

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## KINGOLD JEWELRY, INC.

**Form: 10-K**

**Date Filed: 2015-03-31**

Corporate Issuer CIK: 1089531

Symbol: KGJI

SIC Code: 7389

Fiscal Year End: 12/31

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2014

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

**KINGOLD JEWELRY, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation or Organization)

**001-15819**  
(Commission  
File Number)

**13-3883101**  
(I.R.S. Employer  
Identification No.)

**15 Huangpu Science and Technology Park**  
**Jiang'an District**  
**Wuhan, Hubei Province, PRC 430023**  
(Address of Principal Executive Office) (Zip Code)

**(011) 86 27 65694977**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	The NASDAQ Capital Market

**Securities registered pursuant to Section 12(g) of the Act:**

Common Stock, \$0.001 par value  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately \$61,116,396 as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares of the registrant's common stock outstanding as of March 30, 2015 was 65,963,502.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates information by reference from the Proxy Statement relating to the 2015 Annual Meeting of Stockholders.

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2014 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
Item 1. <a href="#">Business</a>	1
Item 1A. <a href="#">Risk Factors</a>	14
Item 1B. <a href="#">Unresolved Staff Comments</a>	30
Item 2. <a href="#">Properties</a>	30
Item 3. <a href="#">Legal Proceedings</a>	31
Item 4. <a href="#">Mine Safety Disclosure</a>	31
<u>PART II</u>	
Item 5. <a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	32
Item 6. <a href="#">Selected Financial Data</a>	33
Item 7. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	34
Item 7A. <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	43
Item 8. <a href="#">Financial Statements and Supplementary Data</a>	44
Item 9. <a href="#">Changes in and Disagreements With Accountants on Accounting and Financial Disclosures</a>	44
Item 9A. <a href="#">Controls and Procedures</a>	44
Item 9B. <a href="#">Other Information</a>	46
<u>PART III</u>	
Item 10. <a href="#">Directors, Executive Officers and Corporate Governance</a>	47
Item 11. <a href="#">Executive Compensation</a>	47
Item 12. <a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	48
Item 13. <a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	48
Item 14. <a href="#">Principal Accounting Fees and Services</a>	48
<u>PART IV</u>	
Item 15. <a href="#">Exhibits, Financial Statement Schedules</a>	49
<a href="#">SIGNATURES</a>	54

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**CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Statements in this report that are not historical facts or information are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “estimate,” “project,” “forecast,” “plan,” “believe,” “may,” “expect,” “anticipate,” “intend,” “planned,” “potential,” “can,” “expectation” and similar expressions, or the negative of those expressions, may identify forward-looking statements. Such forward-looking statements are based on management’s reasonable current assumptions and expectations. Such forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, levels of activity, performance or achievement to be materially different from any future results expressed or implied by such forward-looking statements, and there can be no assurance that actual results will not differ materially from management’s expectations. Such factors include, among others, the following:

- changes in the market price of gold;
- our ability to implement the key initiatives of, and realize the gross and operating margins and projected benefits (in the amounts and time schedules we expect) from, our business strategy;
- non-performance of suppliers on their sale commitments and customers on their purchase commitments;
- non-performance of third-party service providers;
- adverse conditions in the industries in which our customers operate, including a general economic downturn, a recession globally, or sudden disruption in business conditions, and our ability to withstand an economic downturn, recession, cost inflation, competitive or other market pressures, or conditions;
- the effect of political, economic, legal, tax and regulatory risks imposed on us, including foreign exchange or other restrictions, adoption, interpretation and enforcement of foreign laws including any changes thereto, as well as reviews and investigations by government regulators that have occurred or may occur from time to time, including, for example, local regulatory scrutiny in China;
- our ability to manage growth;
- our ability to successfully identify new business opportunities and identify and analyze acquisition candidates, secure financing on favorable terms and negotiate and consummate acquisitions as well as to successfully integrate or manage any acquired business;
- our ability to integrate acquired businesses;
- the effect of economic factors, including inflation and fluctuations in interest rates and currency exchange rates, foreign exchange restrictions and the potential effect of such factors on our business, results of operations and financial condition;
- our ability to retain and attract senior management and other key employees;
- any internal investigations and compliance reviews of Foreign Corrupt Practices Act and related U.S. and foreign law matters in China and additional countries, as well as any disruption or adverse consequences resulting from such investigations, reviews, related actions or litigation;
- changes in the People’s Republic of China or U.S. tax laws;
- increased levels of competition, and competitive uncertainties in our markets, including competition from companies in the gold jewelry industry in the PRC, some of which are larger than we are and have greater resources;

- the impact of the seasonal nature of our business, adverse effect of rising energy, commodity and raw material prices, changes in market trends, purchasing habits of our consumers and changes in consumer preferences;
- our ability to protect our intellectual property rights;
- the risk of an adverse outcome in any material pending and future litigations;
- our ratings, our access to cash and financing and ability to secure financing at attractive rates;
- our ability to comply with environmental laws and regulations;
- our continuing relationship with major banks in China with whom we have certain gold lease agreements and working capital loans;
- our ability to understand China's commercial real estate market as we build out the Kingold Jewelry Cultural Industry Park and manage the relationships with the planned tenants in the Kingold Jewelry Cultural Industry Park;
- our knowledge of and marketing capabilities in markets outside of China, particularly the Middle East, as we begin to expand our business outside of China; and
- other risks, including those described in the "Risk Factors" discussion of this Annual Report.

We undertake no obligation to update any such forward-looking statements, except as required by law.

## PART I

### ITEM 1. BUSINESS

#### Our Business

Through a variable interest entity relationship with Wuhan Kingold Jewelry Company Limited, or Wuhan Kingold, we believe that we are one of the leading professional designers and manufacturers of high quality 24-karat gold jewelry and Chinese ornaments. We are also engaged in developing, promoting, and selling a broad range of products to the rapidly expanding jewelry market across the People's Republic of China, or the PRC. We offer a wide range of in-house designed products including, but not limited to, gold necklaces, rings, earrings, bracelets, and pendants. We have built a partnership with the Jewelry Institute of China University of Geosciences to help us design new products.

We have historically sold our products directly to distributors, retailers and other wholesalers, who then sell our products to consumers through retail counters located in both department stores and other traditional stand-alone jewelry stores. We sell our products to our customers at a price that reflects the market price of the base material, plus a mark-up reflecting our design fees and processing fees. Typically this mark-up is approximately around 3% of the price of the base material.

We aim to become an increasingly important participant in the PRC's gold jewelry design and manufacturing sector. In addition to expanding our design and manufacturing capabilities, our goal is to provide a large variety of gold products in unique styles and superior quality under our brand, Kingold.

We have signed agreements with various leading banks in China such as the Bank of Communication and China Merchant Bank to sell gold bars and coins and other products through bank branches. We tested this business model in 2011, and investment gold accounted for approximately 2.0% of our total revenue in 2014 and 8.9% of our total revenue in 2013. Investment gold business in China suffered a sharp decline in general in 2014 mainly due to weaker demand as China's economy slowed down.

To broaden our business lines and strengthen our processing capacity, in October 2013, we entered into an agreement to acquire the operating rights for 66,667 square meters (approximately 717,598 square feet, or 16.5 acres) of land in Wuhan for an aggregate purchase price of RMB1 billion (approximately US\$164 million at the spot rate). We financed the installment payments paid to date through bank loans, and may finance the remaining payments through either additional bank loans or other sources of financing. We may also finance part of the remaining payments through proceeds derived from the presale of some of the units if we can obtain the pre-sale permit from the governing authority in time. We have successfully obtained pre-sale permits for five of the seven buildings. The land use rights are held in the Shanghai Creative Industry Park, which we intend to rename the Kingold Jewelry Cultural Industry Park, or the Jewelry Park for purposes of this report. We intend to develop the land and to utilize the completed Jewelry Park as our new operation center and show center. We also plan to rent spaces within the Jewelry Park to other jewelry manufacturers in China, and may sell developed commercial and residential properties to individual and corporate buyers. The agreement was structured as an equity purchase of the company holding the land use rights, with Wuhan Wansheng House Purchasing Limited initially granting us a portion of Wuhan Huayuan Science and Technology Development Limited Company's, or Wuhan Huayuan's, ownership, granting us the right to appoint the chief financial officer for the project to supervise and manage the use of funds, and naming Wuhan Huayuan as agent for the completion of the construction. Accordingly, we now own 60% of the Jewelry Park. Upon our payment of the final installment payment, we will become the 100% owner of the Jewelry Park. However, because no other assets or liabilities have been transferred with the acquisition of Wuhan Wansheng, we are treating the Jewelry Park acquisition as an asset purchase for accounting purposes. For a discussion of the installment payment schedule, see Note 5 to our audited consolidated financial statements appearing elsewhere in this report, as well as "Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources."

Finally, in light of the growing demand for gold and gold products from the Middle East, we have tested our 24-karat gold products in Kuwait in 2014. We currently intend to partner with a local entity for promotional activities in 2015 and intend to set up a small workshop in Kuwait in 2015.

We are located in Wuhan, which is one of the largest cities in China. We processed approximately 60.1 metric tons of 24-karat gold products in 2014, as compared to 51.1 metric tons of 24-karat gold products in 2013, an increase of over 17.6% over 2013 production. We achieved this notwithstanding the overall slowdown in Chinese demand, which we believe resulted from increased customized production as clients tend to give more gold to us to process as gold price headed down. For purposes of this Annual Report on Form 10-K, 1 metric ton equals 35,274 ounces.

## **Industry and Market Overview**

### **The Global Market**

Global consumer demand for gold in 2014 was 3,216.6 tons with total market size of US\$130.8 billion, according to the World Gold Council's Gold Demand Trends Full Year 2014. In terms of tonnage, jewelry accounted for 66.9% of total demand in 2014, while investments (mainly bars and coins) accounted for 33.1%.

According to the World Gold Council, China and India continue to consume the most jewelry of any market in the world, and in 2014 together generated 51.5% of total annual jewelry demand globally. China consumed a total of 813.6 tons of gold in 2014, while India consumed 842.7 tons. Investment gold (bars and coins) demand has dropped substantially, particularly in China, from 383.9 tons in 2013 to 190.1 in 2014 (a decrease of 50.5%).

### **The PRC Market**

China's market for jewelry and other luxury goods is expanding rapidly over the decade, in large part due to China's rapid economic growth. The demand for gold, however, slowed down in 2014 due to slower economic growth. According to the State Bureau of Statistics of China, China's real gross domestic product, or GDP, grew by approximately 7.4%, 7.7% and 7.8% in 2014, 2013 and 2012, respectively. Economic growth in China has led to greater levels of personal disposable income and increased spending among China's expanding consumer base. According to the Economist Intelligence Unit, private consumption has grown at a 9.0% compound annual growth rate over the last decade.

According to the World Gold Council, over the last ten years, Chinese gold consumers have displayed a remarkably consistent attitude towards gold. Chinese demand is primarily driven by: (i) the continued urbanization of the Chinese population; (ii) the dominance of 24-karat gold and its role as a savings proxy; and (iii) increasing availability of gold investment products to a populace with a growing awareness of gold's investment properties, particularly in light of its role as an inflation hedge.

In volume terms, Chinese consumer demand for gold slowed down in 2014. Total consumer demand was valued at approximately US\$33.2 billion in 2014, a decrease of 44.6% over 2013. In tonnage terms, Chinese total consumer demand for gold reached 813.6 tons in 2014 with jewelry accounting for 623.5 tons in 2014 and investment gold accounting for 190.1 tons in 2014.

We believe that China's gold jewelry market will continue to grow as China's economy continues to develop. Because gold has long been a symbol of wealth and prosperity in China, demand for gold jewelry, particularly 24-karat gold jewelry, is firmly embedded in the country's culture. Gold has long been viewed as both a secure and accessible savings vehicle, and as a symbol of wealth and prosperity in Chinese culture. In addition, gold jewelry plays an important role in marriage ceremonies, child birth, and other major life events in China. Gold ornaments, often in the shapes of dragons, horses and other cultural icons, have long been a customary gift for newly married couples and newborn children in China. As China's population becomes more urban, more westernized, and more affluent, gold, platinum and other precious metal jewelry are becoming increasingly popular and affordable fashion accessories. The gold jewelry market is currently benefiting from rising consumer spending and rapid urbanization of the Chinese population. We believe that jewelry companies like us, with a developed distribution network, attractive designs, and reliable product quality, are well-positioned to build up our brands and capture an increasing share of China's growing gold jewelry market.

## **Our Strengths**

We believe the following strengths contribute to our competitive advantages and differentiate us from our competitors:

### ***We have a proven manufacturing capability.***

We have developed seven proprietary processes that we believe are well integrated and are crucial to gold jewelry manufacturing, namely the processes for 99.9% gold hardening, rubber mold opening efficiency, solder-less welding, pattern carving, chain weaving, dewaxing casting, and our coloring methods.

### ***We have a proven design capability.***

We have a large and experienced in-house design team with a track record of developing products that are fashionable and well received in the jewelry market. We have built up an exclusive partnership with the leading jewelry school in China, the Jewelry Institute of China University of Geosciences (Wuhan), to help us design and launch new products. We are committed to further strengthening our design team and continuing to improve the quality and novelty of our products so as to capture increased market share in the high-end gold jewelry market.

### ***We believe that we have superior brand awareness in China.***

We have established the Kingold brand through our focused sales and marketing efforts, and we believe that it is well known in China. We continue to devote significant efforts towards brand development and marketing in an attempt to enhance the market recognition of our products, such as our Mgold jewelry line of products. Our brand awareness was demonstrated in part by "Kingold" being named a "Famous Brand in Hubei Province," "Famous Brand in China," and "Famous Jewelry Brand" by the General Administration of Quality Supervision and China Top Brand Strategy Promotion Committee in 2007. We believe these awards have added credibility to and strengthened customers' confidence in our products. We have also participated in various exhibitions and trade fairs to promote our products and brands.

