlement Agreements on the Settlement Date.

With respect to condition precedent (iii) above, in accordance with the requirements of the Listing Rules and the Takeovers Code, the relevant resolutions for the issuance of the Settlement Shares, the Settlement Convertible Bonds and Conversion Shares falling to be issued upon conversion thereof pursuant to the Debt Settlement Agreements, the Offer Shares and the Whitewash Waiver are required to be approved by Independent Shareholders only. No Shareholder is required to abstain from voting on the Capital Reorganisation.

## LETTER FROM THE BOARD

If the conditions (i) to (vii) above have not been satisfied on or before the Posting Date or in the event that the conditions (viii) have not been satisfied on or before 9:00 a.m. on the Settlement Date (or, in each case, such later date as the Investor and the Company may agree), all liabilities of the parties hereto shall cease and determine and neither party shall have any claim against the other (save in respect of any antecedent breaches and claims) save that all such reasonable costs, fees and other out-of-pocket expenses as have been properly incurred by the Investor in connection with the underwriting of the Underwritten Shares by the Investor (excluding the underwriting commission, sub-underwriting fees and related expenses) shall, to the extent agreed by the Company, be borne by the Company. Both the Company and the Investor will not waive the above conditions.

### **Termination of the Underwriting Agreement**

The Investor may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company at any time prior to 9:00 a.m. on the Settlement Date if there occurs:

- (i) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (ii) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the opinion of the Investor, acting reasonably, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Open Offer or make it inadvisable or inexpedient to proceed with the Open Offer.

## LETTER FROM THE BOARD

If, at or prior to 9:00 a.m. on the Settlement Date:

- (i) the Company commits any material breach of or omits to observe any of the obligations, undertakings, representations or warranties expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
- (ii) the Investor shall receive notification pursuant to, or shall otherwise become aware of, the fact that any of the representations, warranties or undertakings contained in under the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated pursuant to the Underwriting Agreement, and the Investor shall, in its reasonable opinion, determine that any such untrue representation, warranty or undertaking represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Open Offer; or
- (iii) the Company shall, after any matter or event referred to in the relevant provision of the Underwriting Agreement has occurred or come to the Investor's attention, fail promptly to send out any announcement or Circular (after the despatch of the Offering Documents), in such manner (and as appropriate with such contents) as the Investor may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company,

the Investor shall be entitled (but not be bound) by notice in writing issued by the Investor to the Company to elect to treat such matter or event as releasing and discharging the Investor from its obligations under the Underwriting Agreement.

### **CHANGE OF BOARD LOT SIZE**

Upon the Capital Reorganisation becoming effective, the theoretical trading amount of each board lot shall become HK\$50 each based on the Settlement Share Price of HK\$0.05 per Settlement Share. Accordingly, the Company proposes to change the board lot size for trading in the Shares on the Stock Exchange from 2,000 Shares (or 1,000 Reorganised Shares upon the Capital Reorganisation becoming effective) to 40,000 Reorganised Shares upon the Capital Reorganisation becoming effective. Based on the Settlement Share Price of HK\$0.05, the value of each board lot of 40,000 Reorganised Shares, upon the change in board lot size becoming effective, would be HK\$2,000.

## LETTER FROM THE BOARD

### DEBT SETTLEMENT AGREEMENTS

The Company has entered into Debt Settlement Agreements with twelve Creditors to settle the relevant outstanding debts, together with the accrued interest (where relevant), owed by the Company to the Creditors. The debts to be settled under the Debt Settlement Agreements are listed as follows:

<b>Share Settlement Agreements</b>	<b>Outstanding principal amount (HK\$)</b>	<b>Interest accrued up to the Cut-off Date (HK\$)</b>	<b>Total amount to be settled (HK\$)</b>
Creditor A	139,191,200	19,162,624	158,353,824
Creditor B	85,000,000	11,702,055	96,702,055
Creditor C	30,000,000	4,130,137	34,130,137
Creditor D	18,000,000	2,478,082	20,478,082
Creditor E	42,906,804	9,429,207	52,336,011
Creditor F1	40,586,042	1,798,434	42,384,476
Creditor F2	20,000,000	–	20,000,000
Creditor G	37,510,000	1,971,803	39,481,803
Creditor H	10,000,000	1,313,973	11,313,973
Creditor I	8,942,600	478,162	9,420,762
<b>Sub-total</b>	<b>432,136,646</b>	<b>52,464,477</b>	<b>484,601,123</b>
 <b>CB Settlement</b>			
<b>Agreements</b>			
Creditor J	36,300,000	1,881,633	38,181,633
Creditor K	13,310,000	660,030	13,970,030
Creditor L	1,210,000	55,693	1,265,693
<b>Sub-total</b>	<b>50,820,000</b>	<b>2,597,356</b>	<b>53,417,356</b>
<b>Total</b>	<b>482,956,646</b>	<b>55,061,833</b>	<b>538,018,479</b>

## LETTER FROM THE BOARD

### SHARE SETTLEMENT AGREEMENTS

#### Share Settlement Agreement A

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor A

#### Principal terms of the Share Settlement Agreement A

As set out in the Company's announcement dated 19 April 2011, Mr. Long acquired the 2010 Convertible Bonds in the principal amount of HK\$139,191,200 and the entire equity interest in Creditor A which directly owned 762,022,000 Shares, representing approximately 14.56% of the issued share capital of the Company, from the previous substantial Shareholder. As at the Latest Practicable Date, Creditor A held the outstanding 2010 Convertible Bonds in the principal amount of HK\$139,191,200 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$19,162,624.

Pursuant to the Share Settlement Agreement A, subject to the conditions precedent set out in the section headed "Conditions precedent of the Debt Settlement Agreements" below, Creditor A has agreed to accept, and the Company has agreed to allot and issue 3,167,076,482 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor A, in full and final settlement of the 2010 Convertible Bonds, together with the accrued interest, held by Creditor A.

#### Share Settlement Agreement B

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor B

#### Principal terms of the Share Settlement Agreement B

As at the Latest Practicable Date, Creditor B held the outstanding 2010 Convertible Bonds in the principal amount of HK\$85,000,000 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$11,702,055.

## LETTER FROM THE BOARD

Pursuant to the Share Settlement Agreement B, subject to the conditions precedent set out in the section headed “Conditions precedent of the Debt Settlement Agreements” below, Creditor B has agreed to accept, and the Company has agreed to allot and issue 1,934,041,095 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor B, in full and final settlement of the 2010 Convertible Bonds, together with the accrued interest, held by Creditor B.

### Share Settlement Agreement C

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor C

### Principal terms of the Share Settlement Agreement C

As at the Latest Practicable Date, Creditor C held the outstanding 2010 Convertible Bonds in the principal amount of HK\$30,000,000 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$4,130,137.

Pursuant to the Share Settlement Agreement C, subject to the conditions precedent set out in the section headed “Conditions precedent of the Debt Settlement Agreements” below, Creditor C has agreed to accept, and the Company has agreed to allot and issue 682,602,739 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor C, in full and final settlement of the 2010 Convertible Bonds, together with the accrued interest, held by Creditor C.

### Share Settlement Agreement D

**Date:** 23 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor D

### Principal terms of the Share Settlement Agreement D

As at the Latest Practicable Date, Creditor D held the outstanding 2010 Convertible Bonds in the principal amount of HK\$18,000,000 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$2,478,082.



## LETTER FROM THE BOARD

Pursuant to the Share Settlement Agreement D, subject to the conditions precedent set out in the section headed “Conditions precedent of the Debt Settlement Agreements” below, Creditor D has agreed to accept, and the Company has agreed to allot and issue 409,561,643 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor D, in full and final settlement of the 2010 Convertible Bonds, together with the accrued interest, held by Creditor D.

### Share Settlement Agreement E

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor E

### Principal terms of the Share Settlement Agreement E

Mr. Long as Creditor E has lent the Company working capital loans in the total principal amount of approximately HK\$42,906,804 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$9,429,207. These loans are repayable within seven days upon receipt of written notice given by Mr. Long.

Pursuant to the Share Settlement Agreement E, subject to the conditions precedent set out in the section headed “Conditions precedent of the Debt Settlement Agreements” below, the Creditor E has agreed to accept, and the Company has agreed to allot and issue 1,046,720,224 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to the Creditor E, in full and final settlement of these outstanding working capital loans, together with the accrued interest, owed by the Company to Creditor E.

### Share Settlement Agreements F1 and F2

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor F

## LETTER FROM THE BOARD

### **Principal terms of the Share Settlement Agreements F1 and F2**

The Company owes Creditor F in respect of working capital loans borrowed in the total principal amount of approximately HK\$40,586,042 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$1,798,434. The earliest repayment date of these working capital loans is 31 December 2015. Creditor F also granted the Company another working capital loan facility in the principal amount of HK\$20,000,000 and a sum of HK\$10,675,000 has been drawn down by the Company. It is expected that the Company will utilise this facility in full before the Completion. The latest repayment date of this working capital loan facility is 30 September 2016.

Pursuant to the Share Settlement Agreement F1, subject to the conditions precedent set out in the section headed “Conditions precedent of the Debt Settlement Agreements” below, the Creditor F has agreed to accept, and the Company has agreed to allot and issue 847,689,528 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor F, in full and final settlement of the outstanding working capital loans, together with the accrued interest, owed by the Company to Creditor F.

Pursuant to the Share Settlement Agreement F2, Creditor F has conditionally agreed to accept, and the Company has agreed to allot and issue up to 400,000,000 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor F, in full and final settlement of the outstanding working capital loan facility that is drawn down by the Company and owing to Creditor F as at close of business on the date immediately preceding the Completion.

### **Share Settlement Agreement G**

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor G

### **Principal terms of the Share Settlement Agreement G**

Creditor G has lent the Company the working capital loan in the total principal amount of HK\$37,510,000 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$1,971,803. This loan will mature on 23 March 2018.

Pursuant to the Share Settlement Agreement G, subject to the conditions precedent set out in the section headed “Conditions precedent of the Debt Settlement Agreements” below, Creditor G has agreed to accept, and the Company has agreed to allot and issue 789,636,054 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor G, in full and final settlement of this outstanding working capital loan, together with the accrued interest, owed by the Company to Creditor G.

## LETTER FROM THE BOARD

### Share Settlement Agreement H

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor H

### Principal terms of the Share Settlement Agreement H

Creditor H has lent the Company the working capital loan in the total principal amount of HK\$10,000,000 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$1,313,973. This loan will mature on 16 October 2016.

Pursuant to the Share Settlement Agreement H, subject to the conditions precedent set out in the section headed “Conditions precedent of the Debt Settlement Agreements” below, Creditor H has agreed to accept, and the Company has agreed to allot and issue 226,279,452 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor H in full and final settlement of this outstanding working capital loan, together with the accrued interest, owed by the Company to Creditor H.

### Share Settlement Agreement I

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor I

### Principal terms of the Share Settlement Agreement I

The Company owes Creditor I in respect of working capital loan borrowed in the total principal amount of HK\$8,942,600 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$478,162. This loan will mature on 5 October 2016.

Pursuant to the Share Settlement Agreement I, subject to the conditions precedent set out in the section headed “Conditions precedent of the Debt Settlement Agreements” below, Creditor I has agreed to accept, and the Company has agreed to allot and issue 188,415,241 Settlement Shares at the Settlement Share Price of HK\$0.05 per Settlement Share to Creditor I, in full and final settlement of this outstanding working capital loan, together with the accrued interest, owed by the Company to Creditor I.

## LETTER FROM THE BOARD

### Settlement Shares

The maximum of 9,692,022,458 Settlement Shares represent:

- (a) approximately 185.13% of the total number of Shares in issue as at the Latest Practicable Date;
- (b) approximately 370.26% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation;
- (c) approximately 123.42% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares;
- (d) approximately 55.24% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares; and
- (e) approximately 53.61% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares.

### Settlement Share Price

The Settlement Share Price being HK\$0.05 for each of the Settlement Shares represents:

- (a) a discount of approximately 71.26% to the theoretical closing price of HK\$0.174 per share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.087 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 72.77% to the average theoretical closing price of HK\$0.1836 per share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0918 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (c) a discount of approximately 73.93% to the average theoretical closing price of HK\$0.1918 per share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0959 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The Settlement Share Price were determined after arm's length negotiations between the Company and the Share Settlement Creditors having regard to the financial position of the Company, the pro-longed suspension of trading in the Shares on the Stock Exchange, the prevailing stock market conditions and the prospects of the business operations of the Group.

## LETTER FROM THE BOARD

### CB SETTLEMENT AGREEMENTS

#### CB Settlement Agreement J

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor J

#### Principal terms of the CB Settlement Agreement J

Creditor J lent the Company the working capital loan in the total principal amount of HK\$36,300,000 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$1,881,633. This loan will mature on 18 June 2018.

Pursuant to the CB Settlement Agreement J, subject to the conditions precedent set out in the section headed "Conditions precedent of the Debt Settlement Agreements" below, Creditor J has agreed to accept, and the Company has agreed to issue the Settlement Convertible Bonds in the principal amount of approximately HK\$38,181,633 to Creditor J, in full and final settlement of this outstanding working capital loan, together with the accrued interest, owed by the Company to Creditor J.

#### CB Settlement Agreement K

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor K

#### Principal terms of the CB Settlement Agreement K

Creditor K lent the Company the working capital loan in the total principal amount of HK\$13,310,000 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$660,030. This loan will mature on 1 July 2018.

Pursuant to the CB Settlement Agreement K, subject to the conditions precedent set out in the section headed "Conditions precedent of the Debt Settlement Agreements" below, Creditor K has agreed to accept, and the Company has agreed to issue the Settlement Convertible Bonds in the principal amount of approximately HK\$13,970,030 to Creditor K, in full and final settlement of this outstanding working capital loan, together with the accrued interest, owed by the Company to Creditor K.

## LETTER FROM THE BOARD

### CB Settlement Agreement L

**Date:** 9 November 2015

**Parties:**

- (i) the Company; and
- (ii) Creditor L

### Principal terms of the CB Settlement Agreement L

Creditor L lent the Company the working capital loan in the total principal amount of HK\$1,210,000 and the interest accrued up to the Cut-off Date is in the amount of approximately HK\$55,693. This loan will mature on 15 July 2018.

Pursuant to the CB Settlement Agreement L, subject to the conditions precedent set out in the section headed "Conditions precedent of the Debt Settlement Agreements" below, Creditor L has agreed to accept, and the Company has agreed to issue the Settlement Convertible Bonds in the principal amount of approximately HK\$1,265,693 to Creditor L, in full and final settlement of this outstanding working capital loan, together with the accrued interest, owed by the Company to Creditor L.

### Principal terms of the Settlement Convertible Bonds

Issuer:	the Company
Total principal amount:	Approximately HK\$53,417,356 (including HK\$38,181,633 to the Creditor J, HK\$13,970,030 to the Creditor K and HK\$1,265,693 to Creditor L)
Authorised denomination:	HK\$1,000,000 or integral multiples
Status:	<p>The obligations of the Company arising under the Settlement Convertible Bonds constitute general, direct, unconditional, unsecured, unsubordinated obligations of the Company, and rank <i>pari passu</i> among themselves and at least <i>pari passu</i> in right of payment with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.</p> <p>The Settlement Convertible Bonds are in registered and definitive form.</p>
Interest rate:	10% per annum on the outstanding principal amount.

## LETTER FROM THE BOARD

**Maturity date:** The date immediately before the third anniversary of the date of issue of the Settlement Convertible Bonds ("**Maturity Date**").

Subject as provided in the conditions of the Settlement Convertible Bonds, the outstanding principal amount of the Settlement Convertible Bonds shall, unless previously converted into Conversion Shares or be repaid in accordance with the conditions, be repaid by the Company to the holder of the Settlement Convertible Bonds ("**Bondholder(s)**") on the Maturity Date.

The Settlement Convertible Bonds which are redeemed or to the extent converted will be cancelled.

**Conversion period:** The period commencing on the seventh day next following the date of issue of the Settlement Convertible Bonds and expiring up to and including the date which is seven days prior to the Maturity Date ("**Conversion Period**").

**Conversion rights:** Bondholder(s) will have the right to convert in whole (or part in authorised denominations) of the principal amount of the Settlement Convertible Bonds into Conversion Shares at the initial conversion price of HK\$0.10 per Conversion Share (subject to adjustments) at any time during the Conversion Period.

**Conversion Shares:** Conversion Shares shall be allotted and issued by the Company, credited as fully paid, with effect from the date on which conversion rights are validly exercised by the Bondholders, and the Bondholders shall be entitled in respect of its Conversion Shares, to all dividends and other distributions, rights and entitlements on the record date which falls after the conversion date.

Assuming the conversion rights attached to the Convertible Bonds are exercised in full at the initial Conversion Price of HK\$0.10 per Conversion Share, 534,173,560 Conversion Shares will be allotted and issued by the Company to the CB Settlement Creditors (including 381,816,328 Conversion Shares to the Creditor J, 139,700,301 Conversion Shares to the Creditor K and 12,656,931 Conversion Shares to the Creditor L respectively).

## LETTER FROM THE BOARD

- Conversion Price: HK\$0.10 per Conversion Share (subject to adjustments upon of certain “Adjustment Events” as described below).
- Adjustment Events: The Conversion Price is subject to customary adjustment upon occurrence of, among other things, the following events:
- (i) consolidation, subdivision or reclassification of shares;
  - (ii) capitalisation of profits or reserves;
  - (iii) capital distribution;
  - (iv) rights issues of shares or options over shares at a price which is less than 80% of the then market price of the shares;
  - (v) issues of securities convertible into or exchangeable for or carry rights of subscription for shares at an total effective consideration per share less than 80% of the then market price of the shares;
  - (vi) any modification of the rights of conversion or exchange or subscription attaching to securities in (v) above resulting in total effective consideration per share being less than 80% of the then market price of the shares;
  - (vii) issue of share for cash at less than 80% of the then market price of the shares; and
  - (viii) issue shares for the acquisition of any asset at total effective consideration per share less than 80% of the then market price of the shares.
- Transferability: The Convertible Bonds may be transferred in whole (or in authorised denomination) to any person, subject to compliance with the Listing Rules and the approval of the Shareholders in a general meeting if so required under, and in compliance with, the Listing Rules if such assignment and/or transfer is proposed to be made to a connected person of the Company.



## LETTER FROM THE BOARD

- Voting: A Bondholder shall not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being a Bondholder.
- Listing: No application will be made for the listing of the Settlement Convertible Bonds on the Stock Exchange or any other stock exchange.
- Events of default: For so long as any Settlement Convertible Bonds remains outstanding, if any event of default occurs after the date of issue of the Settlement Convertible Bonds (but not any time earlier), the Bondholders will be entitled to give a notice in writing to the Company that the Settlement Convertible Bonds held by all Bondholders are, and the Convertible Bonds shall thereby forthwith become, immediately due and payable at its principal amount then outstanding. The events of default are of the types commonly adopted for convertible debt securities (including, for example, breaches of terms, delisting of Shares and insolvency events).
- Other terms: The Company or any of its subsidiaries may at any time and from time to time repurchase the Settlement Convertible Bonds at any price as may be agreed in writing between the Company or such subsidiary and the relevant Bondholder. Any Settlement Convertible Bond so purchased shall forthwith be cancelled by the Company.

### Conversion Shares

The total of 534,173,560 Conversion Shares represent:

- (a) approximately 10.20% of the total number of Shares in issue as at the Latest Practicable Date;
- (b) approximately 20.41% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation;
- (c) approximately 6.80% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares;
- (d) approximately 3.04% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares; and

## LETTER FROM THE BOARD

- (e) approximately 2.95% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares.

### **Conversion Price**

The Conversion Price being HK\$0.10 for each of the Conversion Shares represents:

- (a) a discount of approximately 42.53% to the theoretical closing price of HK\$0.174 per share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.087 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 45.53% to the average theoretical closing price of HK\$0.1836 per share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0918 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (c) a discount of approximately 47.86% to the average theoretical closing price of HK\$0.1918 per share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0959 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The Conversion Price was determined after arm's length negotiations between the Company and the CB Settlement Creditors having regard to the financial position of the Company, the pro-longed suspension of trading in the Shares on the Stock Exchange, the prevailing stock market conditions and the prospects of the business operations of the Group.

### **Conditions precedent of the Debt Settlement Agreements**

Completion of the Debt Settlement Agreements is conditional upon:

- (a) resolutions being passed by the Shareholders in general meeting (other than those who are required to abstain from voting or to vote in favour of the relevant resolutions) as required by the Companies Law, the Listing Rules and the Takeovers Code (as applicable) to approve the Capital Reorganisation, the issuance of the Settlement Shares or (as the case may be) in respect of the Settlement Convertible Bonds and the Conversion Shares, pursuant to the Debt Settlement Agreements, the Offer Shares and the Whitewash Waiver;

## LETTER FROM THE BOARD

- (b) the Executive granting the Whitewash Waiver and any other necessary consent and/or approval under the Takeovers Code;
- (c) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Reorganised Shares, the Offer Shares, the Settlement Shares and Conversion Shares having been obtained;
- (d) Stock Exchange granting permission for the resumption of trading in the Reorganised Shares, the Offer Shares and the Settlement Shares on the Stock Exchange no later than the trading day on the Stock Exchange next following Completion and (to the extent that such permission is subject to conditions) the fulfillment of all such conditions that needs to be fulfilled prior to Completion;
- (e) the Capital Reorganisation becoming effective at or before Completion; and
- (f) the Open Offer becoming unconditional in all respects (save as to any condition relating to the simultaneous completion of the Open Offer and the Debt Settlement Agreements).

With respect to condition precedent (a) above, in accordance with the requirements of the Listing Rules and the Takeovers Code, the relevant resolutions for the issuance of the Settlement Shares, the Settlement Convertible Bonds and Conversion Shares falling to be issued upon conversion thereof pursuant to the Debt Settlement Agreements, the Offer Shares and the Whitewash Waiver are required to be approved by Independent Shareholders only. No Shareholder is required to abstain from voting on the Capital Reorganisation.

The Company shall use all reasonable endeavours to procure that the conditions precedent be fulfilled on or before the Long-stop Date (i.e. 31 May 2016 or such later date as the parties may agree) and each of the Creditors shall promptly provide all such information relating to it and its ultimate beneficial owners that the Company may require for the purpose of complying with disclosure and other requirements under applicable laws and the Listing Rules.

If the conditions precedent set out above are not fulfilled (except to the extent waived by the Company) on or before the Long-stop Date, the Debt Settlement Agreements shall terminate and none of the parties in respect of each Debt Settlement Agreement thereunder shall be liable to the other or have any claim against the other for damages, compensation or otherwise save and except any liability for antecedent breaches of either party. The Company will not waive conditions (a) and (b).

## LETTER FROM THE BOARD

### **Completion of the Debt Settlement Agreements**

Subject to the conditions precedent set out above having been satisfied or being satisfied as at Completion, Completion shall take place at the same time as the date of allotment of the Offer Shares at principal place of business of the Company in Hong Kong at the time as described in the Debt Settlement Agreements (or such other time, date and place in Hong Kong as the Company may specify in writing). The Company may elect without any liability not to proceed with completion of any of the Debt Settlement Agreements if completion of any of the other Debt Settlement Agreements does not take place at the same time.

### **Other undertakings and consents**

Under each Debt Settlement Agreement, amongst other things, the creditor that is party to that Debt Settlement Agreement has undertaken not to take steps to enforce its rights in relation to all or any part of the debt being settled at any time prior to the Long-stop Date or (if earlier) the termination of its Share Settlement Agreement, has agreed that the Company may enter into the other Debt Settlement Agreements and has given its consent to the Capital Reorganisation (including the Capital Reduction) regardless of whether or not Completion takes place.

### **Termination Rights**

The other party (in respect of (i) below) or either party (in respect of (ii) below) of a Debt Settlement Agreement may terminate the Debt Settlement Agreement if (i) a liquidator or receiver or other person carrying out any similar function is appointed in respect of all or substantively all assets or undertakings of the other party or its subsidiaries or if a winding up order is made or a resolution is passed for the winding up of that party or its subsidiaries; or (ii) any approval referred to in the conditions precedent that has been granted is subsequently withdrawn or revoked.

### **EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY**

The changes in shareholding structure of the Company arising from the Capital Reorganisation, and the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares are set out in the following tables for illustrative purpose only.