### ***We have a well-established distribution network throughout China.***

We have been actively operating in this industry for more than ten years since the gold jewelry industry became open to the private sector in 2002. In the jewelry industry, a well-established and well-maintained distribution network is critical to success. We have established stable and mutually beneficial business relationships with a range of business partners, including large distributors, wholesalers, and retailers. These relationships are essential to our company, and provide us with a key competitive advantage. We have distributors in most provinces, municipalities and autonomous regions in PRC.

### ***We believe that we have significant advantages in the areas of capacity, technology and talent when compared to our competitors.***

We have expanded our capacity significantly in recent years. In 2014, we processed 24-karat gold jewelry and Chinese ornaments with a total weight of approximately 60.1 tons, substantially exceeding prior year production of approximately 51.1 and 37.7 tons in 2014 and 2013, respectively. We attach great importance to the continuous improvement of our technology. Our gold processing systems dramatically reduce waste during the manufacturing process to approximately just one gram per kilogram of gold.

We have been awarded 26 patents granted by the State Intellectual Property Office of the PRC, 2 of which will expire in 2017, 21 of which will expire in 2019, and 3 of which will expire in 2029. We have made significant investments in training and retaining our own in-house design and manufacturing team. We have an exclusive agreement with the China University of Geosciences School of Jewelry in Wuhan, or the School of Jewelry in Wuhan, which provides us with new, unique and innovative designs through students majoring in jewelry design and jewelry processing technology. These designs are proprietary to us, so our competitors do not have access to these designs. We also provide internships to talented students at the School of Jewelry, which provides us with access to the designs that we believe are best suited for strong consumer sales.

***We are a member of the Shanghai Gold Exchange, which has very limited membership and which affords the right to purchase gold directly from the Shanghai Gold Exchange.***

We have been a member of the Shanghai Gold Exchange, or the Exchange, since 2003. Although the Chinese government eliminated the absolute restriction on trading gold in general, the right to purchase gold directly from the Exchange is limited. The Exchange possesses a membership system and only members can buy gold through its trading system. As of March 2015, there were approximately 173 members of the Exchange throughout China. Non-members who want to purchase gold must deal with members of the Exchange at a higher purchase price compared to the price afforded to members of the Exchange.

***We have an experienced management team in the Chinese gold industry.***

We have a strong and stable management team with valuable experience in the PRC jewelry industry. Our Chairman and Chief Executive Officer, Zhihong Jia, has been working in this industry for close to 20 years. Our general manager, Mr. Jun Wang, also has worked in the industry for more than a decade. Other members of our senior management team all have significant experience in key aspects of our operations, including product design, manufacturing, and sales and marketing.

## **Our Strategy**

Our goal is to be the leading designer and manufacturer of 24-karat gold jewelry products and to become a sizable supplier of investment gold products in China. We intend to achieve our goal by implementing the following strategies:

***We intend to increase production capacity and marketing abilities through both existing channels and the planned Jewelry Park.***

We intend to continue to expand the production capacity with our self-generated cash flow as well as bank loans. We also intend to consider sub-contracting opportunities in order to further expand capacity. Given the fragmentation of the PRC gold jewelry and design industry, we believe there may be attractive consolidation opportunities for us to acquire other jewelers, which would allow us to further increase our market share and achieve economies of scale.

We also intend to increase our production capacity and marketing abilities through forming relationships with other jewelry manufacturers in China, to whom we plan to lease space in our planned Jewelry Park.

***We plan to continue to specialize in the manufacture of 24-karat gold jewelry.***

We intend to leverage our experience in jewelry design to introduce new fashionable products with strong market recognition, such as our Mgold jewelry line of products, to target niche markets such as the fast growing wedding market. We plan to design new product lines of 24-karat gold jewelry to address the specific needs of our target customers. By staying on top of market trends, and expanding our design team and capabilities, we plan to continue to increase our revenues and market share.

***We intend to further promote and improve the use of our brand recognition.***

We intend to make continuous efforts in growing the brand recognition of our Kingold brand and increasing our market share. Through marketing and the promotion of our high-end product lines such as Mgold, we believe the credentials and reputation of our brand will be further enhanced.

***We will increase the automation in our production line.***

Our production lines use modern technologies and production techniques that we continuously strive to improve. We plan to increase the level of automation in our production lines, which will lower our average costs and expand our production capacity. With our entrance into the investment gold market, we intend to rely more on automated production processes.

***We intend to enlarge our PRC customer base.***

We intend to strive to expand our PRC customer base by strengthening current relationships with distributors, retailers and other wholesalers in our existing markets. We also plan to expand upon our customer base by developing new relationships with strategic distributors and retailers in markets we have not yet penetrated and adding customers in the PRC.

***We intend to expand into the international gold market, specifically the Middle East.***

We plan to expand into the Middle East gold markets to source and finance gold, and to develop, market, and distribute gold products. We tested our 24-karat gold products in Kuwait in 2014 and intend to accelerate our efforts in 2015.

**Products**

We currently offer a wide range of 24-karat gold products, including 99.9% and 99% pure gold necklaces, rings, earrings, bracelets, pendants and gold bars.

**Design and Manufacturing**

We have adopted a systematic approach to product design and manufacturing that we believe is rigorous. We employ a senior design team with members educated by top art schools or colleges in China, including an exclusive agreement with the School of Jewelry in Wuhan, who have an average of three to five years of experience. Our design team develops and generates new ideas from a variety of sources, including direct customer feedback, trade shows, and industry conferences. We generally test the market potential and customer appeal of our new products and services through a wide outreach program in specific regions prior to a full commercial launch. We have a large-scale production base that includes a 74,933 square foot factory, a dedicated design, sales and marketing team, and more than 400 company-trained employees. Our production lines include automated jewelry processing equipment and procedures that we can rapidly modify to accommodate new designs and styles.

We are currently working with Wuhan Wansheng House Purchasing Limited to build the Jewelry Park, with total floor space expected to be approximately 193,000 square meters (approximately 2,068,275 square feet). We expect that the Jewelry Park will become the new jewelry hub for Wuhan and central China in general. Upon its completion, we plan to transfer our headquarters to the new Jewelry Park and to make it a state-of-art design center and additional location for manufacturing facilities.

**Supply of Raw Materials**

We purchase gold, our major raw material, directly from the Exchange. Our membership grants us the right to purchase gold from the Exchange, a right that is not available to non-members. Beginning in 2013, we also started to lease gold from certain leading Chinese commercial banks to provide an additional supply of raw materials, certain of which agreements we renewed in 2014, and which we may renew in 2015.

## **Security Measures**

We believe that we implement the best of breed security measures to protect our assets, including our 24-karat gold, and which we believe are well beyond those of our competitors. Our comprehensive security measures at our Wuhan facility include a 24-hour onsite police station with direct deployment of officers and instant access to the Wuhan city police department, security guards at each point of entry and who roam our facilities, security cameras (with video surveillance by both random and fixed cameras), and alarm systems in our warehouse. Our gold is stored in a state of the art vault with encryption and authentication technology, which requires several designated management employees to open the vault, all of whom have different access codes known only to a limited number of officers. Therefore, no one individual can open our vault without the access codes of the others. In addition, every employee or visitor is required to pass through a security check (to include a metal detector) when he or she enters and leaves the jewelry production area. We review our security measures on an annual basis and regularly look to upgrade our systems after such review.

## **Quality Control**

We consider quality control an important factor for the success of our business. We have a strict quality control system that is implemented by a well-trained team to ensure effective quality control over every step of our business operations, from design and manufacturing to marketing and sales. We have received ISO 9001 accreditation from the International Organization for Standardization attesting to our quality control systems. In 2004, we were named an "Honest and Trustworthy Enterprise" by the Hubei Bureau of Quality and Technical Supervision.

## **Sales and Marketing**

Currently we have approximately 300 major customers covering 25 provinces in China. We have very stable relationships with our major customers who have generally increased order volume year by year. In 2013, we renovated our showroom in Wuhan where we are based. Other than this showroom, we do not have retail sales. In 2013, we entered the TV shopping channel and in 2013, we launched an online business. These new sales channels are still in the testing period and this China-based retail plan has not yet generated meaningful business.

We plan to build up the Jewelry Park to allow us to work closely with other leading jewelers and jewelry manufacturers in China, thereby creating opportunities for us to cross-sell and up-sell. We expect that our new Jewelry Park will become a driving force for our sales and marketing efforts in China.

In addition, pursuant to our joint efforts in the Middle East, we intend to leverage our partner's supply and distribution channels to gradually increase our sales and marketing capabilities throughout the gold and jewelry markets in the Middle East.

## **Major Customers**

During the years ended December 31, 2014 and 2013, approximately 27.4% of our net sales were generated from our five largest customers. King Mei Fook Jewelry became our largest customer in 2014 (5.8% of our total net sales in 2014).

## **Competition**

The jewelry industry in China is highly fragmented and very competitive. No single competitor has a significant percentage of the overall market. We believe that the market may become even more competitive as the industry grows and/or consolidates.

We produce high-quality jewelry for which the demand has grown year by year as income levels in China have risen and customers continue to appreciate the high quality of our products. We believe the Kingold brand is well-recognized within the industry across China, which has substantially differentiated us from most of our competitors.

We compete with local jewelry manufacturers and large foreign multinational companies that offer products similar to ours. Examples of our competitors include, but are not limited to, Zhejiang Sun & Moon Jewelry Group Co., Ltd. (listed on the Shanghai Stock Exchange), Shenzhen Bo Fook Jewelry Co., Ltd., Shenzhen Ganlu Jewelry Co., Ltd., Magfrey Jewelry Co., Ltd., and Guangdong Chaohongji Co., Ltd.

## **Intellectual Property**

We rely on a combination of patent, trademark and trade secret protection and other unpatented proprietary information to protect our intellectual property rights and to maintain and enhance our competitiveness in the jewelry industry.

We currently have 26 patents granted by the State Intellectual Property Office of the PRC, 2 of which expire in 2017, and 21 in 2019 and 3 in 2029, respectively.

We have 17 registered trademarks in China, 3 of which expire in 2017, 1 in 2019, 6 in 2020 and 7 in 2021. In particular, "Kingold" has been named as a "Famous Brand in Hubei Province," "Famous Brand in China," and "Famous Jewelry Brand" by the General Administration of Quality Supervision and China Top Brand Strategy Promotion Committee.

We have implemented and enhanced intellectual property management procedures in an effort to protect our intellectual property rights. However, there can be no assurance that our intellectual property rights will not be challenged, invalidated, or circumvented, that others will not assert intellectual property rights to technologies that are relevant to us, or that our rights will give us a competitive advantage. In addition, the laws of China may not protect our proprietary rights to the same extent as the laws in other jurisdictions. Further, as we expand our business into the Middle East, we will need to pursue protection of our intellectual property rights in this region.

## **PRC Government Regulations**

We are subject to various PRC laws and regulations that are relevant to our business. Our business license permits us to design, manufacture, sell and market jewelry products to department stores throughout China, and allows us to engage in the retail distribution of our products. Any further amendment to the scope of our business will require additional government approvals. We cannot assure you that we will be able to obtain the necessary government approval for any change or expansion of our business.

Under applicable PRC laws, the supply of precious metals such as platinum, gold and silver is highly regulated by certain government agencies, such as the People's Bank of China, or the PBOC. The Shanghai Gold Exchange is the only PBOC authorized supplier of precious metal materials and is our primary source of supply for our raw materials, which substantially consist of precious metals. We are required to obtain and hold several memberships and approval certificates from these government agencies in order to continue to conduct our business. We may be required to renew such memberships and to obtain approval certificates periodically. If we are unable to renew these periodic memberships or approval certificates, it would materially affect our business operations. We are currently in good standing with these agencies.

We have also been granted independent import and export rights. These rights permit us to import and export jewelry into and out of China. With the relatively lower cost of production in China, we intend to expand into overseas markets after the launch of our China-based retail plan. We do not currently have plans to import jewelry into China.

## **Environmental Protection**

Our production facilities in Wuhan are subject to environmental regulation by both the central government of the PRC and by local government agencies. We have obtained all necessary operating permits as required from the Environmental Protection Bureau, and believe that we are in compliance with local regulations governing waste production and disposal, and that our production facilities have met the public safety requirements regarding refuse, emissions, lights, noise and radiation. Since commencement of our operations, we have not been cited for any environmental violations. Because our production process creates almost no waste water or pollution, our costs for environmental compliance have been minimal. In 2014 and 2013 our costs for environmental compliance were approximately \$4,783.8 and \$7,257, respectively.

## **Tax**

Wuhan Kingold was incorporated in the PRC and is subject to PRC income tax, which is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate is 25.0%.

Pursuant to the Provisional Regulation of China on Value-Added Tax, or VAT, and its implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay VAT at a rate of 17.0% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer.

## **Foreign Currency Exchange**

Under applicable PRC foreign currency exchange regulations, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of the PRC State Administration of Foreign Exchange, or SAFE. Foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, the SAFE and the State Reform and Development Commission.

## **Dividend Distributions**

Under applicable PRC regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a foreign-invested enterprise in China is required to set aside at least 10.0% of its after-tax profits each year to its general reserves until the cumulative amount of such reserves has reached 50.0% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

## **Employees**

As of December 31, 2014, we had approximately 550 full-time employees, all of whom were located in PRC except for our Chief Financial Officer. There are no collective bargaining contracts covering any of our employees. We believe our relationship with our employees is satisfactory. Our full-time employees are entitled to employee benefits including medical care, work related injury insurance, maternity insurance, unemployment insurance and pension benefits through a Chinese government mandated multi-employer defined contribution plan. We are required to accrue those benefits based on certain percentages of the employees' salaries and make contributions to the plans out of the amounts accrued for medical and pension benefits. The total provisions and contributions made for such employee benefits was \$217,917 and \$252,564 for the years ended December 31, 2014, and 2013, respectively. The Chinese government is responsible for the medical benefits and the pension liability paid to these employees.

Effective from January 1, 2008, the PRC has introduced a labor contract law that enhances rights for the nation's workers, including open-ended work contracts and severance payments, and requires employers to enter into labor contracts with their workers in writing, restricts the use of temporary laborers and makes it harder to lay off employees. It also requires that employees with a fixed-term contract be entitled to an indefinite-term contract after the fixed-term contract has been renewed twice. Although the labor contract law could increase our labor costs, we do not anticipate there will be any significant effects on our overall profitability in the near future because such amount was historically not material to our operating cost. Management anticipates this may be a step toward improving candidate retention for skilled workers.

## **Company History**

Since December 2009, we have been engaged in the design, manufacturing and sale of gold jewelry in the PRC via a variable interest entity relationship with Wuhan Kingold, a PRC company.

We were initially incorporated in 1995 in Delaware as Vanguard Enterprises, Inc. In 1999, we changed our corporate name to Activeworlds.com, Inc. (and subsequently to Activeworlds Corp.), and through a wholly-owned subsidiary we provided internet software products and services that enabled the delivery of three-dimensional content over the internet. We operated that business until September 11, 2002, when we sold that business to our former management and we became a shell company with no significant business operations. As a result of the consummation of a reverse acquisition transaction as described below, on December 23, 2009, we ceased to be a shell company and became an indirect holding company for Wuhan Vogue-Show Jewelry Co., Limited, or Vogue-Show, through Dragon Lead Group Limited, or Dragon Lead.

## **Acquisition of Kingold and Name Change**

In December 2009, we acquired 100% of Dragon Lead from the shareholders of Dragon Lead in a share exchange transaction pursuant to which the shareholders of Dragon Lead exchanged 100% ownership in Dragon Lead for 33,104,234 shares of our common stock. As a result, Dragon Lead became our wholly owned subsidiary. Dragon Lead owns 100% of Vogue-Show and Vogue-Show controls Wuhan Kingold through a series of variable interest entity agreements. We currently operate through Dragon Lead and Vogue-Show.

In February 2010, we changed our name to Kingold Jewelry, Inc. to better reflect our business.

## **Organizational History of Dragon Lead and its Subsidiaries**

Dragon Lead, a British Virgin Islands, or BVI corporation, was incorporated in the BVI on July 1, 2008 as an investment holding company. Dragon Lead owns 100% of the ownership interest in Vogue-Show.

Vogue-Show was incorporated in the PRC as a wholly foreign owned enterprise, or WFOE, on February 16, 2009. Wuhan Kingold was incorporated in the PRC as a limited liability company on August 2, 2002 by Zhihong Jia, as the major shareholder, and Xue Su Yue who sold her shares in Wuhan Kingold to Zhihong Jia and Chen Wei in 2003. On October 26, 2007, Wuhan Kingold was restructured as a joint stock company limited by shares. Its business activities are principally the design and manufacture of gold ornaments in the PRC. Wuhan Kingold's business license will expire on March 4, 2021 and is renewable upon expiration. The registered and paid-in capital of Wuhan Kingold is RMB120 million.

## The Vogue-Show/Wuhan Kingold VIE Relationship

On June 30, 2009, Vogue-Show entered into a series of agreements with Wuhan Kingold and shareholders holding 95.83% of the outstanding equity of Wuhan Kingold under which Wuhan Kingold agreed to pay 95.83% of its after-tax profits to Vogue-Show and shareholders owning 95.83% of Wuhan Kingold's shares have pledged their and delegated their voting power in Wuhan Kingold to Vogue-Show. Such share pledge is registered with the PRC Administration for Industry and Commerce. These agreements were subsequently amended on October 20, 2011, when the minority stockholder holding 4.17% of the equity of Wuhan Kingold became a party to the applicable VIE agreements. Following execution of the amendments, shareholders holding 100% of the outstanding equity of Wuhan Kingold were parties to the agreements such that Wuhan Kingold has agreed to pay 100% of its after-tax profits to Vogue-Show and shareholders owning 100% of Wuhan Kingold's shares have pledged and delegated their voting power in Wuhan Kingold to Vogue-Show.

The VIE agreements, which are described below, currently cover 100% of the equity interest in Wuhan Kingold, and were initially created so that upon the closing of the reverse acquisition, as described below, we would be able to acquire control of Wuhan Kingold, as explained below.

These contractual arrangements enable us to:

- exercise effective control over our variable interest entity, Wuhan Kingold;
- receive substantially all of the economic benefits from variable interest entity, Wuhan Kingold; and
- have an exclusive option to purchase 100% of the equity interest in our variable interest entity, Wuhan Kingold, when and to the extent permitted by PRC law.

Through such arrangement, Wuhan Kingold has become Vogue-Show's contractually controlled affiliate. In addition, Wuhan Kingold shareholders agreed to grant Vogue-Show a ten-year option to purchase a 100% equity interest in Wuhan Kingold at a price based on an appraisal provided by an asset evaluation institution that will be jointly appointed by Vogue-Show and the Wuhan Kingold shareholders. Concurrently, Wuhan Kingold agreed to grant Vogue-Show a ten-year option to purchase all of Wuhan Kingold's assets at a price based on an appraisal provided by an asset evaluation institution that will be jointly appointed by Vogue-Show and Wuhan Kingold.

## The VIE Agreements

Our relationship with Wuhan Kingold and its shareholders is governed by a series of contractual arrangements, which agreements provide as follows:

**Exclusive Management Consulting and Technical Support Agreement.** On June 30, 2009, Vogue-Show initially entered into an Exclusive Management Consulting and Technical Support Agreement with Wuhan Kingold, as subsequently amended, which agreement provided that Vogue-Show will be the exclusive provider of management consulting services to Wuhan Kingold, and obligated Vogue-Show to provide services to fully manage and control all internal operations of Wuhan Kingold, in exchange for receiving 95.83% of Wuhan Kingold's profits. On October 20, 2011, Wuhan Kingold and Vogue-Show amended this agreement such that Wuhan Kingold is now obligated to pay 100% of its after-tax profits to Vogue-Show. Payments will be made on a monthly basis. The term of this agreement will continue until it is either terminated by mutual agreement of the parties or until such time as Vogue-Show shall acquire 100% of the equity or assets of Wuhan Kingold.

**Shareholders' Voting Proxy Agreement.** On June 30, 2009, shareholders holding 95.83% of the equity interest in Wuhan Kingold entered into a Shareholders' Voting Proxy Agreement authorizing Vogue-Show to exercise any and all shareholder rights associated with their ownership in Wuhan Kingold, including the right to attend and vote their shares at shareholders' meetings, the right to call shareholders' meetings and the right to exercise all other shareholder voting rights as stipulated in the Articles of Association of Wuhan Kingold. Following the October 20, 2011 amendment to this agreement, shareholders holding 100% of the equity interest in Wuhan Kingold have now entered into the Shareholders' Voting Proxy Agreement. The term of this agreement will continue until it is either terminated by mutual agreement of the parties or until such time as Vogue-Show shall acquire 100% of the equity or assets of Wuhan Kingold.

**Purchase Option Agreement.** On June 30, 2009, shareholders holding 95.83% of the equity interest in Wuhan Kingold entered into a Purchase Option Agreement with Vogue-Show, which provided that Vogue-Show will be entitled to acquire such Shareholders' shares in Wuhan Kingold upon certain terms and conditions, if such a purchase is or becomes allowable under PRC laws and regulations. The Purchase Option Agreement also grants to Vogue-Show an option to purchase all of the assets of Wuhan Kingold. Following the October 20, 2011 amendment to this agreement, shareholders holding 100% of the equity interest in Wuhan Kingold have now entered into the Purchase Option Agreement. The exercise price for either the shares or the assets is to be as determined by a qualified third party appraiser. The term of this agreement is ten years from the date thereof.

**Pledge of Equity Agreement.** On June 30, 2009, shareholders holding 95.83% of the equity interest in Wuhan Kingold entered into a Pledge of Equity Agreement, pursuant to which each such shareholder pledges all of his shares of Wuhan Kingold to Vogue-Show in order to guarantee performance under the Exclusive Management Consulting and Technical Support Agreement, Shareholders' Voting Proxy Agreement and the Purchase Option Agreement. Following the October 20, 2011 amendment to this agreement, shareholders holding 100% of the equity interest in Wuhan Kingold have now entered into the Pledge of Equity Agreement. If Wuhan Kingold or any of its respective shareholders breaches its respective contractual obligations, Vogue-Show, as pledgee, will be entitled to certain rights, including the right to foreclose on the pledged equity interests.

### **Reverse Acquisition and Private Placement**

On September 29, 2009, we entered into an Agreement and Plan of Reverse Acquisition with Vogue-Show, Dragon Lead, and the stockholders of Dragon Lead, or the Dragon Lead Stockholders. Pursuant to the acquisition agreement, we agreed to acquire 100% of the issued and outstanding capital stock of Dragon Lead in exchange for the issuance of 33,104,234 newly issued shares of our common stock. The acquisition agreement closed on or about December 23, 2009. Following the closing, Dragon Lead became our wholly-owned subsidiary.

The purpose of the reverse acquisition was to acquire control over Wuhan Kingold. We did not acquire Wuhan Kingold directly through the issuance of stock to Wuhan Kingold's stockholders because under PRC law it is uncertain whether a share exchange would be legal. We instead chose to acquire control of Wuhan Kingold through the acquisition of Vogue-Show and the VIE arrangements previously described in this Annual Report on Form 10-K. Certain rules and regulations in the PRC restrict the ability of non-PRC companies that are controlled by PRC residents to acquire PRC companies. There is significant uncertainty as to whether these rules and regulations require transactions of the type contemplated by our VIE arrangements, or of the type contemplated by the Call Option described below, to be approved by the PRC Ministry of Commerce, the China Securities and Regulatory Commission, or other agencies. For a discussion of the risks and uncertainties arising from these PRC rules and regulations, see "Risk Factors — Risks Related to Doing Business in the PRC — Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate. Our failure to obtain the prior approval of the China Securities Regulatory Commission, or CSRC for the listing and trading of our common stock could have a material adverse effect on our business, operating results, reputation and trading price of our common stock," beginning on page 21.

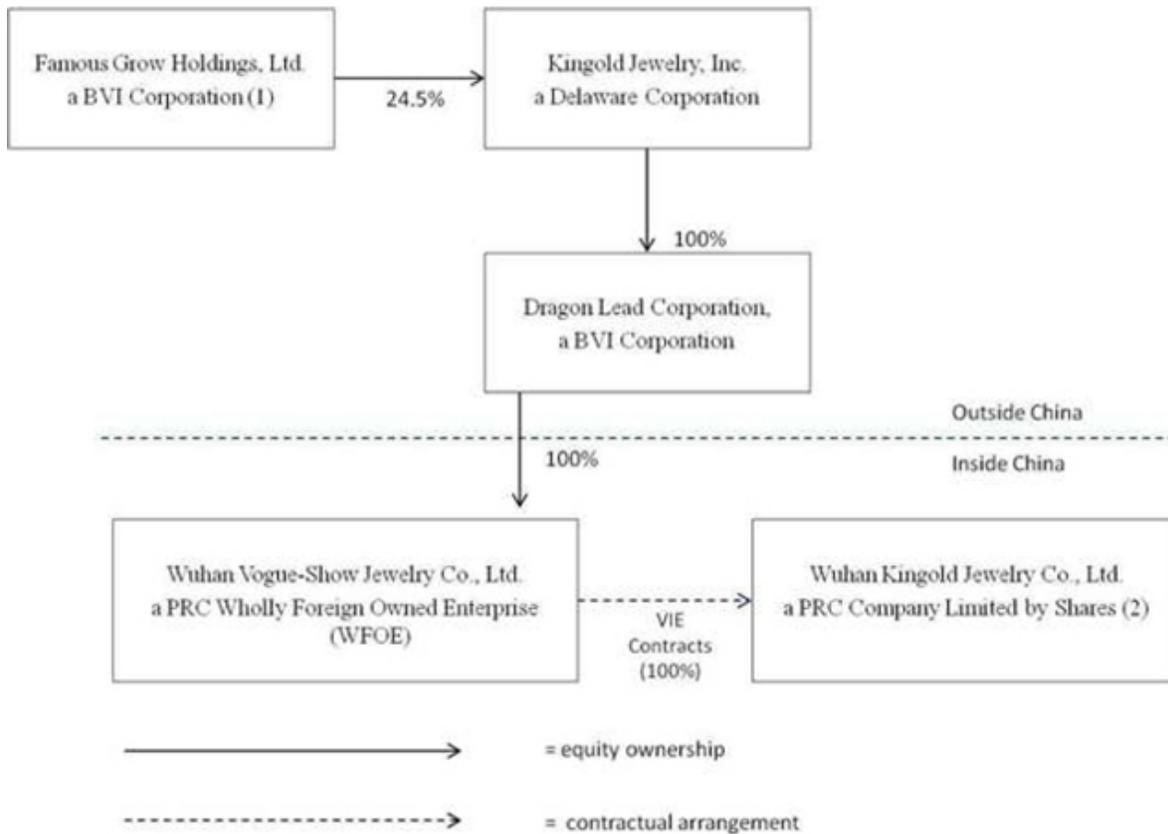
On December 23, 2009, immediately prior to the closing of the reverse acquisition, we completed a private placement with 14 investors. Pursuant to a securities purchase agreement entered into with the investors, we sold an aggregate of 5,120,483 newly issued shares of our common stock at \$0.996 per share, for aggregate gross proceeds of approximately \$5.1 million. The investors in the private placement also received five-year warrants to purchase up to 1,024,096 shares of common stock at the price of \$0.996 per share. After commissions and expenses, we received net proceeds of approximately \$4.55 million in the private placement. In addition, five-year warrants to purchase up to 1,536,145 shares of common stock at the price of \$0.996 per share were issued to various consultants who assisted in the transaction.