## LETTER FROM THE BOARD

### Scenario A:

*Assuming all the Qualifying Shareholders take up their respective entitlements to the Offer Shares under the Open Offer*

Name of the Shareholders	Upon completion of the Capital Reorganisation		Upon completion of the Capital Reorganisation and the Open Offer		Upon completion of the Capital Reorganisation, the Open Offer and the issuance of the Settlement Shares		Upon completion of the Capital Reorganisation, the Open Offer and the issuance of the Settlement Shares and the Conversion Shares	
	Number of Approximate Shares	%	Number of Approximate Shares	%	Number of Approximate Shares	%	Number of Approximate Shares	%
Mr. Long (being Creditor E) and parties acting in concert with him								
Creditor A (Note 1)	381,011,000	14.56%	1,143,033,000	14.56%	4,310,109,482	24.57%	4,310,109,482	23.84%
Creditor E (Note 2)	-	-	-	-	1,046,720,224	5.97%	1,046,720,224	5.79%
Creditor F (Note 3)	-	-	-	-	1,247,689,528	7.11%	1,247,689,528	6.90%
The Investor (Note 4)	-	-	-	-	-	-	-	-
<b>Sub total</b>	<b>381,011,000</b>	<b>14.56%</b>	<b>1,143,033,000</b>	<b>14.56%</b>	<b>6,604,519,234</b>	<b>37.65%</b>	<b>6,604,519,234</b>	<b>36.53%</b>
Other Creditors (Share Settlement Creditors)								
Creditor B	-	-	-	-	1,934,041,095	11.02%	1,934,041,095	10.70%
Creditor C	-	-	-	-	682,602,739	3.89%	682,602,739	3.78%
Creditor D	-	-	-	-	409,561,643	2.33%	409,561,643	2.27%
Creditor G	-	-	-	-	789,636,054	4.50%	789,636,054	4.37%
Creditor H	-	-	-	-	226,279,452	1.29%	226,279,452	1.25%
Creditor I	-	-	-	-	188,415,241	1.07%	188,415,241	1.04%
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,230,536,224</b>	<b>24.10%</b>	<b>4,230,536,224</b>	<b>23.41%</b>
Other Creditors (CB Settlement Creditors)								
Creditor J	-	-	-	-	-	-	381,816,328	2.11%
Creditor K	-	-	-	-	-	-	139,700,301	0.77%
Creditor L	-	-	-	-	-	-	12,656,931	0.07%
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>534,173,560</b>	<b>2.95%</b>
Other public Shareholders	2,236,640,650	85.44%	6,709,921,950	85.44%	6,709,921,950	38.25%	6,709,921,950	37.11%
<b>Total</b>	<b>2,617,651,650</b>	<b>100.00%</b>	<b>7,852,954,950</b>	<b>100.00%</b>	<b>17,544,977,408</b>	<b>100.00%</b>	<b>18,079,150,968</b>	<b>100.00%</b>
Public Shareholders	2,236,640,650	85.44%	6,709,921,950	85.44%	9,006,417,079	51.33%	9,540,590,639	52.77%

## LETTER FROM THE BOARD

### Scenario B:

*Assuming none of the Qualifying Shareholders take up their respective entitlements to the Offer Shares under the Open Offer (other than Star Sino International Limited who has undertaken to take up its assured entitlement of 762,022,000 Offer Shares)*

Name of the Shareholders	Upon Completion of the Capital Reorganisation		Upon Completion of the Capital Reorganisation and the Open Offer		Upon Completion of the Capital Reorganisation, the Open Offer and the issuance of the Settlement Shares		Upon Completion of the Capital Reorganisation, the Open Offer and the issuance of the Settlement Shares and the Conversion Shares	
	Number of Approximate Shares	%	Number of Approximate Shares	%	Number of Approximate Shares	%	Number of Approximate Shares	%
Mr. Long (being Creditor E) and parties acting in concert with him								
Creditor A (Note 1)	381,011,000	14.56%	1,143,033,000	14.56%	4,310,109,482	24.57%	4,310,109,482	23.84%
Creditor E (Note 2)	-	-	-	-	1,046,720,224	5.97%	1,046,720,224	5.79%
Creditor F (Note 3)	-	-	-	-	1,247,689,528	7.11%	1,247,689,528	6.90%
The Investor (Note 4)	-	-	4,473,281,300	56.96%	4,473,281,300	25.50%	4,473,281,300	24.74%
<b>Sub total</b>	<b>381,011,000</b>	<b>14.56%</b>	<b>5,616,314,300</b>	<b>71.52%</b>	<b>11,077,800,534</b>	<b>63.15%</b>	<b>11,077,800,534</b>	<b>61.27%</b>
Other Creditors (Share Settlement Creditors)								
Creditor B	-	-	-	-	1,934,041,095	11.02%	1,934,041,095	10.70%
Creditor C	-	-	-	-	682,602,739	3.89%	682,602,739	3.78%
Creditor D	-	-	-	-	409,561,643	2.33%	409,561,643	2.27%
Creditor G	-	-	-	-	789,636,054	4.50%	789,636,054	4.37%
Creditor H	-	-	-	-	226,279,452	1.29%	226,279,452	1.25%
Creditor I	-	-	-	-	188,415,241	1.07%	188,415,241	1.04%
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,230,536,224</b>	<b>24.10%</b>	<b>4,230,536,224</b>	<b>23.41%</b>
Other Creditors (CB Settlement Creditors)								
Creditor J	-	-	-	-	-	-	381,816,328	2.11%
Creditor K	-	-	-	-	-	-	139,700,301	0.77%
Creditor L	-	-	-	-	-	-	12,656,931	0.07%
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>534,173,560</b>	<b>2.95%</b>
Other public Shareholders	2,236,640,650	85.44%	2,236,640,650	28.48%	2,236,640,650	12.75%	2,236,640,650	12.37%
<b>Total</b>	<b>2,617,651,650</b>	<b>100.00%</b>	<b>7,852,954,950</b>	<b>100.00%</b>	<b>17,544,977,408</b>	<b>100.00%</b>	<b>18,079,150,968</b>	<b>100.00%</b>
Public Shareholders	2,236,640,650	85.44%	2,236,640,650	28.48%	4,533,135,779	25.83%	5,067,309,339	28.03%

## LETTER FROM THE BOARD

*Notes:*

- 1 Creditor A, Star Sino International Limited, is wholly and beneficially owned by Mr. Long and its principal activity is investment holding.
- 2 Creditor E, being Mr. Long, is the executive Director.
- 3 Creditor F, Billion Glory Capital Investment Limited, is wholly and beneficially owned by Mr. Long and its principal activity is investment holding.
- 4 Gain Faith Investments Limited, being the underwriter to the Open Offer, is wholly and beneficially owned by Mr. Long and its principal activity is investment holding.

### REASONS AND BENEFITS FOR THE PROPOSED OPEN OFFER AND ENTERING INTO THE DEBT SETTLEMENT AGREEMENTS

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

On 31 March 2010, the Company issued the 2010 Convertible Bonds in the total principal amount of HK\$895,191,200 as part of the consideration for the acquisition of the entire issued share capital of Westralian Resources. The 2010 Convertible Bonds which matured on 1 April 2013 bore no interest up to the maturity date. Trading in the Shares on the Stock Exchange has been suspended since 29 June 2011, constituted an event of default under the 2010 Convertible Bonds such that the Company is required to redeem them pursuant to the terms of the 2010 Convertible Bonds. Therefore, the 2010 Convertible Bonds has been reclassified as current liabilities of the Company since the financial year ended 31 December 2011.

As set out in the Company's audited annual report for the year ended 31 December 2014 ("**2014 Annual Report**"), as the Group incurred a loss attributable to the owners of the Company of approximately HK\$602 million for the year ended 31 December 2014, and had net current liabilities and net liabilities of approximately HK\$484 million and HK\$282 million respectively as at 31 December 2014, the auditors of the Company have given a disclaimer opinion in respect of the material uncertainty relating to the going concern basis ("**Going Concern Issue**").

In order to resolve the Going Concern Issue, after the arm's length negotiations between the Company and the Creditors, the Company entered into the Share Settlement Agreements with the Share Settlement Creditors and the CB Settlement Agreements with the CB Settlement Creditors by way of the issuance of the Settlement Shares and the Settlement Convertible Bonds respectively. The debts that are the subject matter of the Share Settlement Agreements and the CB Settlement Agreements represent approximately 96.33% in value of the total debts of the Group as at the Latest Practicable Date. In addition, the Board also proposes to conduct the Open Offer which will be fully underwritten by the Investor.

The Board believes that entering into of the Debt Settlement Agreements will reduce the indebtedness level of the Group and resolve the Going Concern Issue, and together with the proposed Open Offer, will strengthen the financial position of the Group. The Open Offer will provide the Group with new funds to enhance the Group's existing business and flexibility to make investments in any new business when suitable opportunity arise in the future. In addition, the Open Offer can give the Qualifying Shareholders the opportunities to maintain their pro rata shareholding interests in the Company and participate in the potential growth of the Company.

## LETTER FROM THE BOARD

Having considered the factors above and the terms of the Underwriting Agreement (including the underwriting commission payable by the Company), the Directors consider that the terms of the Debt Settlement Agreements and the Underwriting Agreement are on normal commercial terms, fair and reasonable and the entering into of the Debt Settlement Agreements and the Underwriting Agreement is in the interests of the Company and the Shareholders as a whole.

### USE OF PROCEEDS FROM THE OPEN OFFER

The gross proceeds from the Open Offer are approximately HK\$157.1 million, and the net proceeds from the Open Offer are estimated to be approximately HK\$150.0 million, the net proceeds will be applied by the Company as follows:

- (i) approximately HK\$35.0 million as possible early redemption of the Settlement Convertible Bonds by the Company and settlement of current liabilities, and in the event that no early redemption of the Settlement Convertible Bonds will occur, such amount should be used as approximately HK\$20.0 million as future investments fund for possible potential merger and acquisition projects and HK\$15.0 million as working capital for the existing business of the Group;
- (ii) approximately HK\$45.0 million as capital investment in the mining products segment;
- (iii) approximately HK\$33.0 million as a future investments fund for possible potential merger and acquisition projects. As at the Latest Practicable Date, the Company was not involved in any negotiation or discussion and had not identified any acquisition targets in this regard; and
- (iv) approximately HK\$37.0 million as working capital for the existing business of the Group.

### FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company did not carry out any rights issue, open offer or other issue of equity securities for fund raising purpose or otherwise within the 12 months immediately prior to the date of the Announcement.

### STATUS OF THE OFFER SHARES, THE SETTLEMENT SHARES AND THE CONVERSION SHARES

The Settlement Shares and the Conversion Shares, which will be allotted and issued under a specific mandate to be sought from the Independent Shareholders at the EGM, and the Offer Shares will rank *pari passu* in all respects among themselves and with the Reorganised Shares of the Company in issue as at the date of allotment and issue of the Offer Shares, the Settlement Shares and the Conversion Shares, respectively, including the rights to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Offer Shares, the Settlement Shares and the Conversion Shares, respectively.



## LETTER FROM THE BOARD

### LISTING APPLICATION

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Reorganised Shares, the Offer Shares, the Settlement Shares and the Conversion Shares.

None of the securities of the Company is listed or dealt in on any other stock exchange and no such listing or permission to deal is proposed to be sought.

Subject to the granting of the listing of, and permission to deal in, the Reorganised Shares, the Offer Shares, the Settlement Shares and the Conversion Shares on the Stock Exchange, the Reorganised Shares, the Offer Shares, the Settlement Shares and the Conversion Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Reorganised Shares, the Offer Shares, the Settlement Shares and the Conversion Shares on the Stock Exchange or under contingent situation, such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second business day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### LISTING RULES IMPLICATIONS

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Creditor B, the Creditor C, the Creditor D, the Creditor G, the Creditor H, the Creditor I, the Creditor J, the Creditor K and the Creditor L, and their respective ultimate beneficial owner(s) did not hold any existing Shares and are independent third parties not connected with the Company or any of its connected persons as at the date of the Debt Settlement Agreements and up to the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Long is the Chairman, an executive Director and a substantial Shareholder interested through Creditor A in 762,022,000 Shares, representing approximately 14.56% of the total number of Shares in issue. Each of the Investor, the Creditor A and the Creditor F is wholly and beneficially owned by Mr. Long. Therefore, each of Mr. Long, the Investor, the Creditor A and the Creditor F is a connected person of the Company pursuant to the Listing Rules.

As such, the entering into each of the Underwriting Agreement, the Share Settlement Agreement A, the Share Settlement Agreement E, the Share Settlement Agreement F1 and the Share Settlement Agreement F2 constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and (apart from the Underwriting Agreement) subject to reporting, announcement and the independent Shareholders' approval requirements pursuant to the Listing Rules.

As all applicable percentage ratios in respect of the payment of the underwriting commission by the Company to the Investor are less than 25% and the total amount of the underwriting commission payable by the Company to the Investor is less than HK\$10,000,000, the payment of the underwriting commission is subject to reporting and announcement requirements but exempt from the independent Shareholders' approval requirement pursuant to Rule 14A.76(2)(b) of the Listing Rules.

## LETTER FROM THE BOARD

In addition, as the Open Offer will increase the number of issued Reorganised Shares by more than 50%, the Open Offer is subject to approval by the Shareholders at the EGM by way of poll. Given there is no controlling Shareholder, the Directors and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Open Offer pursuant to the requirement of the Listing Rules.

### TAKEOVERS CODE IMPLICATIONS

As at the Latest Practicable Date, Mr. Long and parties acting in concert with him are interested in 762,022,000 Shares, representing approximately 14.56% of the issued share capital of the Company. Upon the Capital Reorganisation becoming effective, Mr. Long and parties acting in concert with him will be interested in 381,011,000 Reorganised Shares, representing approximately 14.56% of the total number of Reorganised Shares then in issue. Immediately upon completion of the issuance of the Offer Shares, the Settlement Shares and/or the Conversion Shares, Mr. Long and parties acting in concert with him will be interested in 6,604,519,234 Reorganised Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her/its entitlement under the Open Offer), representing:

- (a) approximately 37.65% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares (assuming all the Shareholders are the Qualifying Shareholders and have taken up his/her entitlement under the Open Offer); and
- (b) approximately 36.53% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares (assuming all the Shareholders are the Qualifying Shareholders and have taken up his/her entitlement under the Open Offer and full conversion of the Settlement Convertible Bonds at their initial Conversion Price).

In the event that none of the Qualifying Shareholders (apart from Star Sino International Limited) takes up his/her/its entitlement under the Open Offer and the Investor is called upon to take up all the Offer Shares under the Underwriting Agreement, immediately upon completion of the issuance of the Offer Shares, the Settlement Shares and/or the Conversion Shares, Mr. Long and parties acting in concert with him will be interested in an aggregate 11,077,800,534 Reorganised Shares, representing:

- (a) approximately 63.15% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares; and
- (b) approximately 61.27% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares.

## LETTER FROM THE BOARD

Pursuant to Rule 26 of the Takeovers Code and in the absence of the Whitewash Waiver, as a result of the completion of the issuance of the Settlement Shares and the Offer Shares and regardless of whether the Investor is called upon to take up the Offer Shares under the Underwriting Agreement, an obligation to make a mandatory general offer would be triggered on the part of Mr. Long and parties acting in concert with him for all the shares of the Company other than those already owned or agreed to be acquired by Mr. Long and parties acting in concert with him. In this respect, Mr. Long has made an application to the Executive under the Takeovers Code for the grant of the Whitewash Waiver to relieve them from their obligation to make a mandatory general offer as a result of the completion of the issuance of the Settlement Shares and the Offer Shares which may be acquired by the Investor if it is called upon to take up the Offer Shares under the Underwriting Agreement, and such grant will be subject to, among other things, approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM by way of poll. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the EGM. If the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Open Offer, the Underwriting Agreement and the transactions contemplated under the Debt Settlement Agreements will not proceed.

**Shareholders and potential investors should be aware that there is a possibility that the aggregate shareholding of Mr. Long and parties acting in concert with him may exceed 50% of the issued shares of the Company following the completion of the issuance of the Offer Shares and the Settlement Shares. In this event, Mr. Long and parties acting in concert with him may increase their shareholding in the Company without incurring any further obligation to make a general offer under the Takeovers Code.**

### INFORMATION ON THE CONCERT GROUP

The Concert Group includes Mr. Long, Creditor A, Creditor F and the Investor, being Star Sino International Limited, Billion Glory Capital Investment Limited and Gain Faith Investments Limited, each of which is wholly and beneficially owned by Mr. Long and whose principal activity is investment holding.

Mr. Long is the Chairman and an executive Director. He 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. Further information on Mr. Long is set out in the section headed "Particulars of Directors and Senior Management" in Appendix V to this Circular.

As the Company's largest Shareholder, Mr. Long has been financing the Company's working capital and capital expenditure needs during the suspension of trading of the Shares. As the largest Creditor and Shareholder, Mr. Long understands that the Company needs to be deleveraged to achieve a healthy financial status. Also for long term strategic perspective, it's of the Company's benefits that the majority of its financial liabilities transform into the equities, the Company is able to focus on its core business. Unless the Company is able to turn around, Mr. Long's investment in the Company (in form of equity and loan) may not be recoverable. In view of the above and having confidence in the Company's prospects after the debt and capital restructuring, Mr. Long directly and through his wholly-owned companies agreed to the settlement arrangement and to underwrite the Open Offer, at the request of the Company.

## LETTER FROM THE BOARD

### INTENTION OF MR. LONG

Mr. Long has informed the Company that he intends the Group to continue its current business and that he has no intention to (i) introduce any major changes to the existing business of the Group; (ii) discontinue the employment of any existing employees of the Group; or (iii) redeploy any fixed assets of the Group.

### INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, Mr. Long and parties acting in concert with him are interested in 762,022,000 Shares (representing approximately 14.56% issued share capital of the Company) and the outstanding 2010 Convertible Bonds in the principal amount of HK\$139,191,200. Save for the aforesaid Shares, 2010 Convertible Bonds, and entering into of the Underwriting Agreement, the irrevocable undertakings in relation to the Offer Shares, the Share Settlement Agreement A, the Share Settlement Agreement E, the Share Settlement Agreement F1 and the Share Settlement Agreement F2, as at the date of the Debt Settlement Agreements and up to and including the Latest Practicable Date, none of Mr. Long or any parties acting in concert with him:

- (i) holds, controls or has direction over any Shares, outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any securities in the Company;
- (ii) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (iii) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the Shares, which might be material to the Open Offer, the Debt Settlement Agreements and/or the Whitewash Waiver;
- (iv) has any agreements or arrangements to which the Mr. Long or any party acting in concert with him is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Open Offer, the Debt Settlement Agreements and/or the Whitewash Waiver; and
- (v) has received any irrevocable commitment to vote for or against the Open Offer, the Debt Settlement Agreements or the Whitewash Waiver.

Save for entering into the Underwriting Agreement, the irrevocable undertakings in relation to the Offer Shares, the Share Settlement Agreement A, the Share Settlement Agreement E, the Share Settlement Agreement F1 and the Share Settlement Agreement F2, none of Mr. Long or any parties acting in concert with him has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible into any Shares during the Relevant Period.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, none of Creditor B, Creditor C, Creditor D, Creditor G, Creditor H, Creditor I, Creditor J, Creditor K and Creditor L and their respective ultimate beneficial owner(s) is a Shareholder. Mr. Long has confirmed that none of the aforementioned creditors and their respective ultimate beneficial owner(s) is a party acting in concert with him.

## LETTER FROM THE BOARD

### PROPOSED ADOPTION OF NEW ARTICLES OF ASSOCIATION

The existing Articles of Association have not been amended since 2006. The Board proposed certain amendments to be made to the existing Articles of Association for housekeeping purpose and for the purpose of conforming with certain amendments to the Listing Rules which have become effective since the last amendment of the Articles of Association.

The Board will propose a special resolution at the EGM for the approval of the Shareholders that the New Articles of Association be adopted to replace the existing Articles of Association. A summary of the principal provisions of the New Articles of Association is set out in Appendix III to this Circular.

Certain of principal differences between the proposed New Articles of Association and the existing Articles of Association are summarized below:

- to insert the definition of “close associate” and update the provisions in the Articles of Association containing references to “associates” in light of amendments to the Listing Rules;
- to delete the provisions relating to a prohibition on the giving of financial assistance;
- to provide that an annual general meeting of the Company shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and all other general meetings (including an extraordinary general meeting) must be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days;
- to provide that all resolutions at general meetings of the Company shall be decided by poll other than resolution which relates purely to a procedural or administrative matter as may be permitted under the Listing Rules to be voted by a show of hands;
- to align with the requirements under the Listing Rules on the Directors’ requirement of not voting on any resolution of the Board approving any contract, arrangement or any other proposal in which the Director or any of his/her close associates has a material interest;
- to remove the 5% exemption for voting by a Director on a Board resolution in which he/she has an interest;
- to prohibit the Company from making any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance as if the Company were a company incorporated in Hong Kong; and
- to provide that any notice or document (including any “corporate communication” within the meaning ascribed thereto under the Listing Rules), may be served, to the extent permitted by the applicable laws, by placing it on the Company’s website or the website of the Stock Exchange, and giving to the member a notice stating that the notice or other document is available there.

## LETTER FROM THE BOARD

### PROPOSED ADOPTION OF NEW SHARE OPTION SCHEME

#### Existing Share Option Scheme

The Existing Share Option Scheme was adopted by the Company on 20 December 2001 for a term of 10 years and expired on 19 December 2011. As at the Latest Practicable Date, there is no outstanding options granted under the Existing Share Option Scheme. In consideration of the expiry of the Existing Share Option Scheme, the Board proposes the adoption of New Share Option Scheme for the approval of the Shareholders at the EGM.

#### New Share Option Scheme

An ordinary resolution will be proposed at the EGM for the approval of the adoption of New Share Option Scheme. A summary of the principal terms of the New Share Option Scheme is set out in Appendix IV to this Circular.

The purpose of the New Share Option Scheme is to enable the Company to grant options to its or any subsidiary's director, substantial shareholder (as defined in the Listing Rules), employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner of the Group who ("**Participants**"), have contributed or may contribute to the Group as incentive or reward for their contribution to our Group to subscribe for the Shares thereby linking their interest with that of the Group. The rules of the New Share Option Scheme do not specify any minimum holding period, performance targets before the Option is exercisable as a condition of any Option. The rules of the New Share Option Scheme do provide that the Board is empowered with the authority to determine the terms on which an Option is granted which may include minimum holding periods and/or performance targets, in each case based on such factors as the Board in its sole discretion may consider appropriate, subject to the provisions of the New Share Option Scheme and the requirements of the Listing Rules. The Board believes that the authority given to it under the New Share Option Scheme to specify any minimum holding period and/or performance targets as conditions to any Option granted, as well as the requirement for a minimum subscription price together with the authority to select the appropriate Participants pursuant to the rules of the New Share Option Scheme will serve to protect the value of the Company as well as to achieve the purposes of the New Share Option Scheme.

The New Share Option Scheme will be administered by the Board. None of the Directors is a trustee of the New Share Option Scheme or has a direct or indirect interest in such trustee (if any). With respect to the operation of the New Share Option Scheme, the Company will, where applicable, comply with the relevant requirements under Chapter 17 of the Listing Rules.

Assuming that there is no further change in the issued share capital between the period from the Latest Practicable Date to the Adoption Date, based on the issued share capital of the Company of 5,235,303,300 Shares as at the Latest Practicable Date, the number of Shares issuable pursuant to the New Share Option Scheme on the Adoption Date will be 523,530,330 Shares, representing approximately 10% of the issued share capital of the Company on the Adoption Date. Subject to the obtaining of Shareholders' approval with respect to the adoption of New Share Option Scheme at the EGM, the total number of Shares which may be issued upon exercise of all Options to be granted under the New Share Option Scheme and any other schemes must not in aggregate exceed 10% of

## LETTER FROM THE BOARD

the total issued capital of the Company as at the Adoption Date unless the Company obtains a fresh approval from Shareholders to refresh the 10% limit provided that, *inter alia*, the maximum number of Shares in respect of which Options may be granted under the New Share Option Scheme together with any Options outstanding and yet to be exercised under the New Share Option Scheme and any other schemes must not exceed 30% of the issued share capital of the Company from time to time.

### Value of the Options

The Directors consider that it is not appropriate to state the value of all Options that can be granted pursuant to the New Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the Option value have not been determined. Such variables include but are not limited to the exercise price, exercise period, minimum holding period (if any). The Directors believe that any calculation of the value of the Options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and may be misleading to the Shareholders in the circumstances.

### Conditions precedent of the New Share Option Scheme

The adoption of New Share Option Scheme is conditional upon:

- (A) the Listing Committee granting the listing of, and permission to deal in, any Shares to be issued by the Company pursuant to the exercise of options in accordance with the terms and conditions of the New Share Option Scheme; and
- (B) the passing of the necessary resolution to approve and adopt the New Share Option Scheme by the Shareholders in general meeting and to authorise the Directors to grant Options at their absolute discretion thereunder and to allot, issue and deal with Shares pursuant to the exercise of any Options granted under the New Share Option Scheme.

### Application for listing

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options granted under the New Share Option Scheme.

### EGM

The EGM will be convened and held at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong at 10:00 a.m. on Monday, 22 February 2016 and for the Shareholders (or the Independent Shareholders, where appropriate) to consider and, if thought fit, to approve, among other things, (i) the Capital Reorganisation; (ii) the Open Offer; (iii) the issuance of the Settlement Shares and the Settlement Convertible Bonds under the Debt Settlement Agreements and the issuance of the Conversion Shares pursuant to the Settlement Convertible Bonds; (iv) the Whitewash Waiver; (v) the adoption of New Articles of Association; and (vi) the adoption of New Share Option Scheme, and all these resolutions shall be voted by way of poll.

## LETTER FROM THE BOARD

Mr. Long, his associates and parties acting in concert with him (being the Concert Group), holding an aggregate of 762,022,000 Shares (representing approximately 14.56% of the issued share capital of the Company as at the Latest Practicable Date), will abstain from voting on the resolutions numbered 2 to 4 set out in the notice convening the EGM, being the resolutions approving the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver. As Mr. Long has a material interest in the Open Offer, the Share Settlement Agreement A, the Share Settlement Agreement E, the Share Settlement Agreement F1, the Share Settlement Agreement F2, and the Whitewash Waiver, he has abstained from voting on the resolutions in respect of the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver at the relevant board meeting.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolutions approving the adoption of New Articles of Association and the adoption of New Share Option Scheme.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver. None of the members of the Independent Board Committee has any interest in involvement in the transactions contemplated under the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the recommendations to voting at the EGM on the resolutions in relation to the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver.

### SECURITIES OF THE COMPANY

As at the Latest Practicable Date, the Company had a total of 5,235,303,300 ordinary Shares of HK\$0.10 each in issue, and 2010 Convertible Bonds with outstanding principal amount of HK\$290,191,200. Saved as disclosed above, the Company has no other class of relevant securities in issue.

### CONDITIONS FOR RESUMPTION

Trading in the shares of the Company on the Stock Exchange has been suspended since 29 June 2011 and shall remain suspended until further notice.

On 14 December 2015, the Company received the approval from the Stock Exchange that the Resumption is allowed subject to the completion of the Capital Reorganisation, the Open Offer and the Debt Settlement Agreements.

**The Open Offer, the Underwriting Agreement, the Debt Settlement Agreements, the Whitewash Waiver and all the transactions contemplated thereunder are subject to the fulfillment of a number of conditions and therefore may or may not materialise. Shareholders and potential investors of the Company should note that the despatch of this Circular does not mean that trading in Shares will be resumed or the listing of the Reorganised Shares, the Offer Shares, the Settlement Shares and the Conversion Shares will be approved by the Stock Exchange.**



## LETTER FROM THE BOARD

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 56 to 57 in this Circular which contains its recommendation to the Independent Shareholders (i) as to whether the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver and all the transactions contemplated thereunder are fair and reasonable; and (ii) as to voting at the EGM in relation to the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver.

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 58 to 89 in this Circular which contains its advice to the Independent Board Committee and the Independent Shareholders (i) as to whether the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver and all the transactions contemplated thereunder are fair and reasonable; and (ii) as to voting at the EGM in relation to the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver, and the principal factors and reasons considered by it in arriving its opinion.

The Directors (including the independent non-executive Directors who have taken into consideration of the advice from the Independent Financial Adviser) consider that the Open Offer, the Underwriting Agreement, the Debt Settlement Agreements, the Whitewash Waiver and all the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Independent Shareholders. The Board also believes that the proposals for the adoption of New Articles of Association and the adoption of New Share Option Scheme are in the best interests of the Company and the Shareholders. Accordingly, the Board recommends that the Shareholders should vote in favour of the resolutions, which will be proposed at the EGM, relating to the adoption of New Articles of Association, the adoption of New Share Option Scheme, the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver and all the transactions contemplated thereunder.

You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser mentioned above before deciding how to vote on the resolution(s) to be proposed at the EGM.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Circular.

Yours faithfully,  
By order of the Board of  
**China Billion Resources Limited**  
**Long Xiaobo**  
*Chairman*



**CHINA BILLION RESOURCES LIMITED**

**中富資源有限公司\***

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

**(Stock code: 274)**

29 January 2016

*To the Independent Shareholders*

Dear Sir or Madam,

- 1. OPEN OFFER ON THE BASIS OF TWO OFFER SHARES  
FOR EVERY ONE REORGANISED SHARE  
HELD ON THE OPEN OFFER RECORD DATE;**
- 2. ISSUE OF SETTLEMENT SHARES AND SETTLEMENT CONVERTIBLE  
BONDS UNDER DEBT SETTLEMENT AGREEMENTS;**
- AND**
- 3. APPLICATION FOR WHITEWASH WAIVER**

We have been formed to make a recommendation to the Independent Shareholders on the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver, and all the transactions contemplated thereunder, details of which are set out in the Circular issued by the Company to the Shareholders dated 29 January 2016, of which this letter forms part. With the approval of the Independent Board Committee, Somerely Capital Limited has been appointed by the Company as the independent financial adviser to advise us in this regard.

Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser set out on pages 16 to 55 and pages 58 to 89 of the Circular respectively, and the additional information set out in the appendices to the Circular.

\* *For identification only*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having taken into account the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver, and all the transactions contemplated thereunder, and the principal factors and reasons considered by Independent Financial Adviser and its conclusion and advice, we concur with the view of Independent Financial Adviser and consider that the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver, and all the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Open Offer, the Debt Settlement Agreements, the Whitewash Waiver, and all the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Jin Shunxing**  
*Independent Non-executive  
Director*

**Chiang Tsung-Nien**  
*Independent Non-executive  
Director*

**Liu Shuang**  
*Independent Non-executive  
Director*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this Circular.*



**SOMERLEY  
CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

29 January 2016

To: *the Independent Board Committee and the Independent Shareholders of China Billion Resources Limited*

Dear Sirs,

**OPEN OFFER ON THE BASIS ON TWO OFFER SHARES  
FOR EVERY ONE REORGANISED SHARE  
HELD ON THE OPEN OFFER RECORD DATE;  
ISSUE OF SETTLEMENT SHARES AND SETTLEMENT CONVERTIBLE BONDS  
UNDER DEBT SETTLEMENT AGREEMENTS;  
AND  
APPLICATION FOR WHITEWASH WAIVER**

### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver, details of which are set out in the letter from the Board contained in the Circular to the Shareholders dated 29 January 2016, of which this letter forms a part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Trading in the Shares on the Stock Exchange has been suspended since 29 June 2011. On 14 December 2015, the Company received the approval from the Stock Exchange ("**Conditional Approval**") that the Resumption is allowed subject to the completion of the Capital Reorganisation, the Open Offer and the Debt Settlement Agreements.

As at the Latest Practicable Date, the existing authorised share capital of the Company is HK\$800 million, divided into 8,000 million Shares of HK\$0.10 each, of which 5,235,303,300 Shares were issued and fully paid up or credited as fully paid up in the amount of HK\$523,530,330. As stated in the letter from the Board in the Circular, the Board proposes to implement the Capital Reorganisation (involving the Capital Reduction, the Capital Cancellation, the Share Consolidation, the increase in authorised share capital and the Share Premium Reduction) which will be subject to Shareholders' approval at the EGM.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the letter from the Board in this Circular, subject to the Capital Reorganisation becoming effective, the Board proposes that the Company makes the Open Offer on the basis of two (2) Offer Shares for every one (1) Reorganised Share held on the Open Offer Record Date by the Qualifying Shareholders. A total of 5,235,303,300 Offer Shares will be allotted and issued by the Company to the Qualifying Shareholders at the Offer Price of HK\$0.03 for each Offer Share and the gross proceeds to be raised from the issuance of the Offer Shares is expected to be approximately HK\$157.1 million. The Open Offer is underwritten by the Investor which is wholly and beneficially owned by Mr. Long. As the Open Offer will increase the number of issued Reorganised Shares by more than 50%, the Open Offer is subject to approval by the Shareholders at the EGM by way of poll.

As also stated in the letter from the Board in the Circular, the Company has entered into Debt Settlement Agreements, comprising the Share Settlement Agreements and the CB Settlement Agreements, with twelve Creditors to settle the relevant outstanding debts together with the accrued interest (where relevant), owed by the Company to the Creditors.

Mr. Long (or Creditor E) is the Chairman, an executive Director and a substantial Shareholder directly interested in, through Creditor A, 762,022,000 Shares, representing approximately 14.56% of the total number of Shares in issuance. Each of the Investor, the Creditor A and the Creditor F is wholly and beneficially owned by Mr. Long. Therefore, each of Mr. Long (or Creditor E), the Investor, the Creditor A and the Creditor F is a connected person of the Company pursuant to the Listing Rules. As such, the entering into each of the Underwriting Agreement, the Share Settlement Agreement A, the Share Settlement Agreement E, the Share Settlement Agreement F1 and the Share Settlement Agreement F2 constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and (apart from the Underwriting Agreement) subject to reporting, announcement and the Independent Shareholders' approval requirements pursuant to the Listing Rules.

Pursuant to Rule 26 of the Takeovers Code and in the absence of the Whitewash Waiver, as a result of the completion of the issuance of the Settlement Shares and the Offer Shares and regardless of whether the Investor is called upon to take up the Offer Shares under the Underwriting Agreement, an obligation to make a mandatory general offer would be triggered on the part of Mr. Long and parties acting in concert with him for all the shares of the Company other than those already owned or agreed to be acquired by Mr. Long and parties acting in concert with him. In this respect, Mr. Long has made an application to the Executive under the Takeovers Code for the grant of the Whitewash Waiver to relieve them from their obligation to make a mandatory general offer as a result of the completion of the issuance of the Settlement Shares and the Offer Shares which may be acquired by the Investor if it is called upon to take up the Offer Shares under the Underwriting Agreement, and such grant will be subject to, among other things, approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM by way of poll. As stated in the letter from the Board in the Circular, the Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the EGM.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Jin Shunxing, Mr. Chiang Tsung-Nien and Ms. Liu Shuang, has been formed to advise the Independent Shareholders on whether terms of the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver, are fair and reasonable so far as the Independent Shareholders are concerned, and whether the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on these matters. Our appointment has been approved by the Independent Board Committee.

We are not associated with the Company, the Investor, the Creditor A, the Creditor F, Mr. Long or their respective substantial shareholders (if applicable) or associates and, accordingly, are considered eligible to give independent advice on the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Investor, the Creditor A, the Creditor F, Mr. Long or their respective substantial shareholders (if applicable) or associates.

### BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, among other things, the Debt Settlement Agreements, the Underwriting Agreement, the irrevocable undertaking given by the Creditor A under the Open Offer ("**Irrevocable Undertaking**"), annual reports of Company for each of the financial years ended 31 December 2012 ("**2012 Annual Report**"), 2013 ("**2013 Annual Report**") and 2014 ("**2014 Annual Report**"), interim report of the Company for the six months ended 30 June 2015 ("**2015 Interim Report**"), and the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Company and have assumed that the information and facts provided, and the opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete up to the Latest Practicable Date. Independent Shareholders will be notified of material changes to such information provided and our opinion, if any, as soon as possible after the Latest Practicable Date and until the EGM. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and that the opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have not, however, conducted any independent investigation into the business and affairs of the Group in its existing state, nor have we carried out any independent verification of the information supplied.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion with regard to the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver, we have taken into account the following principal factors and reasons:

### **1. Information on the Group**

#### *1.1. Background of prolonged suspension of trading in the Shares*

The Company was listed on the Stock Exchange in 2000. The Group is principally engaged in provision of beauty treatment and trading of cosmetic and skincare products in Hong Kong, and gold mining, exploration and trading of gold products in the PRC.

Trading in the Shares on Stock Exchange has been suspended at the request of the Company on 29 June 2011 pending the release of an announcement regarding certain price sensitive information, among other things, the default of certain loan facilities of the Group (“**Indebtedness**”) and that the relevant lender/security agent had exercised and executed the share charges on two of the Company’s subsidiaries; and the non-disclosure of information about the loan facilities, pledges of assets and subsidiaries, going concern matter and subsequent events after the year end on the Company’s default. The Stock Exchange concerned that the audited accounts of the Company for the financial year ended 31 December 2010 may contain incomplete, false and misleading information and whether the market has the necessary information to appraise the Group’s position.

As mentioned in the Company’s announcement dated 5 March 2012 and 14 March 2012 (collectively, “**March 2012 Announcements**”), the Group executed a set of contracts of debt restructuring and handling to fully settle the Indebtedness through transfer of the Group’s certain assets and investments, whilst the non-disclosure of information about the Company’s default as concerned by the Stock Exchange were also clarified in the March 2012 Announcements. Details of which please refer to the March 2012 Announcements.

During the period, the Company has also engaged several professional advisers to address the matters in respect of the Resumption and various steps have been taken by the Company to seek Resumption. As set out in the Company’s announcement dated 31 December 2013, an internal control consultant (“**Internal Control Consultant**”) was engaged by the Company to perform an internal control review on the Group. Based on the recommendations of the Internal Control Consultant as set out in its preliminary draft internal control review report, the management of the Company has taken necessary actions and steps to address those internal control issues and deficiencies and, according to a follow-up review by the Internal Control Consultant in May 2015, 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.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

By September 2015, the Company has published all the outstanding financial results including the annual results for each of the financial year ended 31 December 2011, 2012, 2013 and 2014, and the interim results for each of the six months periods ended 30 June 2012, 2013, 2014 and 2015.

Since the financial year ended 31 December 2011, the Group has incurred a loss attributable to owners of the Company. The Group had net current liabilities as at 31 December of each of 2011, 2012, 2013 and 2014, and also had net liabilities as at 31 December 2014 and 30 June 2015. The auditor of the Company has given a disclaimer opinion about the Company's ability to continue as a going concern ("**Going Concern Issue**") on the Company's audited accounts for each of the financial years of 2011 to 2014. In this regard, as mentioned in the Company's announcement dated 30 April 2015, 29 May 2015, 30 June 2015 and 27 July 2015, the Company has been exploring the possibility of negotiating with its creditors with a view to resolve the Going Concern Issue, including but not limited to, a debt restructuring involving the possibility of converting the outstanding debts of the Group into the shares of the Company. Details regarding the progress on the Resumption and the aforesaid debt restructuring are set out in the Company's announcements dated 10 April 2012, 14 December 2012, 5 February 2013, 28 February 2013, 1 April 2013, 23 May 2013, 27 June 2013, 1 October 2013, 1 November 2013, 4 December 2013, 31 December 2013, 29 January 2014, 28 February 2014, 26 March 2014, 16 May 2014, 19 June 2014, 24 July 2014, 3 October 2014, 7 January 2015, 23 March 2015, 30 April 2015, 29 May 2015, 30 June 2015 and 27 July 2015, respectively.

As regards the possible debt restructuring and in order to resolve the Going Concern Issue, after the arm's length negotiations between the Company and the Creditors, in November 2015, the Company entered into the Share Settlement Agreements with the Share Settlement Creditors and the CB Settlement Agreements with the CB Settlement Creditors to settle the respective debts by way of the issuance of the Settlement Shares and the Settlement Convertible Bonds respectively. In addition, the Board also proposes to conduct the Open Offer which will be fully underwritten by the Investor, with a view to provide the Group with new funds to enhance the Group's existing business and flexibility to make investments in the future.

To facilitate the Open Offer and the Debt Settlement Agreements, the Board also proposes to implement the Capital Reorganisation which will entail the Capital Reduction, the Capital Cancellation, the Share Consolidation, the increase in authorised share capital and the Share Premium Reduction. Details of the Capital Reorganisation were set out in the section headed "Capital Reorganisation" in the letter from the Board in the Circular. As a result of the completion of the Capital Reorganisation, the total number of issued and paid-up shares of the Company would be 2,617,651,650 with nominal value of HK\$0.01 each.

Further on 14 December 2015, the Company received the Conditional Approval from the Stock Exchange that the Resumption is allowed subject to the completion of the Capital Reorganisation, the Open Offer and the Debt Settlement Agreements.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 1.2. Historical financial performance of the Group

Set out below are the highlights of the financial results of the Group for the six-month periods ended 30 June 2014 and 2015 and the four financial years ended 31 December 2014 (“**Review Period**”):

	For the six months		For the financial year ended 31 December			
	period ended 30 June		2014		2012	
	2015	2014	2014	2013	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)	(Audited)
<i>Continuing operation</i>						
Turnover	16,012	19,779	43,679	30,166	37,322	172,519
- Mining products	4,526	9,144	20,091	8,266	-	2,375
- Cosmetics and skincare products	11,486	10,635	23,588	21,900	37,322	(Note)
Cost of sales and services rendered	(4,939)	(4,093)	(11,606)	(15,928)	(10,680)	(141,918)
<b>Gross profit</b>	<b>11,073</b>	<b>15,686</b>	<b>32,073</b>	<b>14,238</b>	<b>26,642</b>	<b>30,601</b>
Other income and gains	1	5,549	5,722	15,500	1,048	1,353
Selling and distribution expenses	(707)	(742)	(1,316)	(1,204)	(1,003)	(25,904)
Administrative expenses	(20,393)	(29,966)	(72,351)	(61,841)	(66,510)	(66,406)
Impairment loss on mining right	-	-	(844,216)	(475,813)	-	-
Impairment loss on property, plant and equipment	-	-	(34,884)	(48,945)	-	(455,341)
Impairment loss on goodwill	-	-	-	-	-	(322,458)
Impairment loss on trade and other receivables	-	-	-	-	-	(294,436)
<b>Loss from operations</b>	<b>(10,026)</b>	<b>(9,473)</b>	<b>(914,972)</b>	<b>(558,065)</b>	<b>(39,823)</b>	<b>(1,132,591)</b>
Finance costs	(13,414)	(15,976)	(15,995)	(28,675)	(19,551)	(75,732)
<b>Loss before tax</b>	<b>(23,440)</b>	<b>(25,449)</b>	<b>(957,699)</b>	<b>(590,479)</b>	<b>(59,374)</b>	<b>(1,208,323)</b>
Income tax (expense)/credit	(1,651)	776	214,935	116,678	(3,105)	(27,141)
Loss for the period/year from continuing operations	(25,091)	(24,673)	(742,764)	(473,801)	(62,479)	(1,235,464)
Attributable to:						
Owners of the Company	(23,020)	(20,957)	(601,987)	(386,735)	(56,348)	(1,176,046)
Non-controlling interests	(2,071)	(3,716)	(140,777)	(87,066)	(6,131)	(59,418)
Profit for the period/year from discontinued operations	-	-	-	-	-	256,446
Attributable to:						
Owners of the Company	-	-	-	-	-	244,728
Non-controlling interests	-	-	-	-	-	11,718

*Note: As disclosed in 2012 Annual Report, revenue generated from the Group's cosmetics and skin care products segment amounting to approximately HK\$176.2 million for the year ended 31 December 2011 which including revenue from both continuing and discontinued operations.*

## Turnover

Turnover from continuing operations of the Group decreased significantly from approximately HK\$172.5 million for the year ended 31 December 2011 (“FY2011”) to approximately HK\$37.3 million for the year ended 31 December 2012 (“FY2012”), represented a decrease of approximately 78.4%. The significant decrease in turnover for the Group was mainly due to a large part of the production facilities and/or assets in China under the cosmetic and skincare products business segment were transferred to the lenders, namely Sino Measure Limited, according to the contract for concurrent transfer of assets and debt and contract for assets replacement, in order to settle part of the Indebtedness. As disclosed in the 2012 Annual Report, after the transfer, the remaining part of the production facilities were unable to produce as much products for sale such that the management of the Company decided to exit the production of cosmetic and skincare products business segment in China and only focus on the beauty salon outlets in Hong Kong. As reported in the 2012 Annual Report, there was no revenue contributed by the mining products business segment during FY2012, which was mainly due to the business process consolidation conducted during the period in order to improve the efficiency of the mining products business segment.

Turnover of the Group further decreased to approximately HK\$30.2 million for the year ended 31 December 2013 (“FY2013”). The decreased turnover of approximately HK\$21.9 million contributed from the cosmetic and skincare products business segment was mainly due to the downsizing in the number of non-profitable beauty salon outlets and the number of cosmetic products consignment stores in Hong Kong during the period. During FY2013, further funds have been invested to modify the existing tunnel structure and exploration process of the gold mine, and the mining products business segment generated an approximately HK\$8.3 million turnover for FY2013.

As disclosed in the 2014 Annual Report, turnover of the Group rebounded by approximately 44.7% to approximately HK\$43.7 million for the year ended 31 December 2014 (“FY2014”). Such increase was mainly due to the increase in revenue contributed by the mining products segment during FY2014.

There was a decrease in turnover of the Group from approximately HK\$19.8 million for the six months period ended 30 June 2014 (“1H2014”) to approximately HK\$16.0 million for the six months period ended 30 June 2015 (“1H2015”), which was mainly due to the decrease in contribution of revenue from the mining products segment during 1H2014.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### Gross profits

The gross profits from continuing operations showed a decreasing trend during the period from FY2011 to FY2013. The approximately 46.6% decrease in gross profit from approximately HK\$26.6 million for FY2012 to approximately HK\$14.2 million for FY2013 was mainly due to the corresponding higher cost of sales at the initial stage of the mining production which dragged down the overall gross profit for the Group. Gross profit for FY2014 was approximately HK\$32.1 million, which represented an increase of approximately 126.1% as compared with that for FY2013. As provided in the 2014 Annual report, such growth in gross profit was mainly benefited by the considerable increase in the production of the mining products during the period. The gross profit for 1H2015 was approximately HK\$11.1 million, which represented a decrease of approximately 29.3% as compared with approximately HK\$15.7 million in 1H2014. As provided in the 2015 Interim Report, the decrease in gross profit was mainly due to the decrease in the production of the mining products.

### Loss attributable to owners of the Company

The loss attributable to owners of the Company reduced to approximately HK\$56.3 million for FY2012 from approximately HK\$1,176.0 million for FY2011. The reason for the significant reduction in loss for FY2012 was mainly due to the fact that no further impairment losses were incurred on goodwill, property, plant and equipment and trade and other receivables in FY2012 which they accounted for a total of approximately HK\$1,072.2 million for FY2011.

The loss attributable to owners of the Company for FY2013 for the Group enlarged to approximately HK\$386.7 million due to the impairment loss on mining right of the Group's Yuanling gold project ("Gold Mine") in Hunan Province, the PRC, which accounted for a total of approximately HK\$475.8 million as a result of the continuous depreciation of gold price and that the production volume of gold mine was less than the Group's expectation. Due to the impairment loss on the Gold Mine, Group recorded one-off income tax credit of approximately HK\$116.7 million for FY2013.

During FY2014, the Board engaged an independent consultant to prepare an updated and independent technical report for assisting the management of the Company to assess the fair value of the mining right of the Gold Mine and, based on such updated technical report, the Group was required to make a further impairment loss of around HK\$844.2 million on the mining right mainly due to, among other things, (i) the limited funding resources of the Group caused by the long suspension of trading of Shares on the Stock Exchange which 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; and (ii) the non-fully utilized production capacity and the sub-optimal rate in

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

actual productions of the gold mines which adversely affected the valuation of the Gold Mine. Though the Group recorded one-off income tax credit of approximately HK\$214.9 million for FY2014 due to the aforesaid impairment loss on mining right, the net effect of the impairment loss on mining rights caused the loss attributable to owners of the Company enlarged substantially from approximately HK\$386.7 million for FY2013 to approximately HK\$602.0 million for FY2014.

The Group recorded a comparable loss attributable to equity shareholders of the Company for 1H2014 and 1H2015 of approximately HK\$21.0 million and approximately HK\$23.0 million respectively.

As discussed under the section headed “8. Financial and trading prospect” in Appendix I to the Circular, though the gold price may continue to decrease, the management of the Company considered that the production of the gold mine would become profitable when the Company allocates sufficient time and resources into the mining products business segment.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 1.3. Financial position of the Group

Set out below is the summary of the consolidated assets and liabilities of the Group as at 31 December 2013, 31 December 2014 and 30 June 2015 respectively:

	<b>As at 30 June 2015</b>	<b>As at 31 December 2014</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)	(Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11,131	12,026	37,211
Mining right	213,891	214,361	1,096,000
	225,022	226,387	1,133,211
<b>CURRENT ASSETS</b>			
Inventories	1,364	371	3,470
Trade and other receivables	11,383	12,397	10,336
Current tax assets	–	–	159
Bank and cash balances	7,394	4,705	3,908
	20,141	17,473	17,873
<b>CURRENT LIABILITIES</b>			
Trade and other payables	41,224	44,491	40,891
Borrowings	129,942	167,150	135,044
Convertible Bonds	290,191	290,191	290,191
	461,357	501,832	466,126
<b>NET CURRENT LIABILITIES</b>	(441,216)	(484,359)	(448,253)
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	66,097	–	–
Deferred tax liabilities	25,295	23,548	239,349
	91,392	23,548	239,349
<b>NET (LIABILITIES)/ASSETS</b>	(307,586)	(281,520)	445,609
<b>CAPITAL AND RESERVES</b>			
Share capital	523,530	523,530	523,530
Reserves	(812,571)	(789,127)	(177,052)
Equity attributable to owners of the Company	(289,041)	(265,597)	346,478
Non-controlling interests	(18,545)	(15,923)	99,131
<b>TOTAL EQUITY</b>	(307,586)	(281,520)	445,609

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

There were deteriorations in the financial position of the Group with total assets significantly decreased from approximately HK\$1,151.1 million as at 31 December 2013 to approximately HK\$243.9 million as at 31 December 2014 and approximately HK\$245.2 million as at 30 June 2015 mainly as a result of the impairment of the mining right during FY2014. As at 30 June 2015, the carrying value of the mining right of the Gold Mine of approximately HK\$213.9 million represented around 87.2% of the total assets of the Group. As provided by the management of the Company, the Group renewed the mining permit of the Gold Mine on 2 September 2015 for a term of 5 years expiring on 2 September 2020.

As at 30 June 2015, total liabilities of the Group was around HK\$552.7 million comprising, among other things, total borrowing of around HK\$196.0 million and the 2010 Convertible Bonds of an aggregate outstanding principal amount of HK\$290.2 million. Borrowings of the Group bore interests at rates between zero to 12% per annum as at 30 June 2015. The 2010 Convertible Bonds which matured on 1 April 2013 bore no interest up to the maturity date. Since the suspension of trading in the Shares on the Stock Exchange since 29 June 2011 constituted an event of default under the 2010 Convertible Bonds such that the Company is required to redeem them pursuant to the terms of the 2010 Convertible Bonds, the 2010 Convertible Bonds has been reclassified as current liabilities since FY2011.

As a result of the impairment of the mining right made during FY2014, the Group has turned from a net asset position of approximately HK\$445.6 million as at 31 December 2013 to a net liability position as at 31 December 2014 and 30 June 2015. The Group had net current liabilities and net liabilities of approximately HK\$441.2 million and HK\$307.6 million respectively as at 30 June 2015.

#### *1.4. Reasons for and benefits of the Open Offer and the entering into of the Debt Settlement Agreements*

As stated in the letter from the Board in the Circular, the suspension of trading in the Shares on the Stock Exchange since 29 June 2011 constituted an event of default under the 2010 Convertible Bonds such that the Company is required to redeem them pursuant to the terms of the 2010 Convertible Bonds. Therefore, the 2010 Convertible Bonds has been reclassified as current liabilities since the financial year ended 31 December 2011.

As set out in the 2014 Annual Report, as the Group incurred a loss attributable to the owners of the Company of approximately HK\$602 million for the year ended 31 December 2014, and had net current liabilities and net liabilities of approximately HK\$484 million and HK\$282 million respectively as at 31 December 2014, the auditor of the Company has given a disclaimer opinion in respect of the Going Concern Issue.

In order to resolve the Going Concern Issue, after the arm's length negotiations between the Company and the Creditors, the Company entered into the Share Settlement Agreements with the Share Settlement Creditors and the CB Settlement Agreements with the CB Settlement Creditors by way of the issuance of

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Settlement Shares and the Settlement Convertible Bonds respectively. As stated in the letter from the Board in the Circular, the debts that are the subject matter of the Share Settlement Agreements and the CB Settlement Agreements represent approximately 96.33% in value of the total debts of the Group as at the Latest Practicable Date. In addition, the Board also proposes to conduct the Open Offer which will be fully underwritten by the Investor.