All share and per share information for dates prior to August 10, 2010 concerning our common stock in the above discussion reflects a 1-for-2 reverse stock split.

As a result of the above transactions, we ceased being a “shell company” as defined in Rule 12b-2 under the Securities Act.

Also, on December 23, 2009, Fok Wing Lam Winnie (whose Mandarin name is Huo Yong Lin), the sole shareholder of Famous Grow and the majority shareholder of Dragon Lead prior to the closing of the reverse acquisition, entered into a call option agreement, as amended and restated, or call option, with Zhihong Jia and Bin Zhao to comply with PRC regulations that restrict PRC residents from owning offshore entities like us in direct exchange for their shares in the PRC operating company and as an inducement to encourage them to provide services to Wuhan Kingold and our company. The call option does not include a vesting schedule and continued employment is not a condition to the call option. Under the call option, as amended and restated, Fok Wing Lam Winnie granted to Zhihong Jia and Bin Zhao the right to acquire up to 100% of the shares of Famous Grow at an exercise price of \$1.00, which is par value per share, or \$0.001 per Famous Grow share, subject to any exercise notice at any time for a period of five years, which was determined in an arm's length negotiation with the parties. While it is the case that our PRC counsel believes that this arrangement is lawful under PRC laws and regulations, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations, including regulations governing the validity and legality of such call options. Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to the opinion of our PRC legal counsel. For a discussion of the risks and uncertainties arising from these PRC rules and regulations, see “Risk Factors — Risks Related to Doing Business in the PRC — Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate. Our failure to obtain the prior approval of the China Securities Regulatory Commission, or CSRC for the listing and trading of our common stock could have a material adverse effect on our business, operating results, reputation and trading price of our common stock,” beginning on page 21.

The following diagram illustrates our corporate structure as of the date of this Annual Report:



Notes:

- (1) Famous Grow is owned by Fok Wing Lam Winnie (whose Mandarin name is Huo Yong Lin). Pursuant to a Call Option Agreement, our founder, Chairman and Chief Executive Officer Zhihong Jia, and, Bin Zhao, our former general manager and director, have a right to collectively acquire 100% of the ownership of Famous Grow.
- (2) Wuhan Kingold is 55.31% owned by Zhihong Jia, our founder, Chairman and Chief Executive Officer, with the balance of 44.69% owned by a total of 46 other shareholders, who are all PRC citizens. All of Wuhan Kingold's shareholders have entered into the VIE agreements.

## ITEM 1A. RISK FACTORS

*You should carefully consider each of the following risks associated with an investment in our publicly traded securities and all of the other information in our 2014 Annual Report. Our business may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe to be immaterial. If any of the events contemplated by the following discussion of risks should occur, our business, prospects, financial condition and results of operations may suffer.*

### **Risks Related to our Business**

***Jewelry purchases are discretionary, may be particularly affected by adverse trends in the general economy, and an economic decline will make it more difficult to generate revenue.***

The success of our operations depends, to a significant extent, upon a number of factors relating to discretionary consumer spending in China. These factors include economic conditions and perceptions of such conditions by consumers, employment rates, the level of consumers' disposable income, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation in regional and local markets in China where we manufacture and sell our products. There can be no assurance that consumer spending on jewelry will not be adversely affected by changes in general economic conditions in China and globally.

While the Chinese economy has experienced rapid growth in the past decade, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past two decades, the rate of inflation in China has been as high as approximately 20%. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability. In recent years, Chinese economy has been slowing down, and in 2014, GDP growth was 7.4%. The slowing economy might have impact on consumer demand, which could adversely impact our business.

***Most of our sales are of products that include gold, precious metals and other commodities, and fluctuations in the availability and pricing of commodities would adversely impact our ability to obtain and make products at favorable prices.***

The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold, and, to a lesser extent, other precious and semi-precious metals and stones. In the past, we have not hedged our requirement for gold or other raw materials through the use of options, forward contracts or outright commodity purchasing. A significant increase in the price of gold could increase our production costs beyond the amount that we are able to pass on to our customers, which would adversely affect our sales and profitability. A significant disruption in our supply of gold or other commodities could decrease our production and shipping levels, materially increase our operating costs and materially and adversely affect our profit margins. Shortages of gold or other commodities, or interruptions in transportation systems, labor strikes, work stoppages, war, acts of terrorism, or other interruptions to or difficulties in the employment of labor or transportation in the markets in which we purchase our raw materials, may adversely affect our ability to maintain production of our products and sustain profitability. Although we generally attempt to pass increased commodity prices to our customers, there may be circumstances in which we are not able to do so. In addition, if we were to experience a significant or prolonged shortage of gold, we would be unable to meet our production schedules and to ship products to our customers in a timely manner, which would adversely affect our sales, margins and customer relations.

Furthermore, the value of our inventory may be affected by commodity prices. We record the value of our inventory using the weighted average method. As a result, decreases in the market value of precious metals such as gold would result in a lower stated value of our inventory, which may require us to take a charge for the decrease in the value of our inventory.

***Competition in the jewelry industry could cause us to lose market share, thereby materially and adversely affecting our business, results of operations and financial condition.***

The jewelry industry in China is highly fragmented and very competitive. We believe that the market may become even more competitive as the industry grows and/or consolidates. We compete with local jewelry manufacturers and large foreign multinational companies that offer products that are similar to ours. Some of these competitors have larger local or regional customer bases, more locations, more brand equity, and substantially greater financial, marketing and other resources than we have. As a result of this increasing competition, we could lose market share, thereby materially and adversely affecting our business, results of operations and financial condition.

***We may need to raise additional funds in the future. These funds may not be available on acceptable terms or at all, and, without additional funds, we may not be able to maintain or expand our business.***

Our operations require substantial funds to finance our operating expenses, to maintain and expand our manufacturing, marketing and sales capabilities and to cover public company costs. Without these funds, we may not be able to meet our goals.

We may seek additional funding through public or private financing or through collaborative arrangements with strategic partners. However, you should also be aware that in the future:

- we cannot be certain that additional capital will be available on favorable terms, if at all;
- any available additional financing may not be adequate to meet our goals; and
- any equity financing would result in dilution to stockholders.

If we cannot raise additional funds when needed, or on acceptable terms, we may not be able to effectively execute our growth strategy take advantage of future opportunities, or respond to competitive pressures or unanticipated requirements. In addition, we may be required to scale back or discontinue expansion plans, or obtain funds through strategic alliances that may require us to relinquish certain rights.

***We recently acquired land-use rights and intend to develop industrial land into what we expect to be called the Kingold Jewelry Cultural Industry Park for approximately RMB1.0 billion. Even if we are able to raise the necessary financing, we have no prior experience developing industrial land, nor as being a landlord or operator of real estate. Accordingly, there is a risk that we may not realize the value of this investment.***

On October 23, 2013, Wuhan Kingold acquired the operating rights for 66,667 square meters (approximately 717,598 square feet, or 16.5 acres) of industrial land for use in the development of the Jewelry Park for approximately RMB1.0 billion (approximately US\$164 million at the spot rate). The acquisition agreement contemplates development and construction of the parcel with payments for the project made upon completion of certain building installments, as outlined in the agreement. We currently intend to finance the development predominantly with bank loans supplemented by operating cash flows, and where possible, deposits or advances we may receive from lessees. However, there can be no guarantee that we will be successful in raising the necessary financing from these sources, or on terms that we deem commercially reasonable, and may either need to seek alternative sources of financing, or abandon the project. Accordingly, there is a risk that we may not complete the development of the project. Although we have successfully obtained sales certificates from the local government which gave us the right to use and sell, there can be no guarantee that future government policies will continue to interpret land use regulations in this manner and we may have to undertake a formal modification of the land use registration from its current designation as industrial.

In addition, even if we are successful in building out the Jewelry Park, which we currently intend to complete the construction by mid-2015 and the entire facility by the end of 2015, there can be no guarantee that we will be successful in attracting tenants to our project, or that even if we attract tenants, that it will be a successful business endeavor. Accordingly, there is a risk that we may never realize the full benefit from this investment.

***Our ability to maintain or increase our revenue could be harmed if we are unable to strengthen and maintain our brand image.***

We believe that the primary factors in facilitating customer buying decisions in China's jewelry sector include price, confidence in the merchandise sold, and the level and quality of customer service. The ability to differentiate our products from competitors' by our brand-based marketing strategies is a key factor in attracting consumers, and if our strategies and efforts to promote our brand, such as television and magazine advertising and beauty contest sponsorships fail to garner brand recognition, our ability to generate revenue may suffer. If we are unable to differentiate our products, our ability to sell our products wholesale and our planned sale of products retail will be adversely affected. If we fail to identify or react appropriately or timely to customer buying decisions, we could experience a reduction in consumer recognition of our products, a diminished brand image, higher markdowns, and costs to recast overstocked jewelry. These factors could result in lowering selling prices and sales volumes for our products, which could adversely affect our financial condition and results of operations

***There is only one source in China for us to obtain the precious metals used in our jewelry products; accordingly, any interruptions of our arrangement with this source would disrupt our ability to fulfill customer orders and substantially affect our ability to continue our business operations.***

Under PRC law, the supply of precious metals such as platinum, gold, and silver is highly regulated by PRC government agencies. The Exchange is the only supplier in China for gold used for our jewelry products (including the gold we lease from leading PRC banks). We are required to obtain and maintain several membership and approval certificates from government agencies in order to do business involving precious metals. The loss of our relationship or failure to renew our membership with the Exchange, or its inability to furnish precious metals to us (or the banks we lease from) as anticipated in terms of cost, quality, and timeliness, would adversely affect our ability to fulfill customer orders in accordance with our required delivery, quality, and performance requirements. If this situation were to occur, we would not have any alternative suppliers in China to obtain our raw materials from, which would result in a decline in revenue and revenue potential, and ultimately risk the overall continuation of our business operations.

***If we are not able to adapt to changing jewelry trends in China, our inventory may be overstocked and we may be forced to reduce the price of our overstocked jewelry or incur the cost to recast it into new jewelry.***

Our jewelry sales depend on consumer fashions, preferences for jewelry and the demand for particular products in China. Jewelry design trends in China can change rapidly. The ability to accurately predict future changes in taste, respond to changes in consumer preferences, carry the inventory demanded by customers, deliver the appropriate quality, price products correctly, and implement effective purchasing procedures all have an important influence on determining sales performance and maximizing gross margin. If we fail to anticipate, identify or react appropriately to changes in styles and trends, we could experience excess inventories, higher than normal markdowns or an inability to sell our products. If such a situation were to exist, we would need to incur additional costs to recast our products to fit the demand, and the labor and manufacturing costs previously invested in the recast products would be lost.

***Our failure to manage growth effectively could have an adverse effect on our employee efficiency, product quality, working capital levels, and results of operations.***

We intend to develop the retail distribution of our products, which we believe will result in rapid growth, but will also place significant demands on our managerial, operational and financial resources. Any significant growth in the market for our current wholesale business and our planned retail distribution would require us to expand our managerial, operational, financial, and other resources. During any period of growth, we may face problems related to our operational and financial systems and controls, including quality control and delivery and service capabilities. We also will need to continue to expand, train and manage our employee base. If we are unable to successfully build these skills and expand our number of skilled management and staff, we may be unsuccessful in achieving our intended level of growth.

Aside from increased difficulties in the management of human resources, we may also encounter working capital issues, as we will need increased liquidity to finance the purchases of raw materials and supplies, development of new products and the hiring of additional employees. Our failure to manage growth effectively may lead to operational and financial inefficiencies that will have a negative effect on our profitability. We cannot assure you that we will be able to timely and effectively meet that demand and maintain the quality standards required by our existing and potential customers.

***We rely on our distribution network for virtually all of our revenues. Failure to maintain good distributor relations could materially disrupt our distribution business and harm our net sales.***

Our business depends directly on the performance of roughly 300 of our major distributors, which we also refer to as our customers. No customer accounted for more than 10% of our gross revenue in 2013 or 2014. As we do not have long-term contracts with our distributors, it is critical that we maintain good relationships with them. However, maintaining good relationships with existing distributors and replacing any distributor is difficult and time consuming. Our failure to maintain good relationships with our distributors could materially disrupt our distribution business and harm our net sales.

***We must maintain a relatively large inventory of our raw materials and jewelry products to support customer delivery requirements, and if this inventory is lost due to theft, our results of operations would be negatively impacted.***

We purchase large volumes of precious metals and store significant quantities of raw materials and jewelry products at our warehouse and show room in Wuhan, China. Although we have an inventory security system in place, we may be subject to future significant inventory losses due to third-party or employee theft from our warehouses or other forms of theft. The implementation of enhanced security measures beyond those that we already utilize, which include onsite police station with direct deployment of officers and instant access to Wuhan city police department, security cameras, and alarm systems in our warehouse, would increase our operating costs. Also, any such losses of inventory could exceed the limits of, or be subject to an exclusion from, coverage under our insurance policies. Claims filed by us under our insurance policies could lead to increases in the insurance premiums payable by us or the termination of coverage under the relevant policy.

***Our business could be materially adversely affected if we cannot protect our intellectual property rights.***

We have developed trademarks, patents, know-how, trade-names and other intellectual property rights that are of significant value to us. In particular, we have applied for patents on a limited number of designs of our jewelry products and trademarks as well. However, the legal regime governing intellectual property in the PRC is still evolving and the level of protection of intellectual property rights in the PRC may differ from those in other jurisdictions. Thus, it may be difficult to enforce our rights relating to these designs as well as our trademarks. Any unauthorized use of, or other infringement upon our designs or trademarks, could result in potential sales being diverted to such unauthorized sellers, and dilute the value of our brand.

***We are dependent on certain key personnel, and the loss of these key personnel could have a material adverse effect on our business, financial conditions and results of operations.***

Our success, to a great extent, has been attributable to the management, sales and marketing, and operational and technical expertise of certain key personnel. Moreover, our daily operation and performance rely heavily upon our senior management. There can be no assurance that we will be able to retain these officers or that such personnel may not receive and/or accept competing offers of employment. The loss of a significant number of these employees could have a material adverse effect upon our business, financial condition, and results of operations. We do not maintain key-man life insurance for any of our senior management.

***We have outstanding borrowings, and we may not be able to obtain extensions when they become mature.***

Our notes payable to banks for short-term borrowings as of December 31, 2014 and 2013 were approximately \$16.3 million and \$49.6 million, respectively. These loans are currently secured by restricted cash of approximately \$14.8 million on deposit at the various lender banks, as well as the personal credit of our Chairman and Chief Executive Officer. Our bank loans have been, and may be, collateralized by gold inventory, our buildings, plant and machinery, as well as pledges of Au9995 gold (by both us and an affiliate) or such other collateral as we may agree from time to time with the bank lender. Our notes payable to banks for long-term borrowings as of December 31, 2014 and 2013 were approximately \$32.5 million and \$29.0 million, respectively. As of December 31, 2014, approximately \$28.8 million of these long-term borrowings had current maturities. Interest expense paid for the years ended December 31, 2014 and 2013 were \$1.8 million and \$1.0 million respectively.

Although we have renewed our borrowings in the past, we cannot assure you that we will be able to renew these loans in the future as they mature or that we will choose to renew these loans as they mature. If we are unable to obtain renewals of these loans or sufficient alternative funding on reasonable terms from banks or other parties, or if we choose not to obtain renewals of these loans, we will have to repay these borrowings with the cash on our balance sheet or cash generated by our future operations, if any. We cannot assure you that our business will generate sufficient cash flow from operations to repay these borrowings.

***The loss or significant reduction in business of any of our key customers, or our inability to successfully execute our planned expansion of our customer base, may affect our revenues and earnings.***

We are dependent on a limited number of customers in China for a large portion of our business. During the years ended December 31, 2014 and 2013, approximately 27.4% of our net sales were generated from our five largest customers. Our largest customer accounted for approximately 5.8% of our net sales during the year ended December 31, 2014. All purchases of our products by customers are made through purchase orders and we do not have long-term contracts with any of our customers. The loss of those customers, or any of our other customers to which we sell a significant amount of our products, or any significant portion of orders from those customers, or any material adverse change in the financial conditions of such customers could negatively affect our revenues and decrease our earnings, if we cannot find new customers in a timely manner.

In 2015, we plan to expand our business beyond the borders of China and to avail ourselves of opportunities to develop customer base in the fast-growing Middle East gold market. If our joint efforts to source gold, manufacture gold products, and sell such products is not successful and we cannot find customers in a timely manner, we may not realize any benefit from our investment of time and resources in pursuing this opportunity.

***We may not maintain sufficient insurance coverage for the risks associated with our business operations. As a result, we may incur uninsured losses.***

Except for property, accident and automobile insurance, we do not have other insurance of such as business liability or disruption insurance coverage for our operations in the PRC. As a result, we may incur uninsured liabilities and losses as a result of the conduct of our business. There can be no guarantee that we will be able to obtain additional insurance coverage in the future, and even if we are able to obtain additional coverage, we may not carry sufficient insurance coverage to satisfy potential claims. Should uninsured losses occur, it could adversely affect our business, results of operations and financial condition.

***Global financial crises and economic downturns may have an adverse effect on our businesses, results of operation and financial condition.***

Global economic conditions can have an effect on our business. If there is an additional global financial crisis or economic downturn, such as that which occurred in 2008, it may adversely affect economies and businesses around the world, including in China, which in turn will have an adverse impact on our business and operations.

***Potential environmental liability could have a material adverse effect on our operations and financial condition.***

As a manufacturer, we are subject to various Chinese environmental laws and regulations on air emission, waste water discharge, solid wastes and noise. Although we believe that our operations are in substantial compliance with current environmental laws and regulations, we may not be able to comply with these regulations at all times as the Chinese environmental legal regime is evolving and becoming more stringent. Therefore, if the Chinese government imposes more stringent regulations in the future, we may have to incur additional and potentially substantial costs and expenses in order to comply with new regulations, which may negatively affect our results of operations. Further, no assurance can be given that all potential environmental liabilities have been identified or properly quantified or that any prior owner, operator, or tenant has not created an environmental condition unknown to us. If we fail to comply with any of the present or future environmental regulations in any material aspects, we may suffer from negative publicity and be subject to claims for damages that may require us to pay substantial fines or force us to suspend or cease operations.

***Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related Commission regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the public markets and public reporting. Our management team will need to invest significant management time and financial resources to more fully comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

**Risks Related to Doing Business in the PRC**

***Substantially all of our assets are located in China and as of March 2015, all of our revenues are currently derived from our operations in China, and changes in the political and economic policies of the PRC government could have a significant impact upon what business we may be able to conduct in the PRC and accordingly on the results of our operations and financial condition.***

Our business operations may be adversely affected by the current and future political environment in the PRC. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under the current government leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

***Our operations are subject to PRC laws and regulations that are sometimes vague and uncertain. Any changes in such PRC laws and regulations, or the interpretations thereof, may have a material and adverse effect on our business.***

The PRC's legal system is a civil law system based on written statutes. Unlike the common law system prevalent in the United States, decided legal cases have little value as precedent in China. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy or criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

One of our principal operating subsidiaries, Vogue-Show, is considered a foreign invested enterprise under PRC laws, and as a result is required to comply with PRC laws and regulations, including laws and regulations specifically governing the activities and conduct of foreign invested enterprises. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. If the relevant authorities find us in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking our business license, other licenses or authorities;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue some or all of our business.

***The scope of our business license in China is limited, and we may not expand or continue our business without government approval and renewal, respectively.***

Our operating affiliate, Wuhan Kingold, can only conduct business within its business scope, as detailed on its business license. Our license permits us to design, manufacture, sell and market jewelry products to department stores throughout the PRC and to engage in the retail distribution of our products. Any amendment to the scope of our business requires further application and government approval. In order for us to expand our business beyond the scope of our license, we will be required to enter into a negotiation with the authorities for the approval to expand the scope of our business. We cannot assure you that Wuhan Kingold will be able to obtain the necessary government approval for any change or expansion of our business scope.

***Because our revenues are generated in RMB and our results are reported in U.S. dollars, devaluation of the RMB could negatively impact our results of operations.***

The value of RMB is subject to changes in China's governmental policies and to international economic and political developments. In January 1994, the PRC government implemented a unitary managed floating rate system. Under this system, the PBOC began publishing a daily base exchange rate with reference primarily to the supply and demand of RMB against the U.S. dollar and other foreign currencies in the market during the previous day. Authorized banks and financial institutions are allowed to quote buy and sell rates for RMB within a specified band around the central bank's daily exchange rate. On July 21, 2005, PBOC announced an adjustment of the exchange rate of the U.S. dollar to RMB from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further fluctuations of the exchange rate of RMB against the U.S. dollar, including possible devaluations. As all of our net revenues are recorded in RMB, any future devaluation of RMB against the U.S. dollar could negatively impact our results of operations.

***Our PRC stockholders are required to register with the State Administration of Foreign Exchange and their failure to do so could cause us to lose our ability to remit profits out of the PRC as dividends.***

The State Administration of Foreign Exchange, or SAFE, has promulgated several regulations, including Circular No. 75, or Circular 75, which became effective in November 2005, requiring PRC residents, including both PRC legal person residents and PRC natural person residents, to register with the competent local SAFE branch before establishing or controlling any company outside of the PRC for the purpose of equity financing with assets or equities of PRC companies, referred to in Circular 75 as an "offshore special purpose company." PRC residents that have established or controlled an offshore special purpose company, which has finished a round-trip investment before the implementation of Circular 75, are required to register their ownership interests or control in such "special purpose vehicles" with the local offices of SAFE. Under Circular 75, the term "PRC legal person residents" as used in Circular 75 refers to those entities with legal person status or other economic organizations established within the territory of the PRC. The term "PRC natural person residents" as used in Circular 75 includes all PRC citizens and all other natural persons, including foreigners, who habitually reside in the PRC for economic benefit. The term "special purpose vehicle" refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or PRC entities for the purpose of seeking offshore equity financing using assets or interests owned by such PRC residents or PRC entities in onshore companies, and the term "round-trip investment" refers to the direct investment in the PRC by PRC residents through "special purpose vehicles," including without limitation, establishing foreign invested enterprises and using such foreign invested enterprises to purchase or control (by way of contractual arrangements) onshore assets.

In addition, any PRC resident that is the shareholder of an offshore special purpose company is required to amend his/her/its SAFE registration with the local SAFE branch upon (i) injection of equity interests or assets of an onshore enterprise to the offshore entity, or (ii) subsequent overseas equity financing by such offshore entity. PRC residents are also required to complete amended registrations or filing with the local SAFE branch within 30 days of any material change in the shareholding or capital of the offshore entity not involving a round-trip investment, such as changes in share capital, share transfers and long-term equity or debt investments, of already organized, or gained control of, offshore entities that have made onshore investments in the PRC before Circular 75 was promulgated must register with their shareholdings in the offshore entities with the local SAFE branch on or before March 31, 2006.

Under Circular 75, PRC residents are further required to repatriate into the PRC all of their dividends, profits or capital gains obtained from their shareholdings in the offshore entity within 180 days of their receipt of such dividends, profits or capital gains. The registration and filing procedures under the Circular 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

To further clarify the implementation of Circular 75, SAFE issued Circular No. 106, or Circular 106, on May 9, 2007, which is a guidance that SAFE issued to its local branches with respect to the operational process for SAFE registration that standardizing mores specific and stringent supervision on the registration relating to the Circular 75. Under Circular 106, PRC subsidiaries of an offshore special purpose company are required to coordinate and supervise the filing of SAFE registrations by the offshore holding company's shareholders who are PRC residents in a timely manner. If these shareholders and/or beneficial owners fail to comply, the PRC subsidiaries are required to report such failure to the local SAFE authorities and, if the PRC subsidiaries do report the failure, the PRC subsidiaries may be exempted from any potential liability to them related to the stockholders' failure to comply. The failure of these shareholders and/or beneficial owners to timely amend their SAFE registrations pursuant to the Circular 75 and Circular 106 or the failure of future shareholders and/or beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in the Circular 75 and Circular 106 may subject such shareholders, beneficial owners and/or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries ability to distribute dividends to our company or otherwise adversely affect our business.

These regulations apply to our stockholders who are PRC residents. As of the date of this Annual Report, our Chairman and Chief Executive Officer, Zhihong Jia, and former our general manager and director, Bin Zhao, have obtained their registrations under Circular 75, and the other PRC residents are in the process of obtaining such registrations. However, there is no assurance that such persons can successfully complete such registrations, and there is no assurance that all of the PRC resident stockholders and beneficiary stockholders have complied with and will comply with the SAFE registration requirements currently or in the future. In the event that these or other of our PRC-resident stockholders do not follow the procedures required by SAFE, we could (i) be exposed to fines and legal sanctions, (ii) lose the ability to contribute additional capital into our PRC subsidiaries or distribute dividends to our company, (iii) face liability for evasion of foreign-exchange regulations, and/or (iv) lose the ability to consolidate the financial statements of our PRC subsidiaries under applicable accounting principles.

***PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate. Our failure to obtain the prior approval of the China Securities Regulatory Commission, or CSRC for the listing and trading of our common stock could have a material adverse effect on our business, operating results, reputation and trading price of our common stock.***

On August 8, 2006, the PRC Ministry of Commerce, or MOFCOM, joined by the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission, or CSRC, and SAFE, released a substantially amended version of the Provisions for Foreign Investors to Merge with or Acquire Domestic Enterprises, or the Revised M&A Regulations, which took effect September 8, 2006. These rules significantly revised China's regulatory framework governing onshore-to-offshore restructurings and foreign acquisitions of domestic enterprises. These rules signify greater PRC government attention to cross-border merger, acquisition and other investment activities, by confirming MOFCOM as a key regulator for issues related to mergers and acquisitions in China and requiring MOFCOM approval of a broad range of merger, acquisition and investment transactions. Further, these rules establish reporting requirements for acquisition of control by foreigners of companies in key industries, and reinforce the ability of the Chinese government to monitor and prohibit foreign control transactions in key industries.

In addition, the Revised M&A Regulations include new provisions that purport to require that an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals must obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on any non-PRC stock exchange. On September 21, 2006, the CSRC published on its official website procedures specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. However, the application of this PRC regulation remains unclear with no consensus currently existing among the leading PRC law firms regarding the scope and applicability of the CSRC approval requirement.

Our wholly-owned BVI subsidiary, Dragon Lead, was formerly owned by eight BVI companies whose shareholders are non-PRC individuals. We understand that some of these non-PRC individuals are nominee shareholders holding shares on behalf of and for the interest of some PRC individuals and PRC companies who are also Wuhan Kingold minority shareholders. These minority Wuhan Kingold shareholders do not have experience in conducting or managing businesses outside the PRC, and therefore believe that to engage nominee shareholders to hold shares on their behalf are in their best commercial interest, and could provide them with guidance when they evaluate whether to purchase, sell or dispose of our shares after the closing.

Also, on December 23, 2009, immediately before the reverse acquisition of Vogue Show, Fok Wing Lam Winnie (whose Mandarin name is Huo Yong Lin), the sole shareholder of Famous Grow and the majority shareholder of Dragon Lead prior to the closing of the reverse acquisition, entered into the call option with Zhihong Jia and Bin Zhao to comply with PRC regulations that restrict PRC residents from owning offshore entities like us in direct exchange for their shares in the PRC operating company and as an inducement to encourage them to provide services to Wuhan Kingold and our company. The call option does not include a vesting schedule and continued employment is not a condition to the call option. Under the call option, as amended and restated, Fok Wing Lam Winnie granted to Zhihong Jia and Bin Zhao certain call options to acquire up to 100% of the shares of Famous Grow at an exercise price of \$1.00, which is par value per share, or \$0.001 per Famous Grow share, subject to any exercise notice, or Call Option which was determined in an arm's length negotiation with the parties.