As stated in the letter from the Board in the Circular, the Board believes that the entering into of the Debt Settlement Agreements will reduce the indebtedness level of the Group and resolve the Going concern Issue, and together with the Open Offer, will strengthen the financial position of the Group. We concur with the view of the Board that the Open Offer will provide the Group with new funds to enhance the Group's existing business and allow flexibility for the Group to make investments in any new business when suitable opportunity arise in the future. We also concur that the Open Offer will allow all Qualifying Shareholders to be given equal opportunities to maintain their pro rata shareholding interests in the Company and participate in the potential growth of the Company should they so wish. In addition, the Debt Settlement Agreements will allow the Group to settle and refinance in aggregate approximately 96.33% in value of the total debts of the Group as at the Latest Practicable Date. Given (i) the continuous loss-making and net liabilities financial position of the Group, it is unlikely that the Group can achieve a recovery solely through its internal resources; (ii) that according to the unaudited pro forma financial information of the Group contained in Appendix II to the Circular, based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015 and taking into accounts the effects of the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer, the financial position of the Group would be improved from consolidated net tangible liabilities attributable to owners of the Group of approximately HK\$502.9 million to consolidated net tangible assets attributable to owners of the Group of approximately HK\$140.7 million (assuming the full conversion of the Settlement Convertible Bonds); and (iii) according to the Conditional Approval, Resumption will be allowed by the Stock Exchange subject to the completion of the Capital Reorganisation, the Open Offer and the Debt Settlement Agreements, the Open Offer and the entering into of the Debt Settlement Agreements are, therefore, in our view a viable option for the Company to resolve its financial difficulties whilst to achieve the Resumption.

## 2. The Open Offer

### 2.1. *Principal terms of the Open Offer*

Subject to the Capital Reorganisation becoming effective, the Board proposes that the Company makes the Open Offer on the basis of two (2) Offer Shares for every one (1) Reorganised Share held on the Open Offer Record Date by the Qualifying Shareholders. A total of 5,235,303,300 Offer Shares will be allotted and issued by the Company to the Qualifying Shareholders at the Offer Price of HK\$0.03 for each Offer Share and the gross proceeds to be raised from the issuance of the Offer Shares is expected to be approximately HK\$157.1 million.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 5,235,303,300 Offer Shares represent:

- (a) 100.00% of the existing issued share capital of the Company;
- (b) 200.00% of the issued share capital of the Company upon completion of the Capital Reorganisation;
- (c) approximately 66.67% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares;
- (d) approximately 29.84% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares; and
- (e) approximately 28.96% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares.

As stated in the letter from the Board in the Circular, the Company has decided that the Qualifying Shareholders will not be entitled to subscribe for any Offer Share in excess of their respective assured entitlements. Any Offer Shares not taken up by the Qualifying Shareholders will be underwritten by the Investor. Considering that each Qualifying Shareholder will be given equal and fair opportunities to participate in the Company's future development by subscribing for their respective entitlements under the Open Offer, we concur with the view of the Company that it is acceptable not to incur additional effort and costs to administer the excess application procedures.

### *2.2. Irrevocable Undertaking*

As stated in the letter from the Board in the Circular, Star Sino International Limited (being a substantial Shareholder and Creditor A, wholly and beneficially owned by Mr. Long) has irrevocably undertaken to each of the Company and the Investor as follows:

1. to take up and pay for the 762,022,000 Offer Shares which will constitute its assured entitlement of Offer Shares in respect of the Shares beneficially owned by it pursuant to the terms of the Open Offer or procure they are taken up and paid for on the terms of the Open Offer;
2. that the shares referred to in paragraph (1) above will remain registered in its name or beneficially owned by it at the close of business on the Open Offer Record Date as they are on the date of the Underwriting Agreement;



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. to procure that the application for the aforesaid Offer Shares is lodged with the registrar of the Company, with payment in full therefor in cash (whether by cheque, bank cashier's order or such other form as the Company may approve), by no later than 4:00 p.m. on the Acceptance Date.

If Creditor A should fail to comply with the undertakings given above, it has irrevocably authorised the Company in its discretion to treat the undertaking as its application for such 762,022,000 Offer Shares comprised in its assured entitlement on the terms of the Offering Documents (save as regards the time for acceptance and payment) and against payment therefor to allot and issue the same in its name and to procure the registration of the same in its name.

### 2.3. *Use of proceeds*

As stated in the letter from the Board in the Circular, the gross proceeds from the Open Offer are approximately HK\$157.1 million, and the net proceeds from the Open Offer are estimated to be approximately HK\$150.0 million, the net proceeds will be applied by the Company as follows:

1. approximately HK\$35.0 million as possible early redemption of the Settlement Convertible Bonds by the Company and settlement of current liabilities, and in the event that no early redemption of the Settlement Convertible Bonds will occur, such amount should be used as approximately HK\$20.0 million as future investments fund for possible potential merger and acquisition projects and HK\$15.0 million as working capital for the existing business of the Group;
2. approximately HK\$45.0 million as capital investment in mining products segment;
3. approximately HK\$33.0 million as future investments fund for possible potential merger and acquisition projects. As stated in the letter from the Board in the Circular as at the Latest Practicable Date, the Company was not involved in any negotiation or discussion and had not identified any acquisition targets in this regard; and
4. approximately HK\$37.0 million as working capital for the existing business of the Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 2.4. *The Offer Price*

The Offer Price being HK\$0.03 for each of the Offer Shares represents:

1. a discount of approximately 82.76% to the theoretical closing price of HK\$0.174 per Reorganised Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.087 per Share as quoted on the Stock Exchange on the Last Trading Day;
2. a discount of approximately 83.66% to the average theoretical closing price of HK\$0.1836 per Reorganised Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0918 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
3. a discount of approximately 84.36% to the average theoretical closing price of HK\$0.1918 per Reorganised Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0959 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

As disclosed in the letter from the Board in the Circular, the Offer Price has been determined after arm's length negotiations between the Company and the Investor having regard to the financial position of the Company, the prolonged suspension of trading in the Shares on the Stock Exchange, the prevailing stock market conditions and the prospects of the business operations of the Group. In order to give incentive to the Shareholders to participate in the Open Offer, the Offer Price is fixed at a lower level than the Settlement Share Price and the Conversion Price.

Given that the Shares were suspended from trading for more than four years and there have been substantial changes to the business operations and financial conditions of the Group since then, we consider that the closing price of the Shares prior to the suspension of trading is not reflective of the current financial condition and value of the Company and will not provide a fair basis for the evaluation of the Offer Price.

In view of,

- (i) the prolonged suspension of trading in the Shares, the significant consolidated net liabilities of the Company as at 30 June 2015 and the continuous loss-making performance of the Group;
- (ii) that the Offer Price being lower than the Settlement Share Price and the Conversion Price would incentivise the Shareholders to participate in the Open Offer. Also the price per Offer Share to be paid by the Qualifying Shareholders under the Open Offer should they wish to participate in the Open Offer is no less favourable than that per Settlement Share/Conversion Share under the Debt Settlement Agreements;

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- (iii) that each Qualifying Shareholder will be given an equal opportunity to participate in the Company's future development by subscribing for his/her/its assured entitlements under the Open Offer;
- (iv) that the net proceeds from the Open Offer will enable the Group with new funds to improve its financial position, and to enhance its existing business and flexibility to make investments in any new business when suitable opportunity arises in the future;
- (v) that according to the unaudited pro forma financial information of the Group contained in Appendix II to the Circular, based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015 and taking into accounts the effects of the Capital Reorganisation, the Debt settlement Agreements and the Open Offer, the financial position of the Group would be improved from consolidated net tangible liabilities attributable to owners of the Group of approximately HK\$502.9 million to consolidated net tangible assets attributable to owners of the Group of approximately HK\$140.7 million (assuming the full conversion of the Settlement Convertible Bonds); and
- (vi) the Open Offer becoming unconditional is one of the conditions precedent of the Debt Settlement Agreements and therefore, is part and partial of the whole financial restructuring of the Group,

we are of the view that the Open Offer, including the Offer Price, is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### 2.5. *Underwriting Agreement*

The Open Offer is underwritten by the Investor which is wholly and beneficially owned by Mr. Long. The Investor entered into the Underwriting Agreement with the Company on 9 November 2015, pursuant to which the Investor conditionally agreed to underwrite the Offer Shares other than the 762,022,000 Offer Shares to be taken up by Star Sino International Limited as a Qualifying Shareholder pursuant to the Irrevocable Undertaking, i.e. 4,473,281,300 Underwritten Shares. The Open Offer is conditional upon the fulfillment of certain condition set out in the Underwriting Agreement, among other things, (i) the Executive (as defined in the Takeovers Code) granting the Whitewash Waiver and any other necessary consent and/or approval under the Takeovers Code; (ii) the Capital Reorganisation becoming effective at or before the Long-stop Date; and (iii) completion of the Debt Settlement Agreements on the Settlement Date.

As disclosed in the letter from the Board in the Circular, the underwriting commission rate of 3% ("**Commission Rate**") was agreed and determined after arm's length negotiation between the Company and the Investor with reference to, among others, the existing financial position of the Company, the size of the Open Offer, the long suspension status of the Shares, the prevailing market rate for underwriting commission.

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In order to assess the fairness and reasonableness of the Commission Rate under the Underwriting Agreement, we have reviewed all the open offers announced by companies listed on the Main Board of the Stock Exchange during the period from six calendar months prior to the date of the Underwriting Agreement (i.e. 9 November 2015) and up to the Latest Practicable Date, and identified an exhaustive list of 29 open offers (“**Comparable Open Offers**”).

Details regarding the Comparable Open Offers are set out below:

Date	Company	Stock code	Maximum gross proceed of the open offer <i>HK\$'million</i>	Underwriting commission rate %
13-May-15	Mastermind Capital Limited	905	281.3	3.50
14-May-15	China Kingstone Mining Holdings Limited	1380	138.8	3.50
15-May-15	Hailiang International Holdings Limited	2336	322.2	0.75
19-May-15	Titan Petrochemicals Group Limited	1192	701.0	–
22-May-15	National United Resources Holdings Limited	254	508.8	1.50
27-May-15	APAC Resources Limited	1104	306.4	2.00
3-Jun-15	New City Development Group Limited	456	178.0	–
8-Jun-15	China National Culture Group Limited	745	490.7	2.00
29-Jun-15	IRC Limited	1029	408.0	5.00
29-Jun-15	Fujian Holdings Limited	181	106.8	2.50
17-Jul-15	China Environmental Resources Group Limited	1130	136.7	2.00
21-Jul-15	Ding He Mining Holdings Limited	705	185.3	2.50
27-Jul-15	Golden Meditech Holdings Limited	801	1,162.0	2.00
30-Jul-15	International Standard Resources Holdings Limited	91	207.7	2.50
4-Aug-15	U-Home Group Holdings Limited	2327	213.2	2.00
12-Aug-15	Huili Resources (Group) Limited	1303	250.0	3.40

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Date	Company	Stock code	Maximum gross proceed of the open offer <i>HK\$'million</i>	Underwriting commission rate %
14-Aug-15	Lerado Group (Holding) Company Limited	1225	444.1	2.00
19-Aug-15	SEEC Media Group Ltd	205	637.4	2.00
20-Aug-15	Group Sense (International) Limited	601	287.4	1.00
28-Aug-15	Legend Strategy International Holdings Group Company Limited	1355	64.1	1.50
9-Sep-15	China Investment and Finance Group Limited	1226	418.1	1.50
16-Sep-15	eForce Holdings Limited	943	336.7	3.00
7-Oct-15	Shihua Development Company Limited	485	251.2	2.00
30-Oct-15	Merry Garden Holdings Limited	1237	171.6	1.00
2-Nov-15	UDL Holdings Limited	620	420.4	–
27-Nov-15	Deson Development International Holdings Limited	262	105.8	3.50
7-Jan-16	QPL International Holdings Limited	243	368.3	1.50
19-Jan-16	China Culiangwang Beverages Holdings Limited	904	347.5	2.50
20-Jan-16	AMCO United Holding Limited	630	83.8	2.50
			<b>Maximum</b>	<b>5.00</b>
			<b>Minimum</b>	<b>–</b>
			<b>Average</b>	<b>2.28</b>
	<b>The Company</b>			<b>3.00</b>

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As shown in the above table, we note that the rates of underwriting commission of the Comparable Open Offers were within a range from charging no commission to 5.00%, and had an average underwriting commission rate of approximately 2.28% among those Comparable Open Offers where an underwriting commission was charged. The Commission Rate of 3% payable to the Investor is higher than the aforesaid average commission rate but within the range of the Comparable Open Offers. However, the prolong suspension of the trading in Shares, the Going Concern Issue and the deteriorating financial condition of the Group may hinder the Company from appointing an independent underwriter, and even if such independent underwriter could be found, he/she/it may demand an even higher commission rate to compensate the risk of underwriting the Offer Shares. Having considered the above, we concur with the Directors' view that the Commission Rate is in line with the market and commercially acceptable.

Given that (i) the Qualifying Shareholders have the right to decide whether to accept the Open Offer and are offered the same terms under the Open Offer; (ii) the Underwriting Agreement secures the full intended funding of the Group; and (iii) based on the reasons as discussed in the paragraph above, the Commission Rate is considered in line with the market and commercially acceptable, we are of the view that the underwriting arrangement (including the Commission Rate) is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **3. Debt Settlement Agreements**

As stated in the letter from the Board in the Circular, the Company has entered into Debt Settlement Agreements with twelve Creditors to settle the relevant outstanding debts, together with the accrued interest (where relevant), owed by the Company to the Creditors. The Debt Settlement Agreements mainly involve the entering into of the Share Settlement Agreements and the CB Settlement Agreements with the respective creditors of the Company.

#### *Share Settlement Agreements*

The Share Settlement Agreements were entered into between the Company and each of the Share Settlement Creditors to settle the relevant outstanding debts together with the accrued interest (where relevant), owed by the Company to such Share Settlement Creditors.

The Share Settlement Agreements A to D were entered into for the full and final settlement of the respective outstanding principal amount of the 2010 Convertible Bonds (together with interest accrued) owed to Creditors A to D. The 2010 Convertible Bonds were issued by the Company on 31 March 2010 which carry zero coupon with no guarantee and are unsecured. Since the suspension of trading in the Shares on the Stock Exchange since 29 June 2011 constituted an event of default under the 2010 Convertible Bonds, the Company is required to redeem them pursuant to the terms of the 2010 Convertible Bonds.

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The Share Settlement Agreements E to I were entered into for the full and final settlement of the respective outstanding working capital loans (together with interest accrued) owed to Creditors E to I. The working capital loans which are the subjects of the Share Settlement Agreements E to I carry interest rates ranged from 10% to 12% per annum with no guarantee and are unsecured. The loans which are the subjects of (i) the Share Settlement Agreement E are repayable within seven days upon receipt of written notice given by Mr. Long; (ii) the Share Settlement Agreements F1, F2, H and I are repayable in 2016; and (iii) the Share Settlement Agreement G is repayable by March 2018.

Further details regarding the Share Settlement Agreements (including but not limited to the breakdown of the debts to be settled under each of the Share Settlement Agreements) are set out in section headed "Share Settlement Agreements" in the letter from the Board in the Circular.

### *CB Settlement Agreements*

The CB Settlement Agreements were entered into between the Company and each of the CB Settlement Creditors for the settlement of the respective outstanding working capital loans (together with interest accrued) owed to the CB Settlement Creditors. The working capital loans which are the subjects of the CB Settlement Agreements J to L carry interest rate of 10% per annum with no guarantee and are unsecured, and are repayable by around mid-2018.

Further details regarding the CB Settlement Agreements (including but not limited to the breakdown of the debts to be settled under each of the CB Settlement Agreements) are set out in section headed "CB Settlement Agreements" in the letter from the Board in the Circular.

### *3.1 Conditions precedent of the Debt Settlement Agreements*

As stated in the Letter from the Board in the Circular, completion of the Debt Settlement Agreements is conditional upon, among other things:

1. resolutions being passed by the Shareholders in general meeting (other than those who are required to abstain from voting or to vote in favour of the relevant resolutions) as required by the Companies Law, the Listing Rules and the Takeovers Code (as applicable) to approve the Capital Reorganisation, the issuance of the Settlement Shares or (as the case may be) in respect of the Settlement Convertible Bonds and the Conversion Shares, pursuant to the Debt Settlement Agreements, the Offer Shares and the Whitewash Waiver;
2. the Executive granting the Whitewash Waiver and any other necessary consent and/or approval under the Takeovers Code;
3. the Capital Reorganisation becoming effective at or before Completion; and

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4. the Open Offer becoming unconditional in all respects (save as to any condition relating to the simultaneous completion of the Open Offer and the Debt Settlement Agreements).

Please refer to the section headed “Conditions precedent of the Debt Settlement Agreements” in the letter from the Board in the Circular for further details regarding conditions of the Debt Settlement Agreements.

### 3.2 *Principal terms of the Settlement Convertible Bonds*

The key terms of the Settlement Convertible Bonds are summarised below:-

Issuer:	the Company
Total principal amount:	Approximately HK\$53,417,356 (including HK\$38,181,633 to the Creditor J, HK\$13,970,030 to the Creditor K and HK\$1,265,693 to Creditor L)
Interest rate:	10% per annum on the outstanding principal amount
Maturity date:	The date immediately before the third anniversary of the date of issue of the Settlement Convertible Bonds (“ <b>Maturity Date</b> ”)
Conversion period:	The period commencing on the seventh day next following the date of issue of the Settlement Convertible Bonds and expiring up to and including the date which is seven days prior to the Maturity Date
Conversion Price:	HK\$0.10 per Conversion Share (subject to adjustment upon of certain “Adjustment Events” as described below)
Adjustment events:	The Conversion Price is subject to customary adjustment upon occurrence of, among other things, the following events: <ul style="list-style-type: none"><li>(i) consolidation, subdivision or reclassification of shares;</li><li>(ii) capitalisation of profits or reserves;</li><li>(iii) capital distribution;</li><li>(iv) rights issues of shares or options over shares at a price which is less than 80% of the then market price of the shares;</li></ul>



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- (v) issues of securities convertible into or exchangeable for or carry rights of subscription for shares at an total effective consideration per share less than 80% of the then market price of the shares;
- (vi) any modification of the rights of conversion or exchange or subscription attaching to securities in (v) above resulting in total effective consideration per share being less than 80% of the then market price of the shares;
- (vii) issue of share for cash at less than 80% of the then market price of the shares; and
- (viii) issue shares for the acquisition of any asset at total effective consideration per share less than 80% of the then market price of the shares.

Other terms:

The Company or any of its subsidiaries may at any time and from time to time repurchase the Settlement Convertible Bonds at any price as may be agreed in writing between the Company or such subsidiary and the relevant Bondholder. Any Convertible Bond so purchased shall forthwith be cancelled by the Company.

Please refer to the section headed 'Principal terms of the Settlement Convertible Bonds' in the letter from the Board in the Circular for further details of the Settlement Convertible Bonds.

In assessing the terms of the Settlement Convertible Bonds, we have identified a number of comparable transactions relating to the issuance of convertible notes/bonds ("**Comparable CB Issues**") based on the following criteria: (i) the issuer are listed on the Main Board of the Stock Exchange and such transactions were publicly announced by way of announcement and/or circular made pursuant to the Listing Rules; (ii) conversion shares to be allotted upon conversion of the convertible notes/bonds being issued pursuant to specific mandate; (iii) the issuers of the Comparable CB Issues recorded net losses and/or net liabilities for the most recent financial year prior to the date of their respective announcement and/or circular; and (iv) such transactions were announced during the period from 9 May 2015, being approximately 6 months prior to the dates of the Debt Settlement Agreements, up to and including the Latest Practicable Date. We consider the Comparable CB Issues an exhaustive list of relevant comparable transactions based on the said criteria above.

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Details of the Comparable CB Issues are set forth in the following table:

Date of announcement	Company	Stock code	Tenure <i>years</i>	Interest rate per annum <i>%</i>	Redemption value on maturity <i>%</i>
18-May-15	Energy International Investments Holdings Limited	353	3.0	5.00	100.00
18-May-15	Loudong General Nice Resources (China) Holdings Limited	988	3.0	6.00	100.00
21-May-15	Asia Resources Holdings Limited	899	3.0	4.00	100.00
5-Jun-15	New Sports Group Limited (“New Sports”) (formerly known SinoCom Software Group Limited) (Note 1)	299	2.0	5.00	100.00
23-Jun-15	China Investment Fund Company Limited	612	3.0	5.00	100.00
30-Jun-15	China Finance Investment Holdings Limited (formerly known as Cypress Jade Agricultural Holdings Limited)	875	3.0	-	mandatory conversion into shares upon maturity
7-Jul-15	China Agri-Products Exchange Limited	149	3.0	5.00	100.00
12-Aug-15	Cheung Wo International Holdings Limited (Note 2)	9	2.0	8.00	100.00
24-Aug-15	Loudong General Nice Resources (China) Holdings Limited	988	3.0	6.00	100.00
30-Aug-15	Global Bio-Chem Technology Group Company Limited	809	5.0	0.01	100.00
6-Nov-15	Harmonic Strait Financial Holdings Limited	33	2.0	-	100.00
16-Nov-15	Cheung Wo International Holdings Limited	9	3.5	-	100.00
16-Dec-15	Vision Fame International Holding Limited	1315	5.0	-	100.00
17-Dec-15	North Mining Shares Company Limited	433	5.0	-	100.00
21-Dec-15	China Public Procurement Limited	1094	3.0	-	100.00
24-Dec-15	Great Harvest Maeta Group Holdings Limited	3683	5.0	-	100.00
6-Jan-16	Blue sky Power Holdings Limited	6828	3.0	4.50	100.00
13-Jan-16	Cosmopolitan International Holdings Limited	120	4.0	-	100.00
15-Jan-16	National United Resources Holdings Limited	254	3.0	3.00	100.00
22-Jan-16	Kiu Hung International Holdings Limited	381	2.0	-	100.00
	<b>Maximum</b>			<b>8.00</b>	<b>100.00</b>
	<b>Minimum</b>			<b>-</b>	<b>100.00</b>
	<b>Average</b>			<b>2.58</b>	<b>100.00</b>
	<b>The Settlement Convertible Bonds</b>			<b>10.00</b>	<b>100.00</b>

*Notes:*

- As stated in the bond document, such bonds are issued in the form of the debt instrument without conversion rights and carried interest rate of 30% per annum. In the event of the fulfilment of certain conversion conditions and the bonds are therefore convertible into shares of New Sports, the interest rate will be revised to 5% per annum.
- As stated in the bond instrument, the annual interest rate of the settlement convertible bonds shall be 3% plus the prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited on the date of signing of the subscription agreement, i.e. 5%.

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As shown in the table above, the redemption value of the Settlement Convertible Bonds, being equivalent to the principal amount of the Settlement Convertible Bonds outstanding at maturity, is considered in line with the market.

The interest rate of the Settlement Convertible Bonds of 10% per annum is higher than all of the interest rates of the Comparable CB Issues. We understand that, however, each of the three working capital loans in the aggregate principal amount of HK\$50,820,000, which are to be settled under the CB Settlement Agreements, is carrying an interest of 10% per annum, the interest rate of the Settlement Convertible Bonds of 10% per annum is indeed same as and no more than the annual interest rates that the respective loans are currently carrying.

In view of the net liabilities of the Group as at 30 June 2015 and the continuous loss-making performance, in the absence of the Open Offer and the Debt Settlement Agreements, it is unlikely for the Company to repay its indebtedness and recover solely with its internal resources. The issuance of the Settlement Convertible Bonds could be therefore viewed as a refinancing of the aforesaid working capital loans at an interest rate not more than the existing interest rates that those working capital loans are carrying. In addition, possible benefits to the Group in light of the issuance of the Settlement Convertible Bonds pursuant to the CB Settlement Agreements include that (i) in case that the Settlement Convertible Bonds are not converted, the repayment of the aforesaid working capital loans which being the subjects of the CB Settlement Agreements, could be deferred from mid-2018 to the Maturity Date; (ii) holders of the Settlement Convertible Bonds may choose to convert, but not demand repayment from the Group, if the Reorganised Shares are performing well over the term of the Settlement Convertible Note; and (iii) the repurchase provision under the terms of the Settlement Convertible Bonds provides flexibility to the Group to repurchase the Settlement Convertible Bonds when the Group's financial capability allows so as to save finance cost and reduce potential dilution to the shareholding of the Shareholders. The CB Settlement Agreements are crucial and undividable parts of the Debt Settlement Agreements as well as the Open Offer. Without the CB Settlement Agreements, the Open Offer and the Debt Settlement Agreements will not complete and the Group will then be deprived of all the benefits that would be brought by the Open Offer and the Debt Settlement Agreements as discussed in details in the sub-section headed "1.4 Reasons for and benefits of the Open Offer and the entering into of the Debt Settlement Agreements" above. On such basis, we consider interest rate of the Settlement Convertible Bonds commercially justifiable.

Having considered all the above, we concur with the Directors' view that the terms of the Settlement Convertible Bonds (other than the Conversion Price which will be further discussed below) are on normal commercial terms and commercially justifiable so far as the Independent Shareholders are concerned, and the entering into of the CB Settlement Agreements and the transactions contemplated under the CB Settlement Agreements are in the interests of the Company and the Shareholders as a whole.

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### 3.3 *Settlement Shares and Conversion Shares*

#### Settlement Shares

The maximum of 9,692,022,458 Settlement Shares represent:

1. approximately 185.13% of the total number of Shares in issue as at the Latest Practicable Date;
2. approximately 370.26% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation;
3. approximately 123.42% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares;
4. approximately 55.24% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares; and
5. approximately 53.61% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares.

#### Conversion Shares

The total of 534,173,560 Conversion Shares represent:

1. approximately 10.20% of the total number of Shares in issue as at the Latest Practicable Date;
2. approximately 20.41% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation;
3. approximately 6.80% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares;
4. approximately 3.04% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares; and
5. approximately 2.95% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares.