The PRC regulatory authorities may take the view that entry into the VIE Agreements by Vogue-Show and Wuhan Kingold and entry into the call option agreement by Zhihong Jia, Bin Zhao and Fok Wing Lam Winnie may collectively constitute an onshore to offshore restructuring and a related party acquisition under the M&A Regulations, because upon the consummation of these transactions and after the Call Option is fully exercised, PRC individuals would become majority owners and effective controlling parties of a foreign entity that acquired ownership of Wuhan Kingold. The PRC regulatory authorities may also take the view that the relevant parties should fully disclose to the Wuhan SAFE or MOFCOM the overall restructuring arrangements, the existence of the reverse acquisition and its connection with the VIE Agreement. Our PRC counsel has opined among other things that: (i) each of our VIE agreements with Wuhan Kingold are valid and enforceable under relevant PRC laws, (ii) all government authorizations for the execution, delivery, performance and enforcement of our VIE agreements have been obtained as required by PRC laws, (iii) the ownership structure of Vogue Show and Wuhan Kingold created by our VIE agreements and the call options in favor of Zhihong Jia and Bin Zhao do not violate any provisions of applicable PRC laws, and (iv) no PRC governmental approvals were required under the Revised M&A Regulations in connection with our acquisition of our current ownership interests in any of our PRC subsidiaries or in connection with the VIE agreements. Our PRC counsel has reviewed and approved of these statements.

We, however, cannot assure you that the PRC regulatory authorities, MOFCOM and CSRC will take the same view as our PRC counsel. If the PRC regulatory authorities take the view that the reverse acquisition and VIE arrangement constitute a related party acquisition under the revised M&A Regulations, we cannot assure you we will be able to obtain any approval required from the national offices of MOFCOM or otherwise.

If the PRC regulatory authorities take the view that the call options or the VIE arrangement constitutes a related party acquisition without the approval of the national offices of MOFCOM, they could invalidate the call options and VIE arrangement. We may also face regulatory actions or other sanctions from the MOFCOM or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares.

***If we make equity compensation grants to persons who are PRC citizens, they may be required to register with the State Administration of Foreign Exchange of the PRC, or SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt additional equity compensation plans for our directors and employees and other parties under PRC law.***

On April 6, 2007, SAFE issued the “Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company,” also known as “Circular 78.” It is not clear whether Circular 78 covers all forms of equity compensation plans or only those that provide for the granting of stock options. For any plans that are so covered and are adopted by a non-PRC listed company, such as our company, after April 6, 2007, Circular 78 requires all participants who are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires PRC citizens to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company’s covered equity compensation plan prior to April 6, 2007. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time consuming.

***Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.***

As we are a Delaware corporation, we are subject to the United States Foreign Corrupt Practices Act, which generally prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Some foreign companies, including some that may compete with our company, may not be subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

***Under the Enterprise Income Tax Law, we may be classified as a “resident enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.***

Under the Enterprise Income Tax Law, or EIT Law, an enterprise established outside the PRC with its “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its worldwide income. The “de facto management body” is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. If the PRC tax authorities determine that we should be classified as a resident enterprise, then our worldwide income will be subject to income tax at a uniform rate of 25%, which may have a material adverse effect on our financial condition and results of operations. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company, like us, having indirect ownership interests in PRC enterprises through intermediary holding vehicles.

Moreover, under the New EIT Law, foreign shareholders of an entity that is classified as a PRC resident enterprise may be subject to a 10% withholding tax upon dividends payable by such entity, unless the jurisdiction of incorporation of the foreign shareholder of such entity has a tax treaty with the PRC that provides for a reduced rate of withholding tax, and gains realized on the sale or other disposition of shares, if such income is sourced from within the PRC. It remains unclear whether the dividends payable by our PRC subsidiary or the gains our foreign shareholders may realize will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax will reduce the returns on your investment in our Shares.

***Because our business is located in the PRC, we may have difficulty establishing adequate management, legal and financial controls, which we are required to do in order to comply with U.S. securities laws.***

PRC companies have historically not adopted a Western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and, computer, financial and other control systems. Most of our middle and top management staff are not educated and trained in the Western system, and we may have difficulty hiring new employees in the PRC with such training. In addition, we may need to rely on a new and developing communication infrastructure to efficiently transfer our information from retail outlets to our headquarters. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act of 2002. This may result in significant deficiencies or material weaknesses in our internal controls, which could impact the reliability of our financial statements and prevent us from complying with Commission rules and regulations and the requirements of the Sarbanes-Oxley Act of 2002. Any such deficiencies, weaknesses or lack of compliance could have a materially adverse effect on our business.

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based upon U.S. laws, including the federal securities laws, or other foreign laws against us or our management.***

All of our current operations, including the manufacturing and distribution of jewelry, are conducted in China, and we plan to expand into the Middle East. Most of our directors and officers are nationals and residents of China. All or substantially all of the assets of these persons are located outside the United States. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these persons. In addition, uncertainty exists as to whether the courts of China or the Middle East would recognize or enforce judgments of U.S. courts obtained against us or such officers and/or directors predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in China or the Middle East against us or such persons predicated upon the securities laws of the United States or any state thereof.

***Governmental control of currency conversions could prevent us from paying dividends.***

All of our revenue is earned in RMB and current and future restrictions on currency conversions may limit our ability to use revenue generated in RMB to make dividend or other payments in United States dollars. Although the PRC government introduced regulations in 1996 to allow greater convertibility of the RMB for current account transactions, significant restrictions still remain, including the restrictions that foreign-invested enterprises like us may buy, sell or remit foreign currencies only after providing valid commercial documents at a PRC bank specifically authorized to conduct foreign-exchange business.

In addition, conversion of RMB for capital account items, including direct investment and loans, is subject to governmental approval in the PRC, and companies are required to open and maintain separate foreign-exchange accounts for capital account items. There is no guarantee that PRC regulatory authorities will not impose additional restrictions on the convertibility of the RMB. These restrictions could prevent us from distributing dividends and thereby reduce the value of our stock.

***Inflation in China may inhibit our ability to conduct business in China.***

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on profitability. These factors have led to the adoption by Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may, in the future, cause Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

***Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese Renminbi into foreign currencies and, if Chinese Renminbi were to decline in value, reducing our revenue in U.S. dollar terms.***

Our reporting currency is the U.S. dollar and our operations in China use their local currency, the Renminbi, as their functional currency. Substantially all of our revenue and expenses are in Chinese Renminbi. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the Renminbi depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to the U.S. dollar had generally been stable and the Renminbi had appreciated slightly against the U.S. dollar. However, on July 21, 2005, the Chinese government changed its policy of pegging the value of Chinese Renminbi to the U.S. dollar. Under the new policy, Chinese Renminbi may fluctuate within a

narrow and managed band against a basket of certain foreign currencies. It is possible that the Chinese government could adopt a more flexible currency policy, which could result in more significant fluctuation of Chinese Renminbi against the U.S. dollar. We can offer no assurance that Chinese Renminbi will be stable against the U.S. dollar or any other foreign currency.

The income statements of our operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currencies denominated transactions results in reduced revenue, operating expenses and net income for our international operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenue, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss that is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to successfully hedge our exchange rate risks.

### **Risks Related to the VIE Agreements**

***If the PRC government determines that the contractual arrangements through which we control Wuhan Kingold do not comply with applicable regulations, our business could be adversely affected.***

Although we believe our contractual relationships through which we control Wuhan Kingold comply with current licensing, registration and regulatory requirements of the PRC, we cannot assure you that the PRC government would agree, or that new and burdensome regulations will not be adopted in the future. If the PRC government determines that our structure or operating arrangements do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business.

***The PRC government may determine that the VIE Agreements are not in compliance with applicable PRC laws, rules and regulations.***

Vogue-Show manages and operates our gold jewelry business through Wuhan Kingold pursuant to the rights it holds under the VIE Agreements. Almost all economic benefits and risks arising from Wuhan Kingold's operations are transferred to Vogue-Show under these agreements. Details of the VIE Agreements are set out in "Business — Company History" of this Annual Report on page 9.

There are risks involved with the operation of our business in reliance on the VIE Agreements, including the risk that the VIE Agreements may be determined by PRC regulators or courts to be unenforceable. Our PRC counsel has provided a legal opinion that the VIE Agreements are binding and enforceable under PRC law, but has further advised that if the VIE Agreements were for any reason determined to be in breach of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such breach, including:

- imposing economic penalties;
- discontinuing or restricting the operations of Vogue-Show or Wuhan Kingold;

- imposing conditions or requirements in respect of the VIE Agreements with which Vogue-Show may not be able to comply;
- requiring our company to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could adversely affect our company's business; and
- revoking the business licenses and/or the licenses or certificates of Vogue-Show, and/or voiding the VIE Agreements.

Any of these actions could adversely affect our ability to manage, operate and gain the financial benefits of Wuhan Kingold, which would have a material adverse impact on our business, financial condition and results of operations.

***Our ability to manage and operate Wuhan Kingold under the VIE Agreements may not be as effective as direct ownership.***

We conduct our jewelry processing and sales businesses in the PRC and generate virtually all of our revenues through the VIE Agreements. Our plans for future growth are based substantially on growing the operations of Wuhan Kingold. However, the VIE Agreements may not be as effective in providing us with control over Wuhan Kingold as direct ownership. Under the current VIE arrangements, as a legal matter, if Wuhan Kingold fails to perform its obligations under these contractual arrangements, we may have to (i) incur substantial costs and resources to enforce such arrangements, and (ii) rely on legal remedies under PRC law, which we cannot be sure would be effective. Therefore, if we are unable to effectively control Wuhan Kingold, it may have an adverse effect on our ability to achieve our business objectives and grow our revenues.

***As the VIE agreements are governed by PRC law, we would be required to rely on PRC law to enforce our rights and remedies under them; PRC law may not provide us with the same rights and remedies as are available in contractual disputes governed by the law of other jurisdictions.***

The VIE Agreements are governed by the PRC law and provide for the resolution of disputes through court proceedings pursuant to PRC law. If Wuhan Kingold or its shareholders fail to perform the obligations under the VIE Agreements, we would be required to resort to legal remedies available under PRC law, including seeking specific performance or injunctive relief, or claiming damages. We cannot be sure that such remedies would provide us with effective means of causing Wuhan Kingold to meet its obligations, or recovering any losses or damages as a result of non-performance. Further, the legal environment in China is not as developed as in other jurisdictions. Uncertainties in the application of various laws, rules, regulations or policies in PRC legal system could limit our liability to enforce the VIE Agreements and protect our interests.

***The VIE Agreements may be subject to audit or challenge by PRC tax authorities. A finding that we owe additional taxes could substantially reduce our net earnings and the value of your investment***

Under PRC laws and regulations, arrangements and transactions among affiliated parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax and financial consequences if the PRC tax authorities determine that the VIE Agreements do not represent arm's-length prices. As a result of such a determination, the PRC tax authorities could adjust any of the income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions for PRC tax purposes recorded by us or Wuhan Kingold or an increase in taxable income, all of which could increase our tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties on us or Wuhan Kingold for under-paid taxes.

***Our shareholders have potential conflicts of interest with us which may adversely affect our business.***

Zhihong Jia is our Chief Executive Officer and our Chairman, and is also the largest shareholder of Wuhan Kingold. There could be conflicts that arise from time to time between our interests and the interests of Mr. Jia. There could also be conflicts that arise between us and Wuhan Kingold that would require our shareholders and Wuhan Kingold's shareholders to vote on corporate actions necessary to resolve the conflict. There can be no assurance in any such circumstances that Mr. Jia will vote his shares in our best interest or otherwise act in the best interests of our company. If Mr. Jia fails to act in our best interests, our operating performance and future growth could be adversely affected. In addition, some or all of our shareholders could violate the non-competition agreements they have signed with our company by diverting business opportunities from our company to others. In such event, our business, financial condition and results of operation could be adversely affected.

***We rely on the approval certificates and business license held by Vogue-Show and any deterioration of the relationship between Vogue-Show and Wuhan Kingold could materially and adversely affect our business operations.***

We operate our jewelry processing and sales businesses in China on the basis of the approval certificates, business license and other requisite licenses held by Vogue-Show. There is no assurance that Vogue-Show will be able to renew its license or certificates when their terms expire with substantially similar terms as the ones they currently hold.

Further, our relationship with Wuhan Kingold is governed by the VIE Agreements that are intended to provide us with effective control over the business operations of Wuhan Kingold. However, the VIE Agreements may not be effective in providing control over the application for and maintenance of the licenses required for our business operations. Wuhan Kingold could violate the VIE Agreements, go bankrupt, suffer from difficulties in its business or otherwise become unable to perform its obligations under the VIE Agreements and, as a result, our operations, reputations and business could be severely harmed.

***If Vogue-Show exercises the purchase options it holds over Wuhan Kingold's share capital and assets pursuant to the VIE Agreements, the payment of the purchase price could materially and adversely affect our financial position.***

Under the VIE Agreements, Wuhan Kingold's shareholders have granted Vogue-Show a ten-year option to purchase 100% of the share capital in Wuhan Kingold at a price determined by appraisal by an asset evaluation institution to be jointly appointed by Vogue-Show and Wuhan Kingold's shareholders. Concurrently, Wuhan Kingold granted Vogue-Show a ten-year option to purchase Wuhan Kingold's assets at a price determined by appraisal by such asset evaluation institution. As Wuhan Kingold is already our contractually controlled affiliate, Vogue-Show's exercising of the above two options would not bring immediate benefits to our company, and payment of the purchase prices could adversely affect our financial position.

**Risks Related to Our Common Stock**

***Following the exercise of his Call Option, our Chairman and Chief Executive Officer would exercise significant influence over us.***

Our Chairman and Chief Executive Officer, Zhihong Jia, will beneficially own or control approximately 24.2% of our outstanding shares if he chooses to fully exercise his Call Option to purchase shares of Famous Grow. Mr. Jia thereafter could possibly have a controlling influence in determining the outcome of any corporate transaction or other matters submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors, and other significant corporate actions. Mr. Jia may also have the power to prevent or cause a change in control. In addition, without the consent of Mr. Jia, we could be prevented from entering into transactions that could be beneficial to us. The interests of Mr. Jia may differ from the interests of our other stockholders.

***We do not foresee paying cash dividends in the foreseeable future and, as a result, our investors' sole source of gain, if any, will depend on capital appreciation, if any.***

We do not plan to declare or pay any cash dividends on our shares of common stock in the foreseeable future and currently intend to retain any future earnings for funding growth. As a result, investors should not rely on an investment in our securities if they require the investment to produce dividend income. Capital appreciation, if any, of our shares may be investors' sole source of gain for the foreseeable future. Moreover, investors may not be able to resell their shares of our company at or above the price they paid for them.

Because we do not intend to pay dividends on our shares, stockholders will benefit from an investment in our shares only if those shares appreciate in value.

We currently intend to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend on factors our board of directors deems relevant, including among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our credit facilities, if any, and any other financing arrangements. Accordingly, realization of a gain on stockholders' investments.

***The market price for our shares may be volatile.***

The market price for our shares is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the markets for our products;
- changes in the economic performance or market valuations of companies specializing in gold jewelry;
- announcements by us, or our competitors of new products, acquisitions, strategic relationships, joint ventures or capital commitments;
- addition or departure of senior management and key personnel; and
- fluctuations of exchange rates between the RMB and the U.S. dollar.

During 2014, the market price for our shares increased from \$1.72 on January 2, 2014 to \$1.93 on January 23, 2014, and then dropped to \$0.89 as of December 31, 2014. The closing price on March 30, 2015 was \$1.07 per share. Volatility in the price of our shares may result in shareholder litigation that could in turn result in substantial costs and a diversion of our management's attention and resources.

The financial markets in the United States and other countries have experienced significant price and volume fluctuations, and market prices have been and continue to be extremely volatile. Volatility in the price of our shares may be caused by factors outside of our control and may be unrelated or disproportionate to our results of operations. In the past, following periods of volatility in the market price of a public company's securities, shareholders have frequently instituted securities class action litigation against that company. Litigation of this kind could result in substantial costs and a diversion of our management's attention and resources.

***If we continue to fail to maintain effective internal control over financial reporting or effective disclosure controls and procedures, the price of our common stock may be adversely affected.***

We are required to establish and maintain appropriate internal control over financial reporting and put in place appropriate disclosure controls and procedures to allow our management to make timely decisions regarding required disclosures. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. Any failure of our internal control over financial reporting could also prevent us from maintaining accurate accounting records and discovering accounting errors and financial fraud.

For 2013 and 2014, our management determined that we had a material weakness in our internal control over financial reporting due to some problems with cash management, as well as continued ineffective disclosure controls and procedures, and other significant deficiencies due to inadequate controls over the appropriate approval procedures for certain material transactions, inadequate controls over certain material cash transactions, and lack of technical competency in review and recording of non-routine or complex transactions. Although we put in place a remedial plan to rectify such material weakness in 2014, and have already adopted resolutions limiting the power of management to engage in certain transactions above a certain financial threshold absent board approval, such material weaknesses persisted during 2014. Moreover, our management concluded that our disclosure controls and procedures continued to be ineffective this year because we continued to fail to disclose the entry into certain material agreements within the time periods required by the Commission.

Although we are evaluating how to improve the effectiveness of our disclosure controls and procedures and are evaluating additional remedial measures, such efforts may not be successful. In addition, management's assessment of internal control over financial reporting may identify additional material weaknesses or significant deficiencies that need to be addressed or other potential matters that may raise concerns for investors. Any actual or perceived material weaknesses or significant deficiencies that need to be addressed in our internal control over financial reporting, or the actual or perceived ineffectiveness of our disclosure controls and procedures could have an adverse impact on the price of our common stock.

***SEC regulations concerning conflict minerals could negatively impact our business.***

In response to provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2013, the Securities and Exchange Commission adopted annual disclosure and reporting requirements regarding the use of certain minerals, known as "conflict minerals," mined from the Democratic Republic of Congo and adjoining countries. Conflict minerals include gold.

These new requirements and the changes we may adopt as a result of compliance with them may prove both costly and time-consuming. The disclosure requirements, which began in 2014, necessitated due diligence efforts to identify the sources of conflict minerals contained in our products. Because we currently acquire our gold directly from the Exchange or leading Chinese banks, or lease it from leading Chinese banks, there is uncertainty as to the amount of diligence we may be able to do on our supply chain. Further, we now plan to expand into the Middle East, which will add additional sources of gold, but raise additional challenges for us to diligence our supply chain.

Implementation of these regulations will require us to divert management attention and resources away from our business operations. In addition, as conflict-free minerals may only be available from a limited pool of suppliers, it may or may not include the Exchange, our primary source of gold. In addition, if we are unable to sufficiently verify the origin of all conflict minerals used in our products, we may face reputational challenges with customers, stockholders, or other stakeholders.

***Our quarterly results may fluctuate because of many factors and, as a result, investors should not rely on quarterly operating results as indicative of future results.***

Fluctuations in operating results or the failure of operating results to meet the expectations of public market analysts and investors may negatively impact the value of our securities. Quarterly operating results may fluctuate in the future due to a variety of factors that could affect revenues or expenses in any particular quarter. Fluctuations in quarterly operating results could cause the value of our securities to decline. Investors should not rely on quarter-to-quarter comparisons of results of operations as an indication of future performance. As a result of the factors listed below, it is possible that in future periods the results of operations may be below the expectations of public market analysts and investors. This could cause the market price of our securities to decline. Factors that may affect our quarterly results include:

- vulnerability of our business to a general economic downturn in China;
- fluctuation and unpredictability of costs related to the gold, platinum and precious metals and other commodities used to manufacture our products;

- seasonality of our business;
- changes in the laws of the PRC that affect our operations;
- competition from our competitors; and
- our ability to obtain all necessary government certifications and/or licenses to conduct our business.

***We may need additional capital, and the sale of additional shares or equity or debt securities could result in additional dilution to our shareholders.***

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain one or more additional credit facilities. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Our principal executive offices and our factory are located in #15 Huangpu Science and Technology Park, Jiang'an District, Wuhan, Hubei Province, China, with a total construction area of approximately 74,933 square feet built on a parcel of state owned land. We own all of our office and factory facilities except for land with regard to which we own land use rights. There is no private ownership of land in the PRC. All land ownership is held by the government of the PRC, its agencies and collectives. Land use rights can be transferred upon approval by the land administrative authorities of the PRC (State Land Administration Bureau) upon payment of the required land transfer fee. Our land use certificate for our current offices and factory expires on January 26, 2055. Our Vogue-Show subsidiary rents 96 square meters of office space from Wuhan Kingold at an annual rental rate of \$1,500 per year. The lease on this office space expires at the end of January, 2022.

In October 2013, Wuhan Kingold our controlled subsidiary, entered into an agreement with Wuhan Wansheng House Purchasing Limited to acquire 100% ownership of the Shanghai Creative Industry Park, which is proposed to be renamed the Kingold Jewelry Cultural Industry Park, which we refer to as the Jewelry Park. The Park is located at No. 12, Han Huang Road, Jiang'An District, Wuhan.

Pursuant to the Agreement, we acquired the operating rights for 66,667 square meters (approximately 717,598 square feet, or 16.5 acres) of industrial land for use in the development of the Jewelry Park, and authorized Wuhan Wansheng, as agent, to complete construction of the Jewelry Park. The total floor space of the Jewelry Park is expected to be approximately 193,000 square meters (approximately 2,068,275 square feet). We plan to utilize the completed Jewelry Park as our new operation center, an additional manufacturing facility, as well as a show center and space for both Kingold as well as other jewelry manufacturers in China.

We believe that our current offices and facilities are adequate to meet our needs, and that additional facilities will be available for lease, if necessary, to meet our future needs.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not currently a party to any litigation the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business, operating results, cash flows or financial condition.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Our common stock is listed on the NASDAQ Capital Market under the symbol "KGJI." Prior to August 18, 2010, our common stock was listed for quotation on the OTC Bulletin Board or, the OTCBB, under the symbol "KGJI."

The following table sets forth, for the periods indicated, the range of quarterly high and low closing sales prices for our common stock in U.S. dollars. Prior to our listing on the NASDAQ Capital Market, these quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, involving our common stock during each calendar quarter, and may not represent actual transactions.

	High	Low
2014		
First Quarter	\$ 1.93	\$ 1.61
Second Quarter	\$ 1.64	\$ 1.10
Third Quarter	\$ 1.48	\$ 1.16
Fourth Quarter	\$ 1.31	\$ 0.84
2013		
First Quarter	\$ 1.54	\$ 1.11
Second Quarter	\$ 1.48	\$ 1.10
Third Quarter	\$ 1.73	\$ 0.99
Fourth Quarter	\$ 2.13	\$ 1.56

#### Holdings

On March 30, 2015, the closing sale price of our shares of common stock was \$1.07 per share and there were 65,963,502 shares of our common stock outstanding. On that date, our shares of common stock were held by approximately 80 shareholders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of our common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

#### Dividend Policy

Although we paid a one-time special dividend of \$0.08 per share in 2014, we currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock for the foreseeable future. Investors seeking cash dividends in the immediate future should not purchase our common stock. Future cash dividends, if any, will be at the discretion of our board of directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as our board of directors may deem relevant. We can pay dividends only out of our profits or other distributable reserves and dividends or distribution will only be paid or made if we are able to pay our debts as they fall due in the ordinary course of business. Payment of future dividends, if any, will be at the discretion of the board of directors after taking into account various factors, including current financial condition, operating results, current and anticipated cash needs and regulations governing dividend distributions by wholly foreign owned enterprises in China.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information regarding stock option grants made to employees, directors and consultants as of December 31, 2014:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (A)	Weighted Average Exercise Price of Outstanding Options (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A) (C)
Equity Compensation Plans Approved by Security Holders(1)	2,570,000	\$ 2.03	2,430,000
Equity Compensation Plans Not Approved by Security Holders	N/A	N/A	N/A

(1) On March 24, 2011, our Board of Directors voted to adopt the 2011 Stock Incentive Plan, or the Plan, which was approved at our annual stockholders' meeting held on June 6, 2012. The Plan permits the granting of stock options (including incentive stock options as well as nonstatutory stock options), stock appreciation rights, restricted and unrestricted stock awards, restricted stock units, performance awards, other stock-based awards or any combination of the foregoing. Under the terms of the Plan, up to 5,000,000 shares of our common stock will be granted.

## Purchases of Equity Securities

During the year ended December 31, 2014, we did not purchase any of our equity securities, nor did any person or entity purchase any of our equity securities on our behalf.

## ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### **Forward-Looking Information**

*The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from the results described in or implied by these forward-looking statements as a result of various factors. See the "Cautionary Statement for Purposes of the "Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995" immediately preceding Part I of this Report.*

### **Key Components of Operating Results**

#### ***Sources of Revenue***

We derive our revenue almost entirely from the sales of 24-karat jewelry and Chinese ornaments and from design and processing fees we receive from other jewelry companies who hire us to design and produce 24-karat jewelry and Chinese ornaments using gold they supply us. We offer a wide range of in-house designed products including but not limited to gold necklaces, rings, earrings, bracelets, and pendants. In our jewelry business, we only sell on a wholesale basis to distributors and retailers. Pricing of our jewelry business products is made at the time of sale based upon the then-current price of gold and sales are made on a cash or credit on delivery basis.

We have also recently begun developing our investment gold business. We sell our investment gold products through banks. Similar to our jewelry business, pricing of our investment gold products is made at the time of sale based upon the then-current price of gold, and sales are made on a cash or credit on delivery basis.

#### ***Cost of Sales***

Our cost of sales consists principally of the cost for raw materials, primarily gold. We generally purchase gold directly from the Shanghai Gold Exchange, of which we are a member. Beginning in 2013, we also started to lease gold from leading commercial banks in China to increase our gold supply and fuel our growth. We generally do not enter into long term purchase agreements for gold. During recent years, the price of gold on the international gold market has experienced periods of significant fluctuation. We have been attempting to offset gold price fluctuations by locking in the price at the time an order is placed, as well as passing on the price to purchasers. See "Quantitative and Qualitative Disclosures About Market Risk — Commodity Price Risk."

#### ***Operating Expenses***

We classify our operating expenses into four categories: selling, general and administrative, stock compensation and depreciation and amortization. Our operating expenses consist primarily of personnel costs, which include salaries, bonuses, taxes and employee benefit costs. Other expenses include advertising and promotional costs, facilities costs and legal, audit and tax, consulting and other professional service fees.

The government owns all of the land in the PRC. Companies or individuals are authorized to use the land only through land use rights granted by the PRC government. Accordingly, we paid for land use rights in advance and such prepayments are being amortized and recorded as lease expenses using the straight-line method over the use terms of the lease. Amortization expense was \$12,300 and \$12,205 for each of 2014 and 2013, respectively.

#### ***Gross Profit, Gross Margin and Inventory Carrying Value***

Our gross profit margin and profitability as well as the carrying value of our inventory are affected by changes in the price of gold. If there is an increase in the price of gold that increases our production costs beyond the amount we may be able to pass to our customers, it has a negative effect on our gross margin and profitability. Furthermore, the carrying value of our inventory may be affected if the price of gold decreases relative to the price that we paid for that inventory. At December 31, 2014, we had approximately 6.3 metric tons of gold in our inventory, all of which had been sold in excess of the carrying value by the date of this report.

## **General and Administrative**

General and administrative expenses consist primarily of personnel costs for our executive, finance, human resources and administrative personnel, legal, audit and tax and other professional fees, depreciation expenses, insurance and other corporate expenses.