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### 3.4 Settlement Share Price and Conversion Price

#### Settlement Share Price

The Settlement Price being HK\$0.05 for each of the Settlement Shares represents:

1. a discount of approximately 71.26% to the theoretical closing price of HK\$0.174 per share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.087 per Share as quoted on the Stock Exchange on the Last Trading Day;
2. a discount of approximately 72.77% to the average theoretical closing price of HK\$0.1836 per share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0918 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
3. a discount of approximately 73.93% to the average theoretical closing price of HK\$0.1918 per share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0959 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The Settlement Price were determined after arm's length negotiations between the Company and the Share Settlement Creditors having regard to the financial position of the Company, the pro-longed suspension of trading in the Shares on the Stock Exchange, the prevailing stock market conditions and the prospects of the business operations of the Group.

#### Conversion Price

The Conversion Price being HK\$0.10 for each of the Conversion Shares represents:

1. a discount of approximately 42.53% to the theoretical closing price of HK\$0.174 per share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.087 per Share as quoted on the Stock Exchange on the Last Trading Day;
2. a discount of approximately 45.53% to the average theoretical closing price of HK\$0.1836 per share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0918 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
3. a discount of approximately 47.86% to the average theoretical closing price of HK\$0.1918 per share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0959 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

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The Conversion Price were determined after arm's length negotiations between the Company and the CB Settlement Creditors having regard to and the financial position of the Company, the pro-longed suspension of trading in the Shares on the Stock Exchange, the prevailing stock market conditions and the prospects of the business operations of the Group.

As discussed in the section headed "2. The Open Offer" above, given that the Shares were suspended from trading for more than four years and there have been substantial changes to the business operations and financial conditions of the Group since then, we consider that the closing price of the Shares prior to the suspension of trading is not reflective of the current financial condition and value of the Company and will not provide a fair basis for the evaluation of the Settlement Share Price and the Conversion Price.

Though each of the Settlement Share Price and the Conversion Price represents a substantial discount to the market price prior to the suspension of trading, having considered that:

- (i) the prolonged suspension of trading in the Shares, the significant net liabilities of the Company as at 30 June 2015 and the continuous loss-making performance, which make it unlikely for the Group to achieve a recovery solely through its internal resources;
- (ii) the Debt Settlement Arrangements will allow the Group to settle and refinance in aggregate approximately 96.33% in value of the total debts of the Group as at the Latest Practicable Date;
- (iii) each of the Settlement Share Price of HK\$0.05 and the Conversion Price of HK\$0.10 is higher than the Offer Price i.e. the price per Settlement Share/Conversion Share to be paid by the Creditors is no more favourable than that to be paid by the Qualifying Shareholders under the Open Offer should they wish to participate in the Open Offer;
- (iv) principal terms of the Share Settlement Agreements A, E, F1 and F2 (including the Settlement Share Price) which were entered into with Mr. Long and his associates, being the same as those of the other Share Settlement Agreements which were entered into with independent third parties;
- (v) according to the unaudited pro forma financial information of the Group contained in Appendix II to the Circular, based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015 and taking into accounts the effects of the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer, the financial position of the Group would be improved from consolidated net tangible liabilities attributable to owners of the Group of approximately HK\$502.9 million to consolidated net tangible assets attributable to owners of the Group of approximately HK\$140.7 million (assuming the full conversion of the Settlement Convertible Bonds);

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- (vi) other terms of the Settlement Convertible Bonds are on normal commercial terms and commercially justifiable so far as the Independent Shareholders are concerned;
- (vii) completion of the Debt Settlement Agreements is one of the conditions precedent of the Open Offer and therefore, is part and partial of the whole financial restructuring of the Group; and
- (viii) according to the Conditional Approval, Resumption will be allowed by the Stock Exchange subject to the completion of the Capital Reorganisation, the Open Offer and the Debt Settlement Agreements,

we are of the view that such discounts represented by the Settlement Share Price and the Conversion Price are acceptable.

#### **4. Dilution to shareholding of the existing Shareholders**

As illustrated in the section headed “Effect on the Shareholding Structure of the Company” set out in the letter from Board in the Circular, upon completion of the Capital Reorganisation, the Open Offer and the issuance of the Settlement Shares, we noted that the shareholding of the existing public Shareholders would reduce from approximately 85.44% as at the Latest Practicable Date to:

1. approximately 38.25% assuming all the Qualifying Shareholders take up their respective entitlements to the Offer Shares under the Open Offer; and
2. approximately 12.75% assuming none of the Qualifying Shareholders take up their respective entitlements to the Offer Shares under the Open Offer (other than Star Sino International Limited who has undertaken to take up its assured entitlement of 762,022,000 Offer Shares).

In addition, upon completion of the Capital Reorganisation, the Open Offer and the issuance of the Settlement Shares and the Conversion Shares, we noted that the shareholding of the existing public Shareholders would reduce from approximately 85.44% as at the Latest Practicable Date to:

1. approximately 37.11% assuming all the Qualifying Shareholders take up their respective entitlements to the Offer Shares under the Open Offer; and
2. approximately 12.37% assuming none of the Qualifying Shareholders take up their respective entitlements to the Offer Shares under the Open Offer (other than Star Sino International Limited who has undertaken to take up its assured entitlement of 762,022,000 Offer Shares).

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted the aforementioned potential substantial dilution to the public Shareholders' shareholding interests in the Company. However, in view of, in particular, (i) the prolonged suspension of trading in the Shares, the significant net liabilities of the Company as at 30 June 2015 and the continuous loss-making performance, which make it unlikely for the Group to achieve a recovery solely through its internal resources; (ii) the implementation of, among other things, the Open Offer and the Debt Settlement Agreements are crucial for the Company and the Shareholders as a whole as it provides an opportunity to restore a net asset position of the Group, to achieve Resumption and to allow Shareholders to recover their investments; and (iii) according to the Conditional Approval, Resumption will be allowed by the Stock Exchange subject to the completion of the Capital Reorganisation, the Open Offer and the Debt Settlement Agreements, we consider the dilution effect on the shareholding of the public Shareholders inevitable but commercially acceptable.

### 5. Whitewash Wavier

As at the Latest Practicable Date, Mr. Long and parties acting in concert with him are interested in 762,022,000 Shares, representing approximately 14.56% of the issued share capital of the Company. Upon the Capital Reorganisation becoming effective, Mr. Long and parties acting in concert with him will be interested in 381,011,000 Reorganised Shares, representing approximately 14.56% of the total number of Reorganised Shares then in issue. Immediately upon completion of the issuance of the Offer Shares, the Settlement Shares and/or the Conversion Shares, Mr. Long and parties acting in concert with him will be interested in 6,604,519,234 Reorganised Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her/its entitlement under the Open Offer), representing:

1. approximately 37.65% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares (assuming all the Shareholders are the Qualifying Shareholders and have taken up his/her entitlement under the Open Offer); and
2. approximately 36.53% of the total number of Reorganised Shares in issue immediately upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares, the Settlement Shares and the Conversion Shares (assuming all the Shareholders are the Qualifying Shareholders and have taken up his/her entitlement under the Open Offer and full conversion of the Settlement Convertible Bonds at their initial Conversion Price).

In the event that none of the Qualifying Shareholders (apart from Star Sino International Limited) takes up his/her/its entitlement under the Open Offer and the Investor is called upon to take up all the Offer Shares under the Underwriting Agreement, immediately upon completion of the issuance of the Offer Shares, the Settlement Shares and/or the Conversion Shares, Mr. Long and parties acting in concert with him will be interested in an aggregate 11,077,800,534 Reorganised Shares, representing:

1. approximately 63.15% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issuance of the Offer Shares and the Settlement Shares; and



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. approximately 61.27% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issue of the Offer Shares, the Settlement Shares and the Conversion Shares.

Pursuant to Rule 26 of the Takeovers Code and in the absence of the Whitewash Waiver, as a result of the completion of the issuance of the Settlement Shares and the Offer Shares and regardless of whether the Investor is called upon to take up the Offer Shares under the Underwriting Agreement, an obligation to make a mandatory general offer would be triggered on the part of Mr. Long and parties acting in concert with him for all the shares of the Company other than those already owned or agreed to be acquired by Mr. Long and parties acting in concert with him. In this respect, Mr. Long has made an application to the Executive under the Takeovers Code for the grant of the Whitewash Waiver, and such grant will be subject to, among other things, approval of the Independent Shareholders in respect of the Whitewash Waiver at the EGM by way of poll. As disclosed in the letter from the Board in the Circular, the Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the EGM.

We note that the granting of the Whitewash Waiver by the Executive is one of the non-waivable conditions precedent to each of the Underwriting Agreement and the Debt Settlement Agreements, whilst the completion of the Debt Settlement Agreements is conditional on the Open Offer becoming unconditional in all respects and the Underwriting Agreement is conditional on the completion of the Debt Settlement Agreements on the Settlement Date. It was also stated in the letter from the Board in the Circular that if the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Open Offer, the Underwriting Agreement and the transactions contemplated under the Debt Settlement Agreements will not proceed.

As discussed under the section headed "4. Dilution to shareholding of the existing Shareholders" above, the implementation of, among other things, the Open Offer and the Debt Settlement Agreements are crucial for the Company and the Shareholders as a whole as it provides an opportunity to improve the financial position of the Company, to achieve Resumption and to allow Shareholders to recover their investments. On such basis and in particular, the granting of the Whitewash Waiver is one of the non-waivable conditions precedent to each of the Underwriting Agreement and the Debt Settlement Agreements and is a common feature in similar rescue proposals for companies which are in grave financial difficulties and revived as a result of injection of funds by investor(s), we consider the grant of the Whitewash Waiver is fair and reasonable.

### **6. Financial effects**

Set out below are the highlights of financial effect on the Group upon completion of the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer ("**Transaction Completion**"):

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 6.1 *Net assets*

According to the unaudited pro forma financial information of the Group contained in Appendix II to the Circular, based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015 and taking into accounts the effects of the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer, the financial position of the Group would be improved from consolidated net tangible liabilities attributable to owners of the Group of approximately HK\$502.9 million to consolidated net tangible assets attributable to owners of the Group of approximately HK\$140.7 million (assuming the full conversion of the Settlement Convertible Bonds).

### 6.2 *Working capital*

The Group had the bank and cash balances of approximately HK\$7.4 million as at 30 June 2015. Immediately upon Transaction Completion, the bank and cash balances of the Group will increase by an amount equivalent to the net proceeds of the Open Offer, which is estimated to be approximately HK\$150.0 million.

As disclosed in the section headed “6. Working Capital” in Appendix I to the Circular, the Directors are of the opinion that, following the completion of the Capital Reorganisation, Debt Settlement Agreements and Open Offer, and after taking into account the financial resources available to the Group, including internally generated fund, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this Circular, in the absence of unforeseeable circumstances. As such, following Transaction Completion, it is expected that the Group’s working capital position will be strengthened and the Group will be able to meet its working capital requirements including but not limited to, the interest payment for the Settlement Convertible Bonds, in the near future.

### 6.3 *Indebtedness and liquidity*

Pursuant to the Debt Settlement Agreements, a total of around HK\$538.0 million, representing approximately 96.33% in value, of the total existing debts and accrued interests of the Group will be settled or refinanced by way of issue of the Settlement Shares and the Settlement Convertible Bonds respectively. Based on the unaudited consolidated statement of financial position of the Group as at 30 June 2015, the Group had current assets of approximately HK\$20.1 million and current liabilities of approximately HK\$461.4 million, representing a current ratio of 0.044 times. No gearing ratio is applicable as at 30 June 2015 given the Group’s net liabilities position. As advised by the Company, it is expected that the current ratio and the gearing ratio would be improved to around 2.97 times and 0.21 times respectively following Transaction Completion.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 6.4 Earnings

As a significant portion of the Group's outstanding interest-bearing borrowings will be fully settled under the Share Settlement Agreements, it is expected that there would be a decrease in the finance cost to be incurred by Group immediately following Transaction Completion. As advised by the management of the Company, the liability portion of the Settlement Convertible Bonds will be carried at amortised cost using the effective interest method and the effective interest expenses of the Settlement Convertible Bonds will be recorded on the consolidated statements of comprehensive income of the Company until the conversion and/or redemption of the Settlement Convertible Bonds in full.

Based on the above analysis, the Open Offer, the entering into of the Debt Settlement Agreements and the Whitewash Waiver collectively would improve the overall financial position of the Group immediately upon Transaction Completion and therefore, we are of the view that, in this respect, it is beneficial to the Group and the Shareholders as a whole.

### RECOMMENDATION

Based on the above principal factors and reasons, we consider the terms of each of the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned and accordingly, we recommend that the Independent Board Committee to advise, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to approve the Open Offer, the Debt Settlement Agreements and the Whitewash Waiver in the EGM.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Lyan Tam**  
*Director*

*Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in corporate finance industry.*

## 1. SUMMARY OF FINANCIAL INFORMATION

Financial information of the Group for the three years ended 31 December 2012, 2013 and 2014 is set out in the annual reports of the Company for the three years ended 31 December 2012 (pages 38 to 92), 31 December 2013 (pages 36 to 86) and 31 December 2014 (pages 35 to 76) respectively. Financial information of the Group for the six months ended 30 June 2015 is set out in the interim report of the Company for the six months ended 30 June 2015 (pages 12 to 30). The annual reports and the interim report of the Company are available on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company (<http://www.chinabillion.net>).

## 2. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial results and positions of the Company for the six months ended 30 June 2015 and the three years ended 31 December 2012, 2013 and 2014, extracted from the 2015 interim report and the 2012, 2013 and 2014 annual reports of the Company respectively.

### Consolidated statement of profit or loss and other comprehensive income

	Six months ended 30 June 2015	Year ended 31 December		
	HK\$'000 (unaudited)	2014 HK\$'000 (audited)	2013 HK\$'000 (audited)	2012 HK\$'000 (audited)
Turnover	16,012	43,679	30,166	37,322
Cost of sales and services rendered	<u>(4,939)</u>	<u>(11,606)</u>	<u>(15,928)</u>	<u>(10,680)</u>
<b>Gross profit</b>	11,073	32,073	14,238	26,642
Other income and gains	1	5,722	15,500	1,048
Selling and distribution expenses	(707)	(1,316)	(1,204)	(1,003)
Administrative expenses	(20,393)	(72,351)	(61,841)	(66,510)
Impairment loss on mining right	-	(844,216)	(475,813)	-
Impairment loss on property, plant and equipment	<u>-</u>	<u>(34,884)</u>	<u>(48,945)</u>	<u>-</u>
<b>Loss from operations</b>	(10,026)	(914,972)	(558,065)	(39,823)
Finance costs	(13,414)	(15,995)	(28,675)	(19,551)
Loss on disposal of subsidiaries	<u>-</u>	<u>(26,732)</u>	<u>(3,739)</u>	<u>-</u>
<b>Loss before tax</b>	(23,440)	(957,699)	(590,479)	(59,374)
Income tax (expense)/credit	<u>(1,651)</u>	<u>214,935</u>	<u>116,678</u>	<u>(3,105)</u>
<b>Loss for the period/year</b>	(25,091)	(742,764)	(473,801)	(62,479)

	Six months ended 30 June 2015	Year ended 31 December		
	HK\$'000 (unaudited)	2014 HK\$'000 (audited)	2013 HK\$'000 (audited)	2012 HK\$'000 (audited)
<b>Other comprehensive income after tax:</b>				
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations	(975)	(12,413)	17,478	7,050
Exchange reserve released upon disposal of a subsidiary	—	—	5,706	—
<b>Other comprehensive income for the period/year, net of tax</b>	<u>(975)</u>	<u>(12,413)</u>	<u>23,184</u>	<u>7,050</u>
<b>Total comprehensive income for the period/year</b>	<u>(26,066)</u>	<u>(755,177)</u>	<u>(450,617)</u>	<u>(55,429)</u>
<b>Loss for the period/year attributable to:</b>				
Owners of the Company	(23,020)	(601,987)	(386,735)	(56,348)
Non-controlling interests	(2,071)	(140,777)	(87,066)	(6,131)
	<u>(25,091)</u>	<u>(742,764)</u>	<u>(473,801)</u>	<u>(62,479)</u>
<b>Total comprehensive income for the period/year attributable to:</b>				
Owners of the Company	(23,444)	(612,075)	(369,715)	(49,151)
Non-controlling interests	(2,622)	(143,102)	(80,902)	(6,278)
	<u>(26,066)</u>	<u>(755,177)</u>	<u>(450,617)</u>	<u>(55,429)</u>
<b>Loss per share (HK cents)</b>				
Basic	<u>(0.44)</u>	<u>(11.50)</u>	<u>(7.39)</u>	<u>(1.08)</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

The Company did not declare any dividend for each of the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015.

Save as disclosed in the financial information above, there were no items which were extraordinary or exceptional because of size, nature or incidence for the consolidated statement of comprehensive income of the Group for each of the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015.

## Consolidated Statement of Financial Position

	As at 30 June 2015 HK\$'000 (unaudited)	2014 HK\$'000 (audited)	As at 31 December	
		2013 HK\$'000 (audited)	2012 HK\$'000 (audited)	
<b>Non-current assets</b>				
Property, plant and equipment	11,131	12,026	37,211	109,949
Mining right	213,891	214,361	1,096,000	1,542,790
	<u>225,022</u>	<u>226,387</u>	<u>1,133,211</u>	<u>1,652,739</u>
<b>Current assets</b>				
Inventories	1,364	371	3,470	9,651
Trade and other receivables	11,383	12,397	10,336	8,615
Current tax assets	–	–	159	–
Bank and cash balances	7,394	4,705	3,908	5,767
	<u>20,141</u>	<u>17,473</u>	<u>17,873</u>	<u>24,033</u>
<b>Current liabilities</b>				
Trade and other payables	41,224	44,491	40,891	56,939
Borrowings	129,942	167,150	135,044	85,691
Convertible bonds	290,191	290,191	290,191	290,191
	<u>461,357</u>	<u>501,832</u>	<u>466,126</u>	<u>432,821</u>
<b>Net current liabilities</b>	<u>(441,216)</u>	<u>(484,359)</u>	<u>(448,253)</u>	<u>(408,788)</u>
<b>Total assets less current liabilities</b>	<u>(216,194)</u>	<u>(257,972)</u>	<u>684,958</u>	<u>1,243,951</u>
<b>Non-current liabilities</b>				
Borrowings	66,097	–	–	–
Deferred tax liabilities	25,295	23,548	239,349	347,725
	<u>91,392</u>	<u>23,548</u>	<u>239,349</u>	<u>347,725</u>
<b>NET (LIABILITIES)/ASSETS</b>	<u>(307,586)</u>	<u>(281,520)</u>	<u>445,609</u>	<u>896,226</u>
<b>Capital and reserves</b>				
Share capital	523,530	523,530	523,530	523,530
Reserves	(812,571)	(789,127)	(177,052)	192,663
Equity attributable to owners of the Company	(289,041)	(265,597)	346,478	716,193
Non-controlling interests	(18,545)	(15,923)	99,131	180,033
<b>TOTAL EQUITY</b>	<u>(307,586)</u>	<u>(281,520)</u>	<u>445,609</u>	<u>896,226</u>

### 3. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The audited consolidated financial statements as at and for the year ended 31 December 2014 set out herein have been extracted from pages 35 to 76 of the Company's annual report for the year ended 31 December 2014.

#### Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
<b>Turnover</b>	8	43,679	30,166
Cost of sales and services rendered		<u>(11,606)</u>	<u>(15,928)</u>
<b>Gross profit</b>		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		<u>(34,884)</u>	<u>(48,945)</u>
<b>Loss from operations</b>		(914,972)	(558,065)
Finance costs	10	(15,995)	(28,675)
Loss on disposal of subsidiaries	26	<u>(26,732)</u>	<u>(3,739)</u>
<b>Loss before tax</b>		(957,699)	(590,479)
Income tax credit	11	<u>214,935</u>	<u>116,678</u>
<b>Loss for the year</b>	12	(742,764)	(473,801)
<b>Other comprehensive income after tax:</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(12,413)	17,478
Exchange reserve released upon disposal of a subsidiary		<u>–</u>	<u>5,706</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>(12,413)</u>	<u>23,184</u>
<b>Total comprehensive income for the year</b>		<u><u>(755,177)</u></u>	<u><u>(450,617)</u></u>

		<b>2014</b>	<b>2013</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss for the year attributable to:</b>			
Owners of the Company		(601,987)	(386,735)
Non-controlling interests		<u>(140,777)</u>	<u>(87,066)</u>
		<u>(742,764)</u>	<u>(473,801)</u>
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		(612,075)	(369,715)
Non-controlling interests		<u>(143,102)</u>	<u>(80,902)</u>
		<u>(755,177)</u>	<u>(450,617)</u>
<b>Loss per share (HK cents)</b>			
Basic	14	<u>(11.50)</u>	<u>(7.39)</u>
Diluted	14	<u>N/A</u>	<u>N/A</u>



**Consolidated statement of financial position***As at 31 December 2014*

	<i>Notes</i>	<b>2014</b> <i>HK\$'000</i>	<b>2013</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	15	12,026	37,211
Mining right	16	214,361	1,096,000
		<u>226,387</u>	<u>1,133,211</u>
<b>Current assets</b>			
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
		<u>17,473</u>	<u>17,873</u>
<b>Current liabilities</b>			
Trade and other payables	20	44,491	40,891
Borrowings	21	167,150	135,044
Convertible bonds	22	290,191	290,191
		<u>501,832</u>	<u>466,126</u>
<b>Net current liabilities</b>		<u>(484,359)</u>	<u>(448,253)</u>
<b>Total assets less current liabilities</b>		<u>(257,972)</u>	<u>684,958</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	23	23,548	239,349
<b>NET (LIABILITIES)/ASSETS</b>		<u>(281,520)</u>	<u>445,609</u>
<b>Capital and reserves</b>			
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
<b>TOTAL EQUITY</b>		<u>(281,520)</u>	<u>445,609</u>

**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	<u>523,530</u>	<u>2,101,765</u>	<u>300</u>	<u>25,101</u>	<u>65,295</u>	<u>99,389</u>	<u>(2,468,902)</u>	<u>346,478</u>	<u>99,131</u>	<u>445,609</u>
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	<u>523,530</u>	<u>2,101,765</u>	<u>300</u>	<u>-</u>	<u>55,207</u>	<u>99,389</u>	<u>(3,045,788)</u>	<u>(265,597)</u>	<u>(15,923)</u>	<u>(281,520)</u>

**Consolidated statement of cash flows***For the year ended 31 December 2014*

	<b>2014</b> <i>HK\$'000</i>	<b>2013</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
Cash (used in)/generated from operations	(2,702)	13,296
Income tax refund/(paid)	159	(159)
	<hr/>	<hr/>
<b>Net cash (used in)/generated from operating activities</b>	<b>(2,543)</b>	<b>13,137</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(13,248)</b>	<b>(22,717)</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings raised	16,111	21,043
	<hr/>	<hr/>
<b>Net cash generated from financing activities</b>	<b>16,111</b>	<b>21,043</b>
	<hr/>	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	320	11,463
Effect of foreign exchange rate changes	477	(13,322)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,908</b>	<b>5,767</b>
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>4,705</b>	<b>3,908</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	4,705	3,908
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the consolidated financial statements***For the year ended 31 December 2014***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.

##### **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.

**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.

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.

#### **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.

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.

**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.

**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.

**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.

**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.

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

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### **Segment reporting**

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

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

### **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.

**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 requirements; 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.

*(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.

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

**(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 <i>HK\$'000</i>	Cosmetics and skincare products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>For the year ended 31 December 2014</b>			
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
<b>As at 31 December 2014</b>			
Segment assets	225,514	17,005	242,519
Segment liabilities	154,614	31,492	186,106
<b>For the year ended 31 December 2013</b>			
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
<b>As at 31 December 2013</b>			
Segment assets	1,138,446	11,640	1,150,086
Segment liabilities	351,125	27,262	378,387

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>Revenue</b>		
Total revenue of reportable segments and consolidated revenue	43,679	30,166
<b>Profit or loss</b>		
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)
<b>Assets</b>		
Total assets of reportable segments	242,519	1,150,086
Other assets	1,341	998
Consolidated total assets	243,860	1,151,084
<b>Liabilities</b>		
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.



**Geographical information:***(a) Revenue from external customers*

	<b>2014</b> <i>HK\$'000</i>	<b>2013</b> <i>HK\$'000</i>
Hong Kong	23,588	21,900
PRC	20,091	8,266
	<u>43,679</u>	<u>30,166</u>

*(b) Non-current assets*

	<b>2014</b> <i>HK\$'000</i>	<b>2013</b> <i>HK\$'000</i>
Hong Kong	3,315	1,802
PRC	223,072	1,131,409
	<u>226,387</u>	<u>1,133,211</u>

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:

	<b>2014</b> <i>HK\$'000</i>	<b>2013</b> <i>HK\$'000</i>
<b>Revenue</b>		
Sales of goods:		
– Cosmetics and skincare products	23,588	21,900
– Mining products	20,091	8,266
	<u>43,679</u>	<u>30,166</u>

**9. OTHER INCOME AND GAINS**

	<b>2014</b> <i>HK\$'000</i>	<b>2013</b> <i>HK\$'000</i>
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
	<u>5,722</u>	<u>15,500</u>

## 10. FINANCE COSTS

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

## 11. INCOME TAX CREDIT

	2014 HK\$'000	2013 HK\$'000
Deferred tax (note 23)	<u>214,935</u>	<u>116,678</u>

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%).