## **Sales**

Selling expenses consist primarily of freight and transportation expenses, advertising and promotional costs and personnel costs for our sales team.

## **Other Income (Expense), Net**

Other income (expense), net consists of interest we earn on our cash and cash equivalents, interest expenses on our loans from Chinese local banks and fees we pay in connection with guarantees of our loans.

## **Provision for Income Taxes**

Our provision for income taxes primarily consists of corporate income taxes related to profits earned in the PRC from sales of our products. In December 2004 and 2006, we were awarded the status of a nationally recognized High and New Technology Enterprise, which entitled us to tax-free treatment from January 2004 to December 2008. Starting in January 2008, we became subject to the regular PRC corporate tax rate of 25%.

## **Inflation**

Although the Chinese government has implemented measures to curb inflation, it is foreseeable that the Chinese economy may remain under inflationary pressure at least for the near term. It is difficult to estimate the impact of continued rise in inflation on us. On the one hand, inflation may lead to, among other things, higher operating expenses for us and erosion of our customers' purchases, adversely affecting our results. On the other hand, inflation may also make our products more attractive to Chinese consumers who traditionally have perceived gold as a safe haven investment from inflation.

## **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures in the financial statements. Critical accounting policies are those accounting policies that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on financial condition or operating performance. While we base our estimates and judgments on our experience and on various other factors that we believe to be reasonable under the circumstances, actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies used in the preparation of our financial statements require significant judgments and estimates. For additional information relating to these and other accounting policies, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

## ***Inventories***

Inventory is stated at the lower of cost or market value. Cost is determined using the weighted average method. We continually evaluate the composition of our inventory, turnover of our products, the price of gold and the ability of our customers to pay for their products. We write-down slow-moving and obsolete inventory based on an assessments of these factors, but principally customer demand. Such assessments require the exercise of significant judgment by management. Additionally, the value of our inventory may be affected by commodity prices. Decreases in the market value of gold would result in a lower stated value of our inventory, which may require us to take a charge for the decrease in the value. In addition, if the price of gold changes substantially in a very short period, it might trigger customer defaults, which could result in inventory obsolescence. If any of these factors were to become less favorable than those projected, inventory write-downs could be required, which would have a negative effect on our earnings and working capital.

## ***Accounting for the Impairment of Long-Lived Assets***

The long-lived assets held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. It is possible that these assets could become impaired as a result of technology or other industry changes. The recoverability value of an asset to be held and used is determined by comparing the carrying amount of such asset against the future net undiscounted cash flows to be generated by the asset. Our principal long-lived assets are our property, plant and equipment assets.

We must make various assumptions and estimates regarding estimated future cash flows and other factors in determining the fair values of the respective assets. We use set criteria that are reviewed and approved by various levels of management, and estimate the fair value of our reporting units by using undiscounted cash flow analyses. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for the underlying assets at such time. Any such resulting impairment charges could be material to our results of operations.

If the value of such an asset is determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less disposition costs. No events or changes in our business or circumstances required us to test for impairment of our long-lived assets during 2014 and 2013, and accordingly, we did not recognize any impairment loss during these periods.

Competitive pricing pressure and changes in interest rates could materially and adversely affect our estimates of future net cash flows to be generated by our long-lived assets, and thus could result in future impairment losses.

## ***Revenue Recognition***

Our revenue is derived from the sales price of goods sold and fees for services provided. We recognize revenue for goods sold when they are delivered to the customer. We recognize revenue for services provided when the services have been performed and collectability is deemed probable. Management has not made an allowance for estimated sales returns because they are considered immaterial when viewed in light of our overall revenue and historical experience.

## Results of Operations

### YEARS ENDED DECEMBER 31, 2014 AND 2013

The following table sets forth information from our statements of income and comprehensive income for the years ended December 31, 2014 and 2013 in U.S. dollars.

**KINGOLD JEWELRY, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(IN U.S. DOLLARS)**

	For the years ended December 31,	
	2014	2013
<b>NET SALES</b>	<u>\$ 1,107,558,544</u>	<u>\$ 1,189,915,923</u>
<b>COST OF SALES</b>		
Cost of sales	(1,030,010,474)	(1,141,671,197)
Depreciation	(1,296,583)	(1,277,374)
Total cost of sales	<u>(1,031,307,057)</u>	<u>(1,142,948,571)</u>
<b>GROSS PROFIT</b>	<u>76,251,487</u>	<u>46,967,352</u>
<b>OPERATING EXPENSES</b>		
Selling, general and administrative expenses	7,343,951	4,749,488
Stock compensation expenses	3,149,980	1,532,563
Depreciation	130,074	155,216
Amortization	12,300	12,205
Total operating expenses	<u>10,636,305</u>	<u>6,449,472</u>
<b>INCOME FROM OPERATIONS</b>	<u>65,615,182</u>	<u>40,517,880</u>
<b>OTHER INCOME (EXPENSES)</b>		
Other Income	94,624	-
Interest Income	305,465	56,253
Other Expense	-	(81)
Interest expense	(1,847,240)	(1,051,564)
Total other expenses, net	<u>(1,447,151)</u>	<u>(995,392)</u>
<b>INCOME FROM OPERATIONS BEFORE TAXES</b>	<u>64,168,031</u>	<u>39,522,488</u>
<b>INCOME TAX PROVISION (BENEFIT)</b>		
Current	16,836,054	11,454,787
Deferred	-	(272,225)
Total income tax provision	<u>16,836,054</u>	<u>11,182,562</u>
<b>NET INCOME</b>	<u>\$ 47,331,977</u>	<u>\$ 28,339,926</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Total foreign currency translation gains (loss)	<u>\$ (1,331,031)</u>	<u>\$ 5,820,020</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 46,000,946</u>	<u>\$ 34,159,946</u>
Earnings per share		
Basic	<u>\$ 0.72</u>	<u>\$ 0.45</u>
Diluted	<u>\$ 0.72</u>	<u>\$ 0.44</u>
Weighted average number of shares		
Basic	<u>65,918,768</u>	<u>63,495,520</u>



## Fiscal Year Ended December 31, 2014 Compared to Fiscal Year Ended December 31, 2013

### Net Sales

Net sales for the year ended December 31, 2014 were \$1,107.6 million, a decrease of \$82.4 million, or 6.9%, from net sales of \$1,190.0 million for the year ended December 31, 2013. The decrease in net sales was primarily driven by the decrease in the price of gold and increased sales of customized products.

Overall demand for gold products has been adversely impacted the weaker economy in China, and our investment gold business represented \$19.2 million of net sales in 2014, down 84.5% as compared to 2013.

According to the World Gold Council, total consumer demand for gold in China reached 813.6 tons in 2014, a 38.0% decrease over 2013, with jewelry accounting for 623.5 tons in 2014 (a 32.8% decrease over 2013), and investment gold accounting for 190.1 tons in 2014 (a 50.5% decrease over 2013).

### Gold processed for the twelve months ended December 31,

	2014			2013		
	Metric Tons	Sales (\$ Million)	Sales/ Metric Ton (\$ Million)	Metric Tons	Sales (\$ Million)	Sales/ Metric Ton (\$ Million)
Total	60.1	\$ 1,107.6	\$ 18.4	51.1	\$ 1,190.0	\$ 23.3
Branded	28.8	\$ 1,067.5	\$ 37.1	28.6	\$ 1,159.6	\$ 40.5
Customized	31.3	\$ 40.1	\$ 1.3	22.5	\$ 30.4	\$ 1.4

### Cost of sales

Cost of sales for the year ended December 31, 2014 amounted to \$1,031.3 million, a decrease of \$111.7 million, or 9.8% from \$1,143.0 million for 2013. The decrease was primarily attributable to lower gold prices in 2014.

The average price of gold for the year ended December 31, 2014 was \$1,266.4 per ounce, as compared to \$1,411.2 per ounce for the same period in 2013, according to the World Gold Council.

### Gross profit

Gross profit for the year ended December 31, 2014 increased to \$76.3 million, an increase of \$29.3 million, or 62.4%, from \$47.0 million for 2013. Accordingly, gross margin for the year ended December 31, 2014 was 6.9%, compared to 3.9% for the same period in 2013. The primary reason for the substantial increase in gross margin was that we purchased large quantities of gold inventory at year end of 2013 and at the beginning of 2014 at low market prices, making the first half production at a cost much lower than normal. Gold prices increased from \$1,204.5 per ounce on December 31, 2013 to as high as \$1,385.0 per ounce on March 14, 2014 before decreasing to \$1,216.5 on September 30, 2014 (World Gold Council). The gross margin in the future periods is not likely to be this high and may well return to the level of past periods.

### Expenses

Total operating expenses for the year ended December 31, 2014 were \$10.6 million, an increase of \$4.2 million or 64.9%, from \$6.5 million for 2013. The increase was mainly due to increased selling, general and administrative expenses, which increased \$2.6 million due to our expanded sales efforts in our investment gold business, along with increased expenses for broader marketing effort, as well as the fact that we wrote-off the market expenses paid to explore the Middle East market. A portion of the increase is also due to increased stock compensation expense of \$1.6 million due to the issuance of equity awards.

Our provision for income tax expense was \$16.8 million for the year ended December 31, 2014, an increase of \$5.7 million, or 50.6%, from \$11.2 million for 2013. The increase was primarily due to more taxable income.

Other comprehensive loss was approximately \$1.3 million for the year ended December 31, 2014, compared to other comprehensive income of \$5.8 million for the year ended December 31, 2013 due to the fluctuation of RMB against the U.S. dollar.

### Net Income

For the foregoing reasons, our net income increased to \$47.3 million for the year ended December 31, 2014, from \$28.3 million for the same period in 2013, an increase of \$19.0 million or 67.1%.



## Liquidity and Capital Resources

At December 31, 2014, we had \$1.3 million in cash and cash equivalents compared to \$2.3 million at December 31, 2013. At December 31, 2014, we had \$14.8 million in restricted cash compared to \$12.6 million at December 31, 2013. This restricted cash (along with our Chairman and Chief Executive Officer's personal credit) secures our obligations under our bank loans and gold lease agreements. We have historically financed our operations with cash flow generated from operations, as well as through short-term bank loans (which generally have a term of one year, although our recent loans have been for three or four month terms). At December 31, 2013, we had outstanding short-term loans of \$49.6 million from Xing Ye Bank (\$7.9 million), CITIC Bank (\$33.6 million) as well as Hubei Bank (\$8.1 million), some of which has been repaid. At December 31, 2014, we had an outstanding short-term loan from CITIC Bank Corporation Limited and Hubei Bank for an aggregate amount of \$16.3 million, which had an interest rate of 6.6%. The amounts outstanding under these bank loans are presented in our financial statements as "short-term loans." As of December 31, 2014, we had outstanding long-term loan current maturities of \$28.8 million. For additional information regarding our short-term loans (some of which have already matured and been repaid), see Note 6 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

In China, it is customary practice for banks and borrowers to negotiate roll-overs or renewals of short-term borrowings on an ongoing basis shortly before they mature. Although we have generally renewed our short-term borrowings in the past, we cannot assure you that we will be able to renew these loans in the future as they mature. We may also choose not to renew them. If we are unable to obtain renewals of these loans or sufficient alternative funding on reasonable terms from banks or other parties, we will have to repay these borrowings with the cash on our balance sheet or cash generated by our future operations, if any. We cannot assure you that our business will generate sufficient cash flow from operations to repay these borrowing or that additional debt or equity financing will be available on acceptable terms, or at all. Failure to maintain financing arrangements on acceptable terms would have a material adverse effect on our business, results of operations and financial condition.

On February 9, 2015, Wuhan Kingold received a Notice of Acceptance of Registration, or the Acceptance, from the PRC's National Association of Financial Market Institutional Investors, or the NAFMII, registering the issuance of up to RMB 750 million (approximately US\$120 million) of debt financing instruments by Wuhan Kingold pursuant to a Non-Public Oriented Debt Financing Instruments Private Placement Agreement, by and among Wuhan Kingold, Shanghai Pudong Development Bank Co., Ltd, or Pufa Bank, and the other institutional investors named therein, dated July 21, 2014. Such Private Placement Agreement became valid upon the Acceptance. In connection with the Private Placement Agreement, Wuhan Kingold and Pufa Bank entered into an Underwriting Agreement dated August 12, 2014, appointing Pufa Bank as the lead underwriter and bookkeeping manager for the issuance of the debt securities. The debt financing program is intended to operate similar to a commercial paper program. Under the program, Wuhan Kingold may issue the debt securities at any time within two years from the date of the Acceptance, with the initial issuance completed within six months from the date of the Acceptance. Wuhan Kingold is required to report any issuance to the NAFMII. The Private Placement Agreement provides that the Investors are entitled to, but are not required to, participate in any issuance, and prohibits using the proceeds from any issuance of debt securities for real estate and equity acquisition transactions. The total amount of the first phase issuance will be RMB 400 million (approximately US\$64 million), and will be secured by certain gold or gold products held by Wuhan Kingold. The total amount of the second phase issuance will be RMB 350 million (approximately US\$56 million), and will be secured by certain real property and construction in progress (including the Kingold Jewelry Cultural Industry Park). In connection with the foregoing, Wuhan Kingold and Pufa Bank have entered into a Credit Agent Agreement, pursuant to which Pufa Bank serves as the agent of the holders of the debt securities. Zhihong Jia, our Chairman and Chief Executive Officer, has executed a guaranty, to guarantee Wuhan Kingold's obligations under the Credit Agent Agreement. In March 2015, Wuhan Kingold completed the first RMB400 million issuance under the Private Placement Agreement.

We believe that our current cash and cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital, for the next 12 months, including to pay required installments under the Jewelry Park acquisition agreement. We may, however, require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. Our ability to maintain sufficient liquidity depends partially on our ability to achieve anticipated levels of revenue, while continuing to control costs.

We continue to seek favorable additional financing to meet our capital requirements to fund