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

	2014 HK\$'000	2013 HK\$'000
Loss before tax	<u>(957,699)</u>	<u>(590,479)</u>
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	<u>14,761</u>	<u>27,755</u>
Income tax credit	<u>(214,935)</u>	<u>(116,678)</u>

## 12. LOSS FOR THE YEAR

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

	2014 HK\$'000	2013 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	<u>1,768</u>	<u>1,331</u>
	<u>23,525</u>	<u>23,248</u>

\* 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	Salaries, allowances	Discretionary bonus	Share-based payments	Retirement benefit scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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
	<u>321</u>	<u>2,076</u>	<u>-</u>	<u>-</u>	<u>43</u>	<u>2,440</u>

For the year ended 31 December 2013						
	Fees	Salaries, allowances	Discretionary bonus	Share-based payments	Retirement benefit scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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
	<u>300</u>	<u>1,927</u>	<u>-</u>	<u>-</u>	<u>54</u>	<u>2,281</u>

Notes:

- (i) Resigned on 1 October 2013
- (ii) Appointed on 1 April 2013 and resigned on 17 October 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 HK\$'000	2013 HK\$'000
Basic salaries and allowances	1,274	1,080
Retirement benefit scheme contributions	34	43
	<u>1,308</u>	<u>1,123</u>

The emoluments fell within the following band:

	Number of individuals	
	2014	2013
Nil to HK\$1,000,000	<u>2</u>	<u>3</u>

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
<b>Cost</b>							
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
<b>Accumulated depreciation and impairment</b>							
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
<b>Carrying amount</b>							
At 31 December 2014	<u>230</u>	<u>262</u>	<u>222</u>	<u>3,095</u>	<u>243</u>	<u>7,974</u>	<u>12,026</u>
At 31 December 2013	<u>2,050</u>	<u>288</u>	<u>1,640</u>	<u>1,778</u>	<u>1,465</u>	<u>29,990</u>	<u>37,211</u>

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

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

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., Limited 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.

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
	<u>371</u>	<u>3,470</u>



## 19. TRADE AND OTHER RECEIVABLES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade receivables	2,739	2,129
Prepayments, deposits and other receivables	<u>9,658</u>	<u>8,207</u>
	<u><u>12,397</u></u>	<u><u>10,336</u></u>

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 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current to 30 days	2,182	783
31 – 60 days	<u>557</u>	<u>1,346</u>
	<u><u>2,739</u></u>	<u><u>2,129</u></u>

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 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade payables	2,872	806
Accrued liabilities and other payables	<u>41,619</u>	<u>40,085</u>
	<u><u>44,491</u></u>	<u><u>40,891</u></u>

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current to 30 days	230	806
31 – 60 days	690	–
61 – 90 days	360	–
Over 90 days	<u>1,592</u>	<u>–</u>
	<u><u>2,872</u></u>	<u><u>806</u></u>

## 21. BORROWINGS

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

## 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
	<hr/>
At 31 December 2013	239,349
Credit to profit or loss for the year	(214,935)
Exchange differences	(866)
	<hr/>
At 31 December 2014	<u>23,548</u>

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	<u>8,000,000</u>	<u>800,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 January 2013, 31 December 2013 and 31 December 2014	<u>5,235,303</u>	<u>523,530</u>

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

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

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

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

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

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.

### (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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(369,715)</u>	<u>(369,715)</u>
At 31 December 2013	2,101,765	300	25,101	99,389	(2,403,607)	(177,052)
Transfer to accumulated losses	<u>-</u>	<u>-</u>	<u>(25,101)</u>	<u>-</u>	<u>25,101</u>	<u>-</u>
Loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(612,075)</u>	<u>(612,075)</u>
At 31 December 2014	<u>2,101,765</u>	<u>300</u>	<u>-</u>	<u>99,389</u>	<u>(2,990,581)</u>	<u>(789,127)</u>

### (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.

*(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:

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

## 27. LEASE COMMITMENTS

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within one year	3,455	5,579
In the second to fifth years, inclusive	<u>201</u>	<u>3,656</u>
	<u>3,656</u>	<u>9,235</u>

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 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Loan interest expense paid to a related company	12,726	16,553
Loan interest expense paid to a director	<u>3,667</u>	<u>2,863</u>

A Director has control over the related company.

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

	2014 HK\$'000	2013 HK\$'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	79	123
Investments in subsidiaries	44,424	641,202
	<u>44,503</u>	<u>641,325</u>
<b>CURRENT ASSETS</b>		
Trade and other receivables	305	179
Amounts due from subsidiaries	30,319	260,410
Bank and cash balances	946	680
	<u>31,570</u>	<u>261,269</u>
<b>CURRENT LIABILITIES</b>		
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
	<u>341,670</u>	<u>556,116</u>
<b>NET CURRENT LIABILITIES</b>	<u>(310,100)</u>	<u>(294,847)</u>
<b>NET (LIABILITIES)/ASSETS</b>	<u>(265,597)</u>	<u>346,478</u>
<b>EQUITY</b>		
Share capital	523,530	523,530
Reserves	(789,127)	(177,052)
<b>Total equity</b>	<u>(265,597)</u>	<u>346,478</u>

## 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.

## 4. UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

The unaudited interim consolidated financial statements as at and for the six months ended 30 June 2015 set out herein have been extracted from pages 12 to 30 of the Company’s interim report for the six months ended 30 June 2015.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

*For the six months ended 30 June 2015*

	Notes	Six months ended 30 June	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
<b>Turnover</b>	6	16,012	19,779
Cost of sales and services rendered		<u>(4,939)</u>	<u>(4,093)</u>
<b>Gross profit</b>		11,073	15,686
Other income and gains		1	5,549
Selling and distribution expenses		(707)	(742)
Administrative expenses		<u>(20,393)</u>	<u>(29,966)</u>
<b>Loss from operations</b>		(10,026)	(9,473)
Finance costs	7	<u>(13,414)</u>	<u>(15,976)</u>
<b>Loss before tax</b>		(23,440)	(25,449)
Income tax (expense)/credit	8	<u>(1,651)</u>	<u>776</u>
Loss for the period	9	(25,091)	(24,673)
<b>Other comprehensive income after tax:</b>			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>(975)</u>	<u>(8,579)</u>
<b>Total comprehensive income for the period</b>		<u>(26,066)</u>	<u>(33,252)</u>
<b>Loss for the period attributable to:</b>			
Owners of the Company		(23,020)	(20,957)
Non-controlling interests		<u>(2,071)</u>	<u>(3,716)</u>
		<u>(25,091)</u>	<u>(24,673)</u>
<b>Total comprehensive income for the period attributable to:</b>			
Owners of the Company		(23,444)	(27,778)
Non-controlling interests		<u>(2,622)</u>	<u>(5,474)</u>
		<u>(26,066)</u>	<u>(33,252)</u>
<b>Loss per share (HK cents)</b>			
Basic	10	<u>(0.44)</u>	<u>(0.40)</u>
Diluted	10	<u>N/A</u>	<u>N/A</u>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	<i>Notes</i>	As at 30 June 2015 <i>HK\$'000</i> (unaudited)	As at 31 December 2014 <i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	11,131	12,026
Mining right	12	213,891	214,361
		<u>225,022</u>	<u>226,387</u>
<b>Current assets</b>			
Inventories		1,364	371
Trade and other receivables	13	11,383	12,397
Bank and cash balances		7,394	4,705
		<u>20,141</u>	<u>17,473</u>
<b>Current liabilities</b>			
Trade and other payables	14	41,224	44,491
Borrowings	15	129,942	167,150
Convertible bonds	16	290,191	290,191
		<u>461,357</u>	<u>501,832</u>
<b>Net current liabilities</b>		<u>(441,216)</u>	<u>(484,359)</u>
<b>Total assets less current liabilities</b>		<u>(216,194)</u>	<u>(257,972)</u>
<b>Non-current liabilities</b>			
Borrowings	15	66,097	–
Deferred tax liabilities	17	25,295	23,548
		<u>91,392</u>	<u>23,548</u>
<b>NET LIABILITIES</b>		<u>(307,586)</u>	<u>(281,520)</u>
<b>Capital and reserves</b>			
Share capital	18	523,530	523,530
Reserves		(812,571)	(789,127)
Equity attributable to owners of the Company		(289,041)	(265,597)
Non-controlling interests		(18,545)	(15,923)
<b>TOTAL EQUITY</b>		<u>(307,586)</u>	<u>(281,520)</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company									
	Share capital	Share premium	Capital redemption reserve	Share-based payment reserve	Foreign currency translation reserve	Convertible bond reserve	Accumulated losses	Total	Non-Controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014 (audited)	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 period	-	-	-	-	(6,821)	-	(20,957)	(27,778)	(5,474)	(33,252)
Changes in equity for the period	-	-	-	(25,101)	(6,821)	-	4,144	(27,778)	(5,474)	(33,252)
At 30 June 2014 (unaudited)	<u>523,530</u>	<u>2,101,765</u>	<u>300</u>	<u>-</u>	<u>58,474</u>	<u>99,389</u>	<u>(2,464,758)</u>	<u>318,700</u>	<u>93,657</u>	<u>412,357</u>
At 1 January 2015 (audited)	523,530	2,101,765	300	-	55,207	99,389	(3,045,788)	(265,597)	(15,923)	(281,520)
Total comprehensive income for the period	-	-	-	-	(424)	-	(23,020)	(23,444)	(2,622)	(26,066)
At 30 June 2015 (unaudited)	<u>523,530</u>	<u>2,101,765</u>	<u>300</u>	<u>-</u>	<u>54,783</u>	<u>99,389</u>	<u>(3,068,808)</u>	<u>(289,041)</u>	<u>(18,545)</u>	<u>(307,586)</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Net cash (used in)/generated from operating activities	(10,638)	1,685
Net cash used in investing activities	(384)	(7,036)
Net cash generated from financing activities	<u>25,975</u>	<u>8,100</u>
Net increase in cash and cash equivalents	14,953	2,749
Effect of foreign exchange rate changes	(12,264)	(2,562)
Cash and cash equivalents at beginning of period	<u>4,705</u>	<u>3,908</u>
Cash and cash equivalents at end of period	<u><u>7,394</u></u>	<u><u>4,095</u></u>
Analysis of cash and cash equivalents		
Bank and cash balances	<u><u>7,394</u></u>	<u><u>4,095</u></u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2015*

**1. GENERAL INFORMATION**

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

The Company is an investment holding company. The principal activities of its subsidiaries are (i) gold exploration, development and mining in the PRC; and (ii) trading of cosmetics and skincare products and retailing of cosmetics and provision of beauty treatment services in Hong Kong.

**2. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and applicable disclosures required by the Listing Rules.

As disclosed in note 16 to the condensed consolidated financial statements, the Group has breached certain covenants of the CB and the CB became due and payable. It is the Directors' belief that the CB which has been reclassified as current liabilities since year ended 31 December 2011 will be converted into new shares of the Company and that a major Shareholder has indicated his intention to provide financial support to the Group. The condensed consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on (i) the successful outcome that the CB will be converted into shares of the Company and (ii) the availability of funding from the major Shareholder to the Group to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. The Directors are therefore of the opinion that it is appropriate to prepare the condensed 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 condensed 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 period, 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 period beginning on 1 January 2015. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); 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 condensed consolidated financial statements and amounts reported for the current period and prior periods.

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**

The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2014. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2014.

## 5. 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 for the year ended 31 December 2014. Segment liabilities do not include convertible bonds.

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

	<b>Mining products</b> <i>HK\$'000</i> (unaudited)	<b>Cosmetics and skincare products</b> <i>HK\$'000</i> (unaudited)	<b>Total</b> <i>HK\$'000</i> (unaudited)
<b>For the six months ended 30 June 2015</b>			
Revenue from external customers	4,526	11,486	16,012
Segment loss	(4,225)	(1,115)	(5,340)
Depreciation	738	552	1,290
Income tax expense	(1,651)	–	(1,651)
Additions to segment non-current assets	385	–	385
<b>As at 30 June 2015</b>			
Segment assets	231,092	13,149	244,241
Segment liabilities	38,671	28,749	67,420
<b>For the six months ended 30 June 2014</b>			
Revenue from external customers	9,144	10,635	19,779
Segment (loss)/profit	(18,587)	1,801	(16,786)
Depreciation	1,378	402	1,780
Income tax credit	776	–	776
Additions to segment non-current assets	6,669	363	7,032
<b>As at 31 December 2014</b>			
Segment assets (audited)	225,514	17,005	242,519
Segment liabilities (audited)	154,614	31,492	186,106

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

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
<b>Revenue</b>		
Total revenue of reportable segments and consolidated revenue	16,012	19,779
<b>Profit or loss</b>		
Total loss of reportable segments	(5,340)	(16,786)
Other profit or loss	(19,751)	(7,887)
Consolidated loss for the period	<u>(25,091)</u>	<u>(24,673)</u>
	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
	<b>Assets</b>	
Total assets of reportable segments	244,241	242,519
Other assets	922	1,341
Consolidated total assets	245,163	243,860
<b>Liabilities</b>		
Total liabilities of reportable segments	67,420	186,106
Convertible bonds	290,191	290,191
Other liabilities	195,138	49,083
Consolidated total liabilities	<u>552,749</u>	<u>525,380</u>

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

**Geographical information:**

(a) *Revenue from external customers*

	Six months ended 30 June	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Hong Kong	11,486	10,635
PRC	4,526	9,144
	<u>16,012</u>	<u>19,779</u>

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

(b) *Non-current assets*

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Hong Kong	2,739	3,315
PRC	222,283	223,072
	<u>225,022</u>	<u>226,387</u>

**6. TURNOVER**

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

	<b>Six months ended 30 June</b>	
	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Revenue		
Sales of goods:		
– Cosmetics and skincare products	11,486	10,635
– Mining products	4,526	9,144
	<u>16,012</u>	<u>19,779</u>

**7. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Other borrowings costs		
– Wholly repayable within five years	13,566	16,480
Less: interests capitalised	(152)	(504)
	<u>13,414</u>	<u>15,976</u>

## 8. INCOME TAX (EXPENSE)/CREDIT

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Deferred tax ( <i>note 17</i> )	(1,651)	776

No provision for Hong Kong Profits Tax is required since the Company has no assessable profit for the period (2014: nil).

The applicable income tax rate for the subsidiaries of the Group in the PRC in the current period is 25% (2014: 25%).

## 9. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Amortisation of mining right	1,320	11,907
Cost of sales and services rendered	4,939	4,093
Depreciation	1,315	1,805
Operating lease charges	2,663	2,843
Staff costs including Directors' emoluments		
Salaries, bonus and allowances	9,033	8,053
Retirement benefits scheme contributions	218	238
	<u>9,251</u>	<u>8,291</u>

## 10. LOSS PER SHARE

**Basic loss per share**

The calculation of basic loss per share attributable to owners of the Company for the six months ended 30 June 2015 is based on the loss for the period attributable to owners of the Company of approximately HK\$23,020,000 (2014: approximately HK\$20,957,000) and the weighted average number of ordinary shares of approximately 5,235,303,000 (2014: approximately 5,235,303,000) in issue during the period.

**Diluted loss per share**

The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2015 and 2014.



## 11. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
<b>Cost</b>	
At 1 January 2014 (audited)	126,912
Additions	13,251
Exchange differences	<u>(738)</u>
At 31 December 2014 and 1 January 2015 (audited)	139,425
Additions	385
Exchange differences	<u>465</u>
At 30 June 2015 (unaudited)	<u>140,275</u>
<b>Accumulated depreciation and impairment</b>	
At 1 January 2014 (audited)	89,701
Charge for the year	3,406
Impairment loss for the year	34,884
Exchange differences	<u>(592)</u>
At 31 December 2014 and 1 January 2015 (audited)	127,399
Charge for the period	1,315
Exchange differences	<u>430</u>
At 30 June 2015 (unaudited)	<u>129,144</u>
<b>Carrying amount</b>	
At 30 June 2015 (unaudited)	<u><u>11,131</u></u>
At 31 December 2014 (audited)	<u><u>12,026</u></u>

## 12. MINING RIGHT

	<i>HK\$'000</i>
<b>Cost</b>	
At 1 January 2014 (audited)	1,597,573
Exchange differences	<u>(10,532)</u>
At 31 December 2014 and 1 January 2015 (audited)	1,587,041
Exchange differences	<u>6,311</u>
At 30 June 2015 (unaudited)	<u>1,593,352</u>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2014 (audited)	501,573
Amortisation for the year	23,813
Impairment loss for the year	844,216
Exchange differences	<u>3,078</u>
At 31 December 2014 and 1 January 2015 (audited)	1,372,680
Amortisation for the period	1,320
Exchange differences	<u>5,461</u>
At 30 June 2015 (unaudited)	<u>1,379,461</u>
<b>Carrying amount</b>	
At 30 June 2015 (unaudited)	<u><u>213,891</u></u>
At 31 December 2014 (audited)	<u><u>214,361</u></u>

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 be expired 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 Human Province, the PRC 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 units of production method.

## 13. TRADE AND OTHER RECEIVABLES

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Trade receivables	1,681	2,739
Prepayments, deposits and other receivables	<u>9,702</u>	<u>9,658</u>
	<u><u>11,383</u></u>	<u><u>12,397</u></u>

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:

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Current to 30 days	1,438	2,182
31 – 60 days	243	557
	<u>1,681</u>	<u>2,739</u>

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

#### 14. TRADE AND OTHER PAYABLES

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Trade payables	230	2,872
Accrued liabilities and other payables	40,994	41,619
	<u>41,224</u>	<u>44,491</u>

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

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Current to 30 days	–	230
31 – 60 days	230	690
61 – 90 days	–	360
Over 90 days	–	1,592
	<u>230</u>	<u>2,872</u>

## 15. BORROWINGS

	<i>Note</i>	30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
Borrowings – current	(a)	129,942	167,150
Borrowings – non-current	(b)	66,097	–
		<u>196,039</u>	<u>167,150</u>
		30 June 2015 HK\$'000 (unaudited)	31 December 2014 HK\$'000 (audited)
(a) Borrowings – current			
Other loans			
– unsecured, interest-free and due within one year		5,122	5,841
Other loans			
– unsecured, bear interest at 11% per annum and due within one year		10,759	10,214
Loan from a related party			
– unsecured, bear interest at 12% (2014: 12% – 18%) per annum and due within one year		71,694	116,226
Loan from a director			
– unsecured, bear interest at 12% per annum and due within one year		42,367	34,869
		<u>129,942</u>	<u>167,150</u>
(b) Borrowings – non-current			
Other loans			
– unsecured, bear interest at 10% per annum and due within three years		66,097	–

*Notes:* The Directors consider that the fair values of borrowings at 30 June 2015 and 31 December 2014 approximate to their carrying amounts.

## 16. CONVERTIBLE BONDS

On 31 March 2010, the Company issued HK\$895,191,200 zero coupon CB 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 CB are as follows:

Each CB will, at the option of the holders, 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 CB agreement as a result of dilutive events.

Pursuant to the CB agreement, the CB holders has the rights to give notice to the Company that the CB 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 Listing Rules) or listing of the shares on the Stock Exchange are being revoked or withdrawn.

Upon any such notice being given to the Company, the CB 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 CB will be automatically converted into new shares of the Company upon maturity date at the then prevailing Conversion Price.

The movement of the liability component of the CB for the year/period is set out below:

	<i>HK\$'000</i>
At 31 December 2014 and 30 June 2015 (unaudited)	290,191

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

#### 17. DEFERRED TAX LIABILITIES

	<b>Revaluation of intangible assets</b>
	<i>HK\$'000</i>
At 1 January 2014 (audited)	239,349
Credit to profit or loss for the year	(214,935)
Exchange differences	(866)
At 31 December 2014 and 1 January 2015 (audited)	23,548
Debit to profit or loss for the period	1,651
Exchange differences	96
At 30 June 2015 (unaudited)	25,295

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

#### 18. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount</b>
	<i>'000</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 January 2014, 31 December 2014 and 30 June 2015	8,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 January 2014 (audited), 31 December 2014 (audited) and 30 June 2015 (unaudited)	5,235,303	523,530

**19. LEASE COMMITMENTS**

At 30 June 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Within one year	2,775	3,455
In the second to fifth years, inclusive	9,231	201
	<u>12,006</u>	<u>3,656</u>

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

**20. CAPITAL COMMITMENTS**

The Group had no material capital commitment as at 30 June 2015 and 31 December 2014.

**21. CONTINGENT LIABILITIES**

The Group had no material contingent liability as at 30 June 2015 and 31 December 2014.

**22. RELATED PARTY TRANSACTIONS**

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

	<b>Six months ended 30 June</b>	
	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Loan interest expense paid to a related company	4,442	12,707
Loan interest expense paid to a director	1,908	3,616
	<u>6,350</u>	<u>16,323</u>

A Director has control over the related company.

**23. EVENTS AFTER THE REPORTING PERIOD**

On 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 RMB12 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.

**24. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

These condensed consolidated financial statements were approved and authorised for issue by the Board on 31 August 2015.

## 5. STATEMENT OF INDEBTEDNESS

### Indebtedness Statement

As at the close of business on 30 November 2015, being the latest practicable date for the purpose of this indebtedness statement, the Group had the following liabilities:

(a) *Borrowings*

As at the close of business on 30 November 2015, the Group had outstanding borrowings of approximately HK\$218,080,000, comprising unsecured borrowings from third parties of approximately HK\$112,998,000, unsecured borrowings from a related party of approximately HK\$53,181,000 and unsecured borrowings from directors of HK\$51,901,000.

(b) *Convertible bonds*

As at the close of business on 30 November 2015, the Company had the outstanding amount of unsecured convertible bonds of approximately HK\$290,191,000.

(c) *Contingent liabilities*

As at the close of business on 30 November 2015, the Company had the contingent convertible bonds interest payable of approximately HK\$36,317,000.

Save as above, and apart from normal trade payables in the ordinary course of the business, the Group did not have any other outstanding indebtedness at the close of business on 30 November 2015 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts or loans, or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees.

## 6. WORKING CAPITAL

The Directors are of the opinion that, following the completion of the Capital Reorganisation, Debt Settlement Agreements and Open Offer, and after taking into account the financial resources available to the Group, including internally generated fund, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this Circular, in the absence of unforeseeable circumstances.

## 7. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that, save for the Open Offer and entering into the Debt Settlement Agreements, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2014, the date to which the latest published audited financial statements of the Company were made up.

## 8. FINANCIAL AND TRADING PROSPECTS

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.

The cosmetic and skincare products segment has maintained a stable performance with slight growth during 2015. Facing the intense competition in this industry, the management of the Company strived to control the operation cost to attain a profitable and financially healthy position in this sector.

During 2015, as the mining products business segment continue to generate revenue, the management of the Company 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 November 2015, GCC Finance Company Limited (“GCCF”), which is a wholly-owned subsidiary of the Company, has successfully obtained the money lender license so as to catch the attractive fastest growing business opportunity in the Greater China region.

The Company is endeavoring to complete the Resumption on the Stock Exchange as soon as practicable. At the same time, the management of the Company is looking for other investment opportunities to broaden the sources of income of the Group in order to create greater value for the Shareholders.

## 9. QUALIFICATION CONTAINED IN THE AUDITOR’S REPORT

ZHONGHUI ANDA CPA Limited, being the auditors of the Company, issued disclaimer of opinion on the Group’s financial statement for three years ended 31 December 2012, 2013 and 2014. The qualifications contained in the auditors’ report are extracted below:

### **Auditor’s Report for the year ended 31 December 2012**

Set out below is the auditor’s report extracted from the annual report of the Company for the year ended 31 December 2012. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 December 2012.



**Basis for disclaimer of opinion**1) *Opening balances and corresponding figures*

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

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

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

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

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

3) *Property, plant and equipment*

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

4) *Intangible assets*

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

5) *Inventories*

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

6) *Trade and other receivables*

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

7) *Bank and cash balances*

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

8) *Trade and other payables*

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

9) *Borrowings*

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

10) *Deferred tax liabilities*

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

11) *Commitments and contingent liabilities*

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

12) *Related party transactions and balances*

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

13) *Other disclosures in the consolidated financial statements*

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

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

**Material uncertainty relating to the going concern basis**

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

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on (i) the successful outcome that the convertible bonds will be converted into shares of the Company; and (ii) the availability of funding from the major shareholder of the Company to the Group to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. The consolidated financial statements do not include any adjustments that would be necessary if the Company fails to convert the convertible bonds and the Group fails to obtain financial support from the major

shareholder of the Company. We consider that adequate disclosures have been made. However, the uncertainties surrounding the successful conversion of the Company's convertible bonds and the availability of funding from the major shareholder of the Company raise significant doubt about the Company's ability to continue as a going concern. We therefore disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

#### **Disclaimer of opinion**

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

#### **Auditor's Report for the year ended 31 December 2013**

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 December 2013. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 December 2013.

#### **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 2012 ("**2012 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 2012 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

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

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the transactions of the Group for the year ended 31 December 2013 as follows:

	<i>HK\$'000</i>
Cost of sales and services rendered	15,928
Other income and gains	12,904
Administrative expenses	17,279
Finance costs	11,567
Exchange differences on translating foreign operations	17,478
Exchange reserve released upon disposal of a subsidiary	5,706

There are no other satisfactory audit procedures that we could adopt to satisfy ourselves that the income and expense items are properly accounted for in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013 and that these items are properly disclosed in the consolidated financial statements.

3) *Impairment loss on mining right*

No sufficient evidence has been received by us up to the date of this report in respect of whether the impairment loss on mining right of approximately HK\$475,813,000 were properly accounted for in the consolidated financial statements for the year ended 31 December 2013.

4) *Impairment loss on property, plant and equipment*

No sufficient evidence has been received by us up to the date of this report in respect of whether the impairment loss on property, plant and equipment of approximately HK\$48,945,000 were properly accounted for in the consolidated financial statements for the year ended 31 December 2013.

5) *Loss on disposal of a subsidiary*

As described in note 29 to the consolidated financial statements, a subsidiary of the Company was disposed of by the Group during the year. No sufficient evidence has been provided to satisfy ourselves as to the loss on disposal of a subsidiary of approximately HK\$3,739,000 for the year ended 31 December 2013 as disclosed in note 29 to the consolidated financial statements.

6) *Mining right*

No sufficient evidence has been provided to satisfy ourselves as to the carrying amount of mining right of approximately HK\$1,096,000,000 in the consolidated statement of financial position as at 31 December 2013.

7) *Deferred tax liabilities*

No sufficient evidence has been provided to satisfy ourselves as to the deferred tax credit of approximately HK\$116,678,000 for the year ended 31 December 2013 and the deferred tax liabilities of approximately HK\$239,349,000 in the consolidated statement of financial position as at 31 December 2013.

8) *Commitments and contingent liabilities*

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities as at 31 December 2013.

9) *Related party transactions and balances*

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of the related party transactions for the year ended 31 December 2013 and the balances as at that date as required by Hong Kong Accounting Standard 24 (Revised) "Related Party Disclosures".

10) *Other disclosures in the consolidated financial statements*

No sufficient evidence has been provided to satisfy ourselves as to the accuracy and completeness of the disclosures in relation to the other income and gains, finance costs, income tax credit/expense, loss for the year, Directors' and five highest paid individual remuneration, the movement of property, plant and equipment, the movement of mining right, information of subsidiaries that have non-controlling interests, share-based payments and major non-cash transaction as disclosed in notes 9, 10, 11, 12, 13, 16, 17, 18, 28 and 30 to the consolidated financial statements respectively.

Any adjustments to the figures as described from points 1 to 10 above might have a significant consequential effect on the Group's results and cash flows for the two years ended 31 December 2013 and 2012 and the financial positions of the Group as at 31 December 2013 and 2012, and the related disclosures thereof in the consolidated financial statements.

**Material uncertainty relating to the going concern basis**

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

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

### **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 2013 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.

### **Auditor's Report for the year ended 31 December 2014**

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 December 2014. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 December 2014.

### **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.

**INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

Capitalised terms used herein shall have the same meanings as those defined in this Circular, unless the context requires otherwise.

The accompanying unaudited pro forma statement of adjusted consolidated net tangible assets (“**Unaudited Pro Forma Financial Information**”) has been prepared by the Directors of the Company to illustrate the effect of the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015 as extracted from the interim report of the Group for the period ended 30 June 2015 after making certain pro forma adjustments resulting from the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Group if the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer would have been taken place on 30 June 2015. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Group’s future financial position.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I of this Circular, interim report of the Company for the period ended 30 June 2015 and other financial information included elsewhere in this Circular.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the unaudited consolidated net tangible assets of the Group derived from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015, as extracted from the published interim report of the Company for the period ended 30 June 2015 and is adjusted for the effects of the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer.

	<b>Consolidated net tangible liabilities attributable to owners of the Group as at 30 June 2015</b>	<b>Estimated effect from the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group after the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer</b>
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2 and 3)</i>	<i>HK\$'000</i>
Based on the Offer Price of HK\$0.03 per Offer Share	<u>(502,932)</u>	<u>643,661</u>	<u>140,729</u>
			<i>HK\$</i> <i>(Note 4)</i>
Consolidated net tangible liabilities attributable to owners of the Group per share as at 30 June 2015			<u>(0.096)</u>
			<i>HK\$</i> <i>(Note 5)</i>
Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group per Reorganised Share as at 30 June 2015			<u>0.008</u>

## NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

- (1) The consolidated net tangible liabilities attributable to owners of the Group of approximately HK\$502,932,000 as at 30 June 2015 is based on the consolidated net liabilities attributable to owners of the Group of approximately HK\$289,041,000 and the excluding of consolidated mining right of HK\$213,891,000 as extracted from the published interim report of the Company for the period ended 30 June 2015.
- (2) This adjustment represents the effect of the Capital Reorganisation which involves, among others, Capital Reduction and Share Consolidation:
- (i) Capital Reduction: the par value of every share will be reduced from HK\$0.1 to HK\$0.005. As a result, the issued share capital of the Company after Capital Reduction will be reduced from approximately HK\$523,530,330 divided into 5,235,303,300 shares of HK\$0.1 each to approximately HK\$26,176,517 divided into 5,235,303,300 shares of HK\$0.005 each. The decrease in the issued share capital of the Company of approximately HK\$497,353,813 will be credited to the accumulated losses of the Company; and
- (ii) Share Consolidation: after completion of the Capital Reduction, every two issued shares of the Company of par value of HK\$0.005 each will be then consolidated into one consolidated share of par value of HK\$0.01 each and become a Reorganised Share. As a result, the issued share capital of the Company will be consolidated from approximately HK\$26,176,517 divided into 5,235,303,300 Shares of HK\$0.005 each to approximately HK\$26,176,517 divided into 2,617,651,650 Reorganised Shares of HK\$0.01 each.

As there is no proceeds to be derived from the Capital Reorganisation, there is no effect to unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group.

- (3) This adjustment represents the effect of the Debt Settlement Agreements and the Open Offer:

	<i>HK\$'000</i>
(i) The Open Offer	153,033
(ii) Use of net proceeds of the Open Offer	(7,000)
(iii) Settlement of the 2010 Convertible Bonds under the Debt Settlement Agreements	272,191
(iv) Settlement of the borrowings under the Debt Settlement Agreements I	172,917
(v) Settlement of the borrowings under the Debt Settlement Agreements II	52,520
	<hr/>
	643,661
	<hr/> <hr/>

- (i) This adjustment represents the issuance of 5,235,303,300 Offer Shares under the Open Offer in the proportion of two Offer Shares for every one Reorganised Share to the Qualifying Shareholders whose names appear on the register of members of the Company as at the close of business on the Open Offer Record Date at the Offer Price of HK\$0.03 per Offer Share with the par value of HK\$0.01 each. As a result of the Open Offer, the Group will raise net proceeds of approximately HK\$153,033,000 after deducting commission of approximately HK\$4,026,000 relating to the Open Offer.
- (ii) This adjustment represents the proposed application of the aggregate cash proceeds from the Open Offer (after deducting the commission for the Open Offer) for payment of approximately HK\$52,000,000, of which (a) an amount of approximately HK\$7,000,000 as restructuring fee which is to be recognised as expenses and (b) an amount of approximately HK\$45,000,000 as capital investment in mining products segment which is to be capitalised.

- (iii) This adjustment represents the settlement of the outstanding 2010 Convertible Bonds of the Group by the issuance of 6,193,281,959 Reorganised Shares under the Debt Settlement Agreements to the Qualifying Convertible Bonds holders (Creditor A, B, C & D) at the Settlement Share Price of HK\$0.05 per Settlement Share with the par value of HK\$0.01 each. As a result, the Convertible Bonds will be settled by net amount of approximately HK\$272,191,000 after deducting interests of approximately HK\$37,473,000.
  - (iv) This adjustment represents the settlement of the indebtedness and liabilities of the Group owing to the loan holders by the issuance of 3,498,740,499 Reorganised Shares under the Debt Settlement Agreement to the Qualifying loan holders (Creditor E, F, G, H & I) at the Settlement Share Price of HK\$0.05 per Settlement Share with the par value of HK\$0.01 each. As a result, the indebtedness and liabilities will be settled by net amount of approximately HK\$172,917,000 after deducting interests of approximately HK\$2,020,000.
  - (v) This adjustment represents the settlement of the indebtedness and liabilities of the Group owing to the other loan holders by the issuance of convertible bonds under the Debt Settlement Agreement to the Qualifying loan holders (Creditor J, K & L). The 534,173,560 New Shares will be issued at the Conversion Price of HK\$0.1 per Conversion Share with the par value of HK\$0.01 each if CB Settlement Creditors convert in whole of the CB into Conversion Shares in the future. As a result, the indebtedness and liabilities will be settled by net amount of approximately HK\$52,520,000 after deducting interests of approximately HK\$897,000.
- (4) The calculation of consolidated net tangible liabilities attributable to owners of the Group per share as at 30 June 2015 is based on the consolidated net tangible liabilities attributable to owners of the Group of approximately HK\$502,932,000 (as stated in the Company's interim report for the financial period ended 30 June 2015) divided by 5,235,303,300 shares.
  - (5) The calculation of Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group per share as at 30 June 2015 is based on the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group after the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer of approximately HK\$140,729,000 divided by 18,079,151,000 Reorganised Shares.
  - (6) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2015.

*The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, from the independent reporting accountants, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong.*



**ZHONGHUI ANDA CPA Limited**

*Certified Public Accountants*

29 January 2016

The Board of Directors  
China Billion Resources Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Billion Resources Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets (the “**Unaudited Pro Forma Financial Information**”) of the Group as at 30 June 2015 as set out in Appendix II of the Circular issued by the Company dated 29 January 2016 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are set out in Appendix II of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed open offer of ordinary shares on the basis of two Offer Shares for every one Reorganised Share (the “**Open Offer**”) on the Group’s financial position as at 30 June 2015 as if the Capital Reorganisation, the Debt Settlement Agreements and the Open Offer had taken place at 30 June 2015. As part of this process, information about the Group’s financial position as at 30 June 2015 has been extracted by the Directors from the interim report of the Group for the period ended 30 June 2015.

**Directors’ Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 30 June 2015 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**ZHONGHUI ANDA CPA Limited**

*Certified Public Accountants*

**Ng Ka Lok**

Practising Certificate Number P06084

Hong Kong, 29 January 2016



## APPENDIX III SUMMARY OF THE NEW ARTICLES OF ASSOCIATION

*Set out below is a summary of certain provisions of the proposed New Articles of Association of the Company (“Articles”).*

### (a) Directors

#### (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles of the Company (“**Memorandum and Articles**”) and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) (“**Designated Stock Exchange**”) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

#### (ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

#### (iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

- (iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

- (v) Financial assistance to purchase shares of the Company or its subsidiaries

Subject to compliance with the rules and regulations of the Designated Stock Exchange and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company. There is no provision in the Articles that prohibits the Company from giving financial assistance for the purchase shares of its subsidiaries.

- (vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

## APPENDIX III SUMMARY OF THE NEW ARTICLES OF ASSOCIATION

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
  - (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
  - (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
  - (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.
- (vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law; or
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions can be varied with the sanction of a special resolution of the Company.

(x) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(xi) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association of the Company ("**Memorandum of Association**"), to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph (i) below for further details).

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f)    Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g)    Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange) at such time and place as may be determined by the board.

**(h)    Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.



The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange.

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, 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 and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members, as the case may be, shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the registration office, unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of

the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange, has elapsed since the date of such advertisement and the Designated Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

*The following is a summary of the principal terms of the New Share Option Scheme but does not form part of, nor was it intended to be, part of the New Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the New Share Option Scheme:*

**(a) Purpose of the New Share Option Scheme**

The purpose of the New Share Option Scheme is to enable the Company to grant options to its or any subsidiary's director, substantial shareholder (as defined in the Listing Rules), employee, adviser, consultant, distributor, contractor, supplier, agent, customer, business partner or service provider of the Company or any subsidiary who is in full-time or part-time employment with or otherwise engaged by the Company or any subsidiary at the time when an option is granted to such employee, adviser, consultant, distributor, contractor, supplier, agent, customer, business partner or service provider or any person who, in the absolute discretion of the board of Directors ("**Participants**"), has contributed or may contribute to the Group as incentive or reward for their contribution to the Group to subscribe for the Shares thereby linking their interest with that of the Group.

**(b) Grant and acceptance of options**

Subject to the terms of the New Share Option Scheme, the Directors may, in its absolute discretion make offer to the Participants. An offer shall be made to a Participant on a business day in writing in such form as the Directors may from time to time determine and shall remain open for acceptance by the Participant concerned for a period of 21 days from the date upon which it is made provided that no such offer shall be open for acceptance after the 10th anniversary of the adoption date of the New Share Option Scheme or the termination of the same.

An offer shall be deemed to have been accepted by a Participant concerned in respect of all Shares which are offered to such Participant when the duplicate letter comprising acceptance of the offer duly signed by the Participant, together with a non-refundable remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the offer (which shall not be later than 21 days from, and inclusive of, the date of offer).

Any offer may be accepted by a Participant in respect of less than the total number of Shares which are offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof.



**(c) Subscription price of Shares**

The subscription price for Shares under the New Share Option Scheme shall be solely determined at the discretion of the Directors but in any event will not be less than the highest of (a) the closing price of the Shares on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange on the offer date of the particular option, which must be a Business Day; (b) the average of the closing prices of the Shares as shown in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the offer date of that particular option; and (c) the nominal value of a Share on the offer date of the particular option.

**(d) Maximum number of Shares**

- (i) Subject to (iii) below, the maximum number of Shares in respect of which options may be granted at any time under the New Share Option Scheme together with options which may be granted under any other share option schemes for the time being of the Group shall not exceed such number of Shares as equals 10 per cent of the issued share capital of the Company at the date of approval of the New Share Option Scheme. On the basis of a total of 5,235,303,300 Shares in issue as at the Adoption Date, the relevant limit will be 523,530,330 Shares which represent 10 per cent of the issued Shares at the Adoption Date. The Company may seek approval by its shareholders in general meeting to refresh the 10 per cent limit provided that the total number of Shares available for issue under options which may be granted under the New Share Option Scheme and any other schemes of the Group in these circumstances must not exceed 10 per cent of the issued share capital of the Company at the date of approval of refreshing of the limit. Options previously granted under the New Share Option Scheme and any other share option schemes of the Group (including those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised options) will not be counted for the purpose of calculating the limit as refreshed.
- (ii) The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10 per cent limit provided the options in excess of the limit are granted only to Participant specifically identified by the Company before such approval is sought. The Company will send a Circular to the shareholders containing a generic description of the specified Participant who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Participant with an explanation as to how the terms of the options serve such purpose, and such information as may be required under the Listing Rules from time to time.

- (iii) The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other options granted and yet to be exercised under any other share option schemes of the Group must not exceed 30 per cent of the Shares in issue from time to time. No options may be granted under the New Share Option Scheme or any other share option schemes of the Group if this will result in the limit being exceeded.
- (iv) Unless approved by the Shareholders in the manner set out below, the total number of Shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent, of the Shares in issue. Where any further grant of options to an Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Participant and his close associates (or his associates if the Participant is a connected person (as defined in the Listing Rules)) abstaining from voting. The Company must send a circular to its shareholders and the circular must disclose the identity of the Participant, the number and terms of the options to be granted (and options previously granted to such Participant), and such information as may be required under the Listing Rules from time to time. The number and terms (including the subscription price) of options to be granted to such Participant must be fixed before Shareholders' approval and the date of meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company. Subject thereto, the Directors shall make available sufficient of the then authorised but unissued share capital of the Company to allot the Shares on the exercise of any option.

**(e) Exercise of options**

An option may be exercised at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the date of grant but subject to the early termination of the Share Option Scheme.

Subject to terms of the New Share Option Scheme, an option shall be exercisable in whole or in part in the circumstances by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is so exercised. Each such notice must be accompanied by a non-refundable remittance for the full amount of the subscription price for Shares in respect of which the notice is given. Within 21 days after receipt of the notice and, where appropriate, receipt of the auditors' certificate, the Company shall accordingly allot the relevant number of Shares to the grantee (or his legal personal representative) credited as fully paid.

Though there is no specified minimum period under the New Share Option Scheme for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms and conditions of the New Share Option Scheme, the Directors may make such grant of options, subject to such terms and conditions in relation to the minimum period of such options to be held and/or the performance targets to be achieved as the Directors may determine in their absolute discretion.

**(f) Restrictions on the time of grant of options**

Grant of Options may not be made after inside information has come to the knowledge of the Company until such inside information has been announced in accordance with the relevant requirements of the Listing Rules. In particular, no Option may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of the Company's interim or annual results; and (ii) the deadline for the Company to publish its interim or annual results announcement and ending on the date of such results announcement.

**(g) Rights are personal to grantees**

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement to do so.

**(h) Rights on ceasing employment**

The option period in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall automatically lapse on the date on which the grantee ceases to be a Participant by reason of a termination of his employment on any one or more of the grounds that he has been guilty of persistent or serious misconduct, or has become bankrupt or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or any member of the Group into disrepute).

**(i) Rights on death**

In the event of the grantee ceasing to be a Participant by reason of his death before exercising the option in full and where the grantee is any employee of the Group none of the events which would be a ground for termination of his employment under paragraph (h) above arises, his personal representative(s) may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of death, or such longer period as the Directors may determine.

**(j) Cancellation of options**

Where the Company cancels options and offers new options to the same option holder, the offer of such new options may only be made under the New Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by the Shareholders as mentioned in paragraph (d) above.

**(k) Effect of alterations to share capital**

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable or the New Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue or other offer of securities to holders of Shares (including any securities convertible into share capital or warrants or options to subscribe for any share capital of the Company, but excluding options under the New Share Option Scheme and options under any other similar employee share option scheme of the Company), consolidation, sub-division or reduction of the share capital of the Company or otherwise howsoever, then, in any such case (other than in the case of capitalisation of profits or reserves) the Company shall instruct the auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:

- (a) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised); and/or
- (b) the subscription price; and/or
- (c) the maximum number of Shares referred to in paragraph d(i); and/or
- (d) the method of the exercise of the option(s),

and an adjustment as so certified by the independent financial adviser or the auditors shall be made, provided that:

- (a) any such adjustment must give a grantee the same proportion of the equity capital as that to which that person was previously entitled;
- (b) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event;
- (c) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (d) the issuance of securities of the Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (e) to the advantage in any respect of the grantee without specific prior approval of the Shareholders.

**(l) Rights on a general offer**

If a general or partial offer is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all its best endeavours to procure that such offer is extended to all the grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, the grantee shall, notwithstanding any other term on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company at any time thereafter and up to the close of such offer (or any revised offer).

**(m) Rights on winding up**

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as it despatches such notice to each member of the Company give notice thereof to all grantees (containing an extract of the provisions of this paragraph) and thereupon, each grantee or his personal representative(s) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the grantee credited as fully paid.

**(n) Rights on a compromise or arrangement**

Other than a general or partial offer or a scheme of arrangement contemplated in paragraph (o) below, in the event of a compromise or arrangement between the Company and its members or creditors being proposed for the purpose of or in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and any grantee or his personal representative(s) may by notice in writing to the Company accompanied by a remittance of the full amount of the subscription price in respect of which the notice is given (such notice to be received by the Company not later than two Business Days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice.

**(o) Rights on a scheme of arrangement**

If a general or partial offer by way of scheme of arrangement is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all its best endeavours to procure that such offer is extended to all the grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such scheme of arrangement is formally proposed to the Shareholders, the grantee shall, notwithstanding any other term on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company at any time thereafter and up to the close of such offer (or any revised offer).

**(p) Ranking of Shares**

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members ("**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered onto the register of members of the Company as the holder thereof.

**(q) Duration and administration of the New Share Option Scheme**

The New Share Option Scheme shall be valid and effective commencing from the Adoption Date until the termination date as provided therein (which being the close of business of the Company on the date which falls ten years from the date of the adoption of New Share Option Scheme), after which period no further options will be granted but the provisions of the New Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the New Share Option Scheme. The New Share Option Scheme shall be subject to the administration of the Board whose decision on all matters arising in relation to the New Share Option Scheme or its interpretation or effect shall (save as otherwise provided herein and in the absence of manifest error) be final and binding on all persons who may be affected thereby.

**(r) Alterations to the terms of the New Share Option Scheme**

- (i) alterations of the provisions relating to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Participant without the prior approval of the Shareholders in general meeting;
- (ii) any alteration to the terms and conditions of the provisions of the New Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the New Share Option Scheme;
- (iii) any change to the authority of the Board or administrator of the New Share Option Scheme in relation to any alteration to the terms of the New Share Option Scheme must be approved by the Shareholders in general meeting; and
- (iv) the amended terms of the New Share Option Scheme or the options must still comply with the relevant requirements of the Listing Rules and any guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

**(s) Grant of options to connected persons or any of their associates**

Each grant of options to any of the Directors, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of the option (if any)). Where any grant of options to a independent non-executive Director or an substantial shareholder of the Company, or any of his associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by Shareholders. The Company must send a circular to its shareholders. The grantee, his associates and all core connected persons of the Company must abstain from voting at such general meeting, except that any such grantee, his associates and core connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. The circular must contain:

- (i) details of the number and terms (including the subscription price) of the options to be granted to each Participant, which must be fixed before the shareholders' meeting and the date of the meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options) to the independent Shareholders as to voting; and
- (iii) the information as may be required under the Listing Rules from time to time.

Shareholders' approval is also required for any change in the terms of options granted to a Participant who is a substantial shareholder of the Company or an independent non-executive Director, or any of their respective associates.



**(t) Lapse of option**

The Option Period (as defined in the New Share Option Scheme) in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall automatically lapse on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (h), (i) or (n), where applicable;
- (iii) subject to the court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining shares in the offer, the expiry of the period referred to in paragraph (l);
- (iv) subject to the scheme of arrangement becoming effective, the expiry date of the period referred to in paragraph (o);
- (v) the date on which the grantee ceases to be a Participant for any reason other than his death or the termination of his employment or engagement on one or more grounds specified in (vi) below;
- (vi) the date on which the grantee of an option ceases to be a Participant by reason of the termination of his employment or engagement on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence;
- (vii) the date of the commencement of the winding-up of the Company referred to in paragraph (m);
- (viii) the date on which the grantee commits a breach of paragraph (g); or
- (ix) the date on which the option is cancelled by the Board as set out in paragraph (j).

**(u) Termination**

The Company by an ordinary resolution in general meeting may at any time terminate the operation of the New Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the New Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the New Share Option Scheme and options granted prior to such termination shall continue to be valid and exercisable in accordance with the New Share Option Scheme.

## 1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Circular (other than the information relating to the Concert Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Circular (other than expressed by the Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any statement in this Circular misleading.

Mr. Long accepts full responsibility for the accuracy of the information relating to the Concert Group contained in this Circular and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed by the Concert Group in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any statement in this Circular misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following (i) the Capital Reorganisation becoming effective; (ii) the issuance of the Offer Shares; (iii) the issuance of Settlement Shares under the Debt Settlement Agreements; and (iv) the conversion of the Settlement Convertible Bonds at the initial Conversion Price, are as follows:

### As at the Latest Practicable Date

*Authorised share capital:*

HK\$

8,000,000,000	Shares of HK\$0.10 each as at the Latest Practicable Date	800,000,000.00
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*Issued and fully paid or credited as fully paid:*

5,235,303,300	Shares of HK\$0.10 each in issue as at the Latest Practicable Date	523,530,330.00
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All Shares in issue rank *pari passu* in all respects with each other including rights to dividends, voting and return of capital.

**Upon Capital Reorganisation becoming effective and the issuance of the Offer Shares, Settlement Shares and the Conversion Shares**

*Authorised share capital:*

HK\$

25,000,000,000	Reorganised Shares of HK\$0.01 each	250,000,000.00
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*Issued and fully paid or credited as fully paid:*

2,617,651,650	Reorganised Shares of HK\$0.01 each in issue immediately after the Capital Reorganisation becoming effective	26,176,516.50
5,235,303,300	Offer Shares of HK\$0.01 each to be allotted and issued	52,353,033.00
9,692,022,458	Settlement Shares of HK\$0.01 each to be allotted and issued	96,920,224.58
534,173,560	Conversion Shares of HK\$0.01 each to be allotted and issued	5,341,735.60
<u>18,079,150,968</u>		<u>180,791,509.68</u>

There has been no issuance of Shares since the end of the last financial year of the Company, being 31 December 2015.

When fully paid (or credited as fully paid) and allotted, the Offer Shares, the Settlement Shares and the Conversion Shares, which will be allotted and issued under a specific mandate to be sought from the Independent Shareholders at the EGM, will rank *pari passu* in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with the Reorganised Shares of the Company then in issue (after the Capital Reorganisation becomes effective).

The Shares in issue are listed on the Main Board of the Stock Exchange. None of the equity or debt securities of the Company is listed or dealt in, nor is listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

There are no arrangements under which future dividends will be waived or agreed to be waived.

### 3. MARKET PRICE

Trading in the Shares has been suspended since 29 June 2011 and the closing price on the Last Trading Day (i.e. 28 June 2011) was HK\$0.087.

#### 4. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their associates had any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (“**Model Code**”) to be notified to the Company and the Stock Exchange:

Name of Director	Capacity	Number of Shares held	Approximate percentage of shareholding as at the Latest Practicable Date
Long Xiaobo	Interst of controlled corporation	20,062,160,620 (note 1)	127.74% (note 2)
	Beneficial owner	2,093,440,448 (note 3)	54.54% (note 4)

*Notes:*

- The 20,062,160,620 Shares comprise (i) 762,022,000 Shares directly held by Star Sino International Limited, a company wholly owned by Mr. Long, as at the Latest Practicable Date; (ii) 6,334,152,964 Shares representing the number of the 3,167,076,482 Settlement Shares to be issued and allotted to Star Sino International Limited pursuant to the Share Settlement Agreement A adjusted for the effect of the proposed Share Consolidation; (iii) 1,524,044,000 Shares representing the number of the 762,022,000 Offer Shares irrevocably committed to be taken up by Star Sino International Limited adjusted for the effect of the proposed Share Consolidation; (iv) 2,495,379,056 Shares represents the number of the maximum 1,247,689,528 Settlement Shares to be issued and allotted to Billion Glory Capital Investment Limited, a company wholly owned by Mr. Long, pursuant to the Share Settlement Agreements F1 and F2 and was adjusted for the effect of the proposed Share Consolidation; and (v) 8,946,562,600 Shares represents the 4,473,281,300 Underwritten Shares which may be issued and allotted to Gain Faith Investments Limited, a company wholly owned by Mr. Long, pursuant to the Underwriting Agreement and was adjusted for the effect of the proposed Share Consolidation.
- The number of total Shares used as the denominator was 15,705,909,900 Shares which was enlarged by the issue and allotment of the Offer Shares and adjusted for the effect of the proposed Share Consolidation.
- The 2,093,440,448 Shares represents the number of the 1,046,720,224 Settlement Shares to be issued and allotted to Mr. Long pursuant to the Share Settlement Agreement E and was adjusted for the effect of the proposed Share Consolidation.
- The number of total Shares used as the denominator was 5,235,303,300 Shares, being the number of issued Shares of the Company as at the Latest Practicable Date.

## 5. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES

Save as disclosed below, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, no persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

### *Substantial Shareholders of the Company*

<b>Name of substantial Shareholders</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Approximately percentage of shareholding as at the Latest Practicable Date</b>
Star Sino International Limited	Beneficial owner	8,620,218,964 (note 1)	54.89% (note 2)
Billion Glory Capital Investment Limited	Beneficial owner	2,495,379,056 (note 3)	47.66% (note 4)
Gain Faith Investments Limited	Beneficial owner	8,946,562,600 (note 5)	56.96% (note 2)

#### *Notes:*

- The 8,620,218,964 Shares comprise (i) 762,022,000 Shares directly held by Star Sino International Limited as at the Latest Practicable Date; (ii) 6,334,152,964 Shares representing the number of the 3,167,076,482 Settlement Shares to be issued and allotted to Star Sino International Limited pursuant to the Share Settlement Agreement A adjusted for the effect of the proposed Share Consolidation; and (iii) 1,524,044,000 Shares representing the number of the 762,022,000 Offer Shares irrevocably committed to be taken up by Star Sino International Limited adjusted for the effect of the proposed Share Consolidation.
- The number of total Shares used as the denominator was 15,705,909,900 Shares which was enlarged by the issue and allotment of the Offer Shares and adjusted for the effect of the proposed Share Consolidation.
- The 2,495,379,056 Shares represents the number of the maximum 1,247,689,528 Settlement Shares to be issued and allotted to Billion Glory Capital Investment Limited pursuant to the Share Settlement Agreements F1 and F2 and was adjusted for the effect of the proposed Share Consolidation.
- The number of total Shares used as the denominator was 5,235,303,300 Shares, being the number of issued Shares of the Company as at the Latest Practicable Date.
- The 8,946,562,600 Shares represents the 4,473,281,300 Underwritten Shares which may be issued and allotted to Gain Faith Investments Limited pursuant to the Underwriting Agreement and was adjusted for the effect of the proposed Share Consolidation.

*Substantial shareholder of the subsidiary of the Company*

Name of the subsidiary	Name of the substantial shareholder	Capacity	Percentage of ownership interests and voting rights held by the substantial shareholder as at the Latest Practicable Date
湖南西澳礦業有限公司 (Hunan Westralian Mining Co., Limited*)	湖南省地質礦產勘查開發局407隊 (No. 407 Geological Brigade of Hunan Bureau of Geological Exploration and Development of Mineral Resources*)	Beneficial owner	20%

**6. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SHARES**

As at the Latest Practicable Date, amongst the above disclosures contained in the paragraph headed "Directors' and chief executives' interests and short positions in shares", Mr. Long and parties acting in concert with him are directly interested in 762,022,000 Shares (representing approximately 14.56% issued share capital of the Company) and the outstanding 2010 Convertible Bonds in the principal amount of HK\$139,191,200. In addition:

- (i) the Company was not interested and had not dealt for value in any shares, convertible securities, warrants, options, derivatives or similar rights which were convertible or exchangeable into shares of members of the Concert Group during the Relevant Period;
- (ii) save for Mr. Long, the beneficial owner of Creditor A, Creditor F and the Investor which are members of the Concert Group, none of the Directors was interested in any shares, convertible securities, warrants, options, derivatives or similar rights which were convertible or exchangeable into shares of members of the Concert Group during the Relevant Period;
- (iii) none of the Directors had dealt for value in any shares, convertible securities, warrants, options, derivatives or similar rights which were convertible or exchangeable into shares of members of the Concert Group during the Relevant Period;

\* For identification only

- (iv) save for Mr. Long, who entered into the Share Settlement Agreement E and is interested (through Creditor A, Creditor F and the Investor, being companies wholly-owned by him) in the Share Settlement Agreement A, the Share Settlement Agreement F1, the Share Settlement Agreement F2, the Underwriting Agreement and the irrevocable undertakings given by Creditor A, none of the Directors was interested in or dealt for value in any Shares, convertible securities, warrants, options, derivatives or similar rights which were convertible or exchangeable into Shares during the Relevant Period;
- (v) none of (i) the subsidiaries of the Company, (ii) the pension fund of the Company or of any of its subsidiaries, nor (iii) any advisers to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (other than persons enjoying exempt principal trader status under the Takeovers Code), had any interest or dealt for value in the Shares, convertible securities, warrants, options or derivatives or similar rights which are convertible or exchangeable into Shares during the Relevant Period;
- (vi) none of the Directors held any Shares as at the Latest Practicable Date and therefore they have no entitlements under the Open Offer;
- (vii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code;
- (viii) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis or dealt for value by fund managers (other than exempt fund managers) connected with the Company during the Relevant Period;
- (ix) none of the Company nor any Directors had borrowed or lent any Shares, convertible securities, warrants, options, derivatives or similar rights which were convertible or exchangeable into Shares;
- (x) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Concert Group and any other persons in relation to the transfer, charge or pledge of any Reorganised Shares that may be issued and allotted to the Concert Group under the Open Offer and the Debt Settlement Agreement or as a result of any obligation under the Underwriting Agreement;
- (xi) there was no benefit to be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Open Offer, the Debt Settlement Agreement and/or the Whitewash Waiver;

- (xii) there was no agreement, arrangement or understanding (including any compensation arrangement) between any member of the Concert Group and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Open Offer, the Debt Settlement Agreement and/or the Whitewash Waiver;
- (xiii) there was no agreement or arrangement between any Directors and any other persons which was conditional on or dependent upon the outcome of or otherwise connected with the Open Offer, the Debt Settlement Agreement and/or the Whitewash Waiver; and
- (xiv) save for the Share Settlement Agreement A, the Share Settlement Agreement E, the Share Settlement Agreement F1, the Share Settlement Agreement F2, the Underwriting Agreement and the irrevocable undertakings to which Mr. Long has a material personal interest, there was no material contract entered into by any member of the Concert Group in which any Director had a material personal interest.

## 7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Director or proposed Directors and their respective close associates were considered to have an interest in a business which competes or is likely to complete, either directly or indirectly, with the business of the Group.

## 8. DIRECTORS' SERVICE CONTRACTS

Within six months prior to the date of the Announcement, the Company has entered into the service agreements with the following Directors for a fixed term of more than 12 months irrespective of notice period. Details of such service agreements are set out below:

Name of Directors	Commencement date of the service agreement	Expiry date of the service agreement	Fixed fee per month
Mr. Long Xiaobo ( <i>Chairman</i> )	31 July 2015	30 July 2018	HK\$78,000.00
Mr. Zuo Weiqi ( <i>chief executive officer</i> )	31 July 2015	30 July 2018	HK\$78,000.00
Mr. Chen Yi Chung	31 July 2015	30 July 2018	HK\$75,000.00 with additional housing allowance of HK\$46,800.00 each month
Mr. Xiao Jie	31 August 2015	30 August 2018	HK\$50,000.00



As at the Latest Practicable Date, save as disclosed above, none of the Directors had any existing or proposed service agreement with the Company or any of its subsidiaries or associated companies:

- (i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months prior to the date of the Announcement;
- (ii) which are continuous contracts with a notice period of 12 months or more;
- (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period; or
- (iv) which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

#### **9. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND ASSETS**

As at the Latest Practicable Date, save for Mr. Long who was interested in the contracts disclosed below, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2014, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of, by or leased to any member of the Company or are proposed to be acquired or disposed of, by or leased to any member of the Company.

Save for the Underwriting Agreement, the Share Settlement Agreement A, the Share Settlement Agreement E, the Share Settlement Agreement F1 and the Share Settlement Agreement F2 no contracts of significance to which the Company or its subsidiaries was a party and in which a Director had a material interest, either directly or indirectly, subsisted as at the Latest Practicable Date.

#### **10. LITIGATION**

As at the Latest Practicable Date, the Directors were not aware of any litigation or claims of material importance which were pending or threaten against any member of the Group.

#### **11. MATERIAL CONTRACTS**

The following contracts had been entered into by the Group (not being contracts entered into in the ordinary course) after the date two years before the date of the Announcement up to and including the Latest Practicable Date, which are or may be material:

- (i) the Debt Settlement Agreements; and
- (ii) the Underwriting Agreement.

**12. EXPENSES**

The expenses in connection with the Open Offer, including underwriting commission, financial advisory fees, printing, registration, translation, legal and accountancy charges and other related expenses are estimated to be approximately HK\$7.1 million, which are payable by the Company.

**13. EXPERTS AND CONSENTS**

The following is the qualification of the experts who have given opinions or advice which are contained in this Circular:

<b>Name</b>	<b>Qualification</b>
Somerley Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
ZHONGHUI ANDA CPA Limited	Certified Public Accountants

Each of Somerley Capital Limited and ZHONGHUI ANDA CPA Limited has given and has not withdrawn its consent to the issuance of this Circular with the inclusion of its report or letter, as the case may be, dated 29 January 2016 and reference to its names and/or its advice in the form and context in which it respectively appears.

As at the Latest Practicable Date, each of Somerley Capital Limited and ZHONGHUI ANDA CPA Limited did not have any shareholding, directly or indirectly, in any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any interest, either direct or indirect, in any assets which had been, since 31 December 2014 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

## 14. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

<b>Name</b>	<b>Address</b>
<i>Executive Directors</i>	
Long Xiaobo	Room 2811, 28/F. China Merchants Tower No. 168-200 Connaught Road Central Hong Kong
Zuo Weiqi	Room 2811, 28/F. China Merchants Tower No. 168-200 Connaught Road Central Hong Kong
Chen Yi Chung	Room 2811, 28/F. China Merchants Tower No. 168-200 Connaught Road Central Hong Kong
Xiao Jie	Room 2811, 28/F. China Merchants Tower No. 168-200 Connaught Road Central Hong Kong
<i>Independent non-executive Directors</i>	
Jin Shunxing	Room 2811, 28/F. China Merchants Tower No. 168-200 Connaught Road Central Hong Kong
Chiang Tsung-Nien	Room 2811, 28/F. China Merchants Tower No. 168-200 Connaught Road Central Hong Kong
Liu Shuang	Room 2811, 28/F. China Merchants Tower No. 168-200 Connaught Road Central Hong Kong
<i>Company Secretary</i>	
Cheung Yuk Chuen	Flat 2512, Lee Fung House Lee On Estate Ma On Shan New Territories Hong Kong

**Brief biographical information of Directors and senior management***Executive Directors*

**Mr. Long Xiaobo**, aged 50, joined the Group on 22 November 2010, is the Chairman and an executive Director. 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. Long is also a director of Star Sino International Limited, Billion Glory Capital Investment Limited and Gain Faith Investments Limited.

**Mr. Zuo Weiqi**, aged 50, joined the Group on 3 August 2011, is an executive Director and the chief executive officer of the Company. 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 42, joined the Group on 27 July 2012 as deputy manager of the Company prior to his appointment as an 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 work experiences in various international financial institutions, such as Citigroup Asia-Pacific and the Principal Finance Group of the Standard Chartered Group.

**Mr. Xiao Jie**, aged 49, joined as chairman of Hunan Westralian Mining Company Limited, a subsidiary of the Company in 2013 prior to his appointment as an executive Director. Mr. Xiao graduated from Department of Civil Engineering of Hunan University and major in Industrial and Civil Construction Professional. He has obtained a Construction Quality Control Engineer qualification in 1997. Mr. Xiao has years' experience of team management and organisation leadership in the road and bridge construction in China especially in the area of design, construction and on-site management.

*Independent Non-Executive Directors*

**Mr. Jin Shunxing**, aged 52, joined the Group on 3 August 2011, is an independent non-executive Director. 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 57, joined the Group on 19 January 2012, is an independent non-executive Director. 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 Bachelor 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 the 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 44, joined the Group on 28 April 2014, is an independent non-executive Director. 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.

*Company Secretary*

**Mr. Cheung Yuk Chuen**, aged 42, has been engaged as the company secretary of the Company since 14 August 2013. His primary contact person at the Company is Mr. Chen Yi Chung, executive Director. Mr. Cheung holds a bachelor's degree in business administration in accounting from the Hong Kong University of Science and Technology. He is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. He possesses over 13 years of experience in the fields of accounting, auditing and tax consultancy.

## 15. CORPORATE INFORMATION

Principal place of business of the Company in Hong Kong	Room 2811, 28/F. China Merchants Tower No. 168-200 Connaught Road Central Hong Kong
Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Auditors	ZHONGHUI ANDA CPA Limited Unit 701, 7/F., Citicorp Centre 18 Whitfield Road, Causeway Bay Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong
Principal share registrar and transfer agent	Royal Bank of Canada Trust Company (Cayman) Limited 4/F., Royal Bank House 24 Shedden Road George Town Grand Cayman, KY1-1110 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Tengis Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Company secretary	Cheung Yuk Chuen

Authorised representatives

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

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

**16. PARTIES INVOLVED IN THE OPEN OFFER AND THE WHITEWASH WAIVER**

Underwriter

Gain Faith Investments Limited  
Room 3111, 31/F.  
China Merchants Tower  
No. 168-200 Connaught Road Central  
Hong Kong

Concert Group

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

Gain Faith Investments Limited  
Room 3111, 31/F.  
China Merchants Tower  
No. 168-200 Connaught Road Central  
Hong Kong  
Director: Mr. Long Xiaobo

Star Sino International Limited  
3/F., J&C Building  
P.O. Box 933, Road Town, Tortola  
British Virgin Islands  
Director: Mr. Long Xiaobo

Billion Glory Capital Investment Limited  
Room 3111, 31/F.  
China Merchants Tower  
No. 168-200 Connaught Road Central  
Hong Kong  
Director: Mr. Long Xiaobo

Financial adviser to the Company in respect of the Open Offer	Asian Capital (Corporate Finance) Limited Suite 601, Bank of America Tower 12 Harcourt Road, Central Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	Somerley Capital Limited 20th Floor, China Building 29 Queen's Road, Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong Law</i> Reed Smith Richards Butler 20th Floor, Alexandra House 18 Chater Road, Central Hong Kong  <i>As to Cayman Islands Law</i> Conyers Dill & Pearman Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands
Certified Public Accountants	ZHONGHUI ANDA CPA Limited Unit 701, 7/F., Citicorp Centre 18 Whitfield Road, Causeway Bay Hong Kong



**17. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection (i) during normal business hours from 9:30 a.m. to 5:00 p.m. on any weekday (Monday to Friday, except public holidays) at the principal office of business of the Company in Hong Kong at Room 2811, 28/F., China Merchants Tower, No. 168-200 Connaught Road Central, Hong Kong; (ii) on the SFC's website at [www.sfc.hk](http://www.sfc.hk); and (iii) on the Company's website at [www.chinabillion.net](http://www.chinabillion.net) from the date of this Circular up to and including the date of the EGM:

- (a) the memorandum and articles of association (both existing and new Articles of Association) of the Company;
- (b) the memorandum and articles of association of the Creditor A, the Creditor F and the Investor;
- (c) the interim report of the Company for the six months ended 30 June 2015;
- (d) the annual reports of the Company for the three financial years ended 31 December 2012, 2013 and 2014;
- (e) the "Letter from the Board" as set out in this Circular;
- (f) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this Circular;
- (g) the "Letter from the Independent Financial Adviser" as set out in this Circular;
- (h) the report from ZHONGHUI ANDA CPA Limited on the unaudited pro forma financial information of the Group dated 29 January 2016, the text of which is appended to this Circular as Appendix II;
- (i) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix;
- (j) the written consent from the financial advisor to the Company;
- (k) the material contracts as referred to in the paragraph headed "Material Contracts" in this appendix;
- (l) the irrevocable undertaking made by Creditor A as referred to in the paragraph headed "Irrevocable Undertaking" in the "Letter from the Board" in this Circular;
- (m) the service agreements as referred to in the paragraph headed "Directors' Service Contracts" in this appendix;
- (n) the New Share Option Scheme; and
- (o) this Circular.

## NOTICE OF EGM



### CHINA BILLION RESOURCES LIMITED

### 中富資源有限公司\*

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

**(Stock code: 274)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“**EGM**”) of China Billion Resources Limited (“**Company**”) will be held at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 22 February 2016, at 10:00 a.m. (or any adjournment thereof) for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions of the Company:

#### **SPECIAL RESOLUTION**

1. **“THAT** conditional upon (inter alia) (i) the approval of the capital reduction referred to in paragraph (a) of this resolution (“**Capital Reduction**”) by the Grand Court of the Cayman Islands (“**Cayman Court**”); (ii) the registration of the order of the Cayman Court confirming the Capital Reduction and the minute approved by the Cayman Court relating to the Capital Reduction (as required under the Companies Law of the Cayman Islands (“**Companies Law**”); (iii) compliance with any conditions or directions as may be imposed by the Cayman Court; and (iv) the Listing Committee of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) granting the listing of, and permission to deal in the Reorganised Shares (as defined below) in issue upon completion of the Capital Reduction, Capital Cancellation and Share Consolidation (all as defined below) becoming effective:
  - (a) the nominal value of each issued share of the Company be reduced from HK\$0.10 to HK\$0.005 by the cancellation of HK\$0.095 on each issued share and the credit arising be applied to set off against the accumulated deficit of the Company as at the effective date of the Capital Reduction and the directors of the Company be authorised to apply any such credit remaining in any manner as permitted by the Companies Law, the articles of association of the Company and other applicable laws;
  - (b) subject to and forthwith upon the completion of the Capital Reduction, the existing 2,764,696,700 authorised but unissued shares in the un-issued share capital of the Company be cancelled in its entirety, resulting in the authorised share capital of the Company being reduced to HK\$26,176,516.50 (“**Capital Cancellation**”);

\* For identification only

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- (c) subject to and forthwith upon the Capital Reduction and the Capital Cancellation becoming effective, every two shares of the Company of HK\$0.005 each be consolidated (“**Share Consolidation**”) into one reorganised share of HK\$0.01 each (each a “**Reorganised Share**”), resulting in the number of issued shares of the Company being reduced to 2,617,651,650 Reorganised Shares;
- (d) subject to and forthwith upon the Share Consolidation becoming effective, the Company’s authorised share capital be increased from HK\$26,176,516.50 to HK\$250,000,000.00 by the creation of 22,382,348,350 new Reorganised Shares;
- (e) the entire amount standing to the credit of the share premium account of the Company, which amounted to approximately HK\$2,101,765,000 as at 30 June 2015, be applied to set off against the accumulated deficit of the Company and the directors of the Company be authorised to apply any such credit remaining in any manner as permitted by the Companies Law, the articles of association of the Company and other applicable laws at such time as they may think fit; and
- (f) the directors of the Company be and are hereby authorised to do all such acts, deeds and things and to sign all such documents as they may, in their absolute discretion, deem necessary, desirable, appropriate or expedient to give effect and implement any of the foregoing.”

### ORDINARY RESOLUTIONS

- 2. “**THAT** conditional upon resolutions numbered 1, 3 and 4 set out in the notice convening the meeting (“**Notice**”) of which this resolution forms part becoming effective,
  - (a) the issue and allotment of up to 9,692,022,458 Reorganised Shares (as defined in the resolution numbered 1 contained in the Notice) (“**Settlement Shares**”) at HK\$0.05 per Settlement Share by the Company pursuant to the agreements (collectively, “**Share Settlement Agreements**”) for the settlement of certain debts owned and interest accrued thereon (as described in the Circular to the shareholders of the Company dated 29 January 2016 (“**Circular**”) and copies of each of which are tabled at the meeting and marked in the order appearing below as “2-a(i)” to “2-a(ix)” for identification purposes only) entered into by the Company and:
    - (i) Star Sino International Limited dated 9 November 2015;
    - (ii) Successful Era Investments Limited dated 9 November 2015;

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- (iii) Premier Trend Capital Management Limited dated 9 November 2015;
- (iv) Capital Mountain Investments Limited dated 23 November 2015;
- (v) Mr. Long Xiaobo dated 9 November 2015;
- (vi) Billion Glory Capital Investment Limited dated 9 November 2015;
- (vii) Oriental Hung Tai Investment Limited dated 9 November 2015;
- (viii) Mr. Wang Bo dated 9 November 2015; and
- (ix) China United International Fortune Management Co., Limited dated 9 November 2015;

and all transactions contemplated thereunder be and are hereby approved;

- (b) the issuance of the convertible bonds in the aggregate principal amount of approximately HK\$53,417,356 convertible into a total of 534,173,560 Reorganised Shares (“**Conversion Shares**”) at an initial conversion price of HK\$0.10 per Conversion Share by the exercise of the conversion rights attached thereto pursuant to the agreements for the settlement of certain debts owned and interest accrued thereon (as described in the Circular dated 29 January 2016 and copies of each of which are tabled at the meeting and marked in the order appearing below as “2-b(i)” to “2-b(iii)” for identification purposes only) (collectively, “**CB Settlement Agreements**”) entered into by the Company and:

- (i) 李鐵鍵 (Li Tiejian\*) dated 9 November 2015;
- (ii) 吳躍新 (Wu Yuexin\*) dated 9 November 2015; and
- (iii) 豆新虎 (Dou Xinhu\*) dated 9 November 2015,

and all transactions contemplated thereunder be and are hereby approved;

\* For identification only

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- (c) the directors of the Company be and are hereby authorised to do all such acts, deeds and things and to sign all such documents as they may, in their absolute discretion, deem necessary, desirable, appropriate or expedient to implement and give effect to the Share Settlement Agreements, the CB Settlement Agreements and any other transactions contemplated under those agreements.”
3. “**THAT**, subject to the passing of resolutions numbered 1, 2 and 4 set out in the notice convening the meeting of which this resolution forms part:
- (a) the allotment and issue by way of open offer (“**Open Offer**”) of 5,235,303,300 new Reorganised Shares as defined in resolution numbered 1 of the notice convening this meeting (“**Offer Shares**”) to the shareholders of the Company (“**Shareholders**”) at the subscription price of HK\$0.03 per Offer Share on the basis of two (2) Offer Shares for every one (1) Reorganised Share then held by the Shareholders whose names appear on the register of members of the Company at the close of business on a date to be fixed by the directors of the Company (“**Record Date**”), other than those Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong on the Record Date and whom the directors of the Company, after making such enquiry as required under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**Listing Rules**”), consider necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to such Shareholders and on such other terms and conditions as may be determined by the directors of the Company be and is hereby approved; and
- (b) the directors of the Company be and are hereby authorised to allot and issue the Offer Shares pursuant to and in connection with the Open Offer and to do all such acts, deeds and things and to sign all such documents as they may, in their absolute discretion, deem necessary, desirable, appropriate or expedient to give effect and implement the Open Offer.”

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4. **“THAT** subject to the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (or any delegate of such Executive Director) granting the requisite waiver pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers,
- (a) the waiver (**“Whitewash Waiver”**) of any and all obligations on the part of Mr. Long Xiaobo and parties acting in concert with him to make a general offer for all the issued shares of the Company not already owned or agreed to be acquired by them arising as a result of the acquisition of voting rights in the Company by them following the issuance of shares in the Company to Mr. Long Xiaobo, Star Sino International Limited and Billion Glory Capital Investment Limited (as contemplated under the resolution numbered 2 set out in the notice (**“Notice”**) convening the meeting of which this resolution forms part) and/or to Gain Faith Investments Limited under the underwriting agreement dated 9 November 2015 (**“Underwriting Agreement”**) between it and the Company in respect of the open offer of the Company (as contemplated under transactions which are subject to resolutions numbered 2 and 3 set out in the Notice be and is hereby approved; and
  - (b) the directors of the Company be and are hereby authorised to do all such acts, deeds and things and to sign all such documents as they may, in their absolute discretion, deem necessary, desirable, appropriate or expedient to give effect and implement any matters relating to, or incidental to, the Whitewash Waiver.”

### SPECIAL RESOLUTION

5. **“THAT** the amended and restated articles of association of the Company, a copy of which is tabled at the meeting and marked “5” for the purpose of identification, be and are hereby approved and adopted as the new articles of association of the Company in substitution for and to the exclusion of all of the existing articles of association of the Company.”

### ORDINARY RESOLUTION

6. **“THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (**“Stock Exchange”**) granting the listing of, and permission to deal in, the shares in the share capital of the Company to be issued pursuant to the exercise of options which may be granted under the new share option scheme (**“Scheme”**, the rules of which is tabled at the meeting and marked “6” for the purpose of identification and the principal terms of the Scheme are set out in the Circular despatched to the shareholders of the Company on the same date as this notice), the adoption of the Scheme be and is hereby approved and the directors of the Company be and are hereby authorised to do all such acts and to enter into such transactions,

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arrangements and agreements as may be necessary or expedient in order to give full effect to the Scheme including without limitation:

- (a) to administer the Scheme and grant options under the Scheme;
- (b) to modify and/or amend the Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Scheme relating to modification and/or amendment;
- (c) to issue and allot from time to time such number of shares as may be required to be issued pursuant to the exercise of the options under the Scheme provided always that the total number of shares issuable upon exercise of all options to be granted under the Scheme and any other share options schemes of the Company shall not exceed 10% of the relevant class of the issued share capital of the Company as at the date of passing of this ordinary resolution, but the Company may seek approval of its shareholders in general meeting for refreshing the 10% limit under the Scheme provided that the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the relevant class of the issued share capital of the Company from time to time;
- (d) to make application at the appropriate time or times to the Stock Exchange and any other applicable stock exchange(s) on which the issued shares of the Company may from time to time be listed, for listing of and, permission to deal in, any shares which may hereafter from time to time be issued and allotted pursuant to the exercise of the options under the Scheme; and
- (e) to consent, if they so deem fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the Scheme."

By order of the Board of  
**China Billion Resources Limited**  
**Long Xiaobo**  
*Chairman*

Hong Kong, 29 January 2016

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*Notes:*

1. A shareholder of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote in his stead. A proxy need not be a shareholder of the Company. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and together with a power of attorney or other authority (if any), under which it is signed or a certified true copy of that power or authority must be deposited at the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at 22nd Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the appointed time for the holding the meeting or any adjournment thereof.
2. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. Delivery of an instrument appointing a proxy should not preclude a shareholder from attending and/or voting in person at the meeting or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. The register of members of the Company will be closed for a period commencing from Thursday, 18 February 2016 to Monday, 22 February 2016, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at 22nd Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 17 February 2016.
5. Each of the above resolutions will be put to vote by way of a poll at the EGM.
6. As at the date of this notice, the board of directors of the Company comprises four executive directors, namely Mr. Long Xiaobo, Mr. Zuo Weiqi, Mr. Chen Yi Chung and Mr. Xiao Jie, and three independent non-executive directors, namely Mr. Jin Shunxing, Mr. Chiang Tsung-Nien and Ms. Liu Shuang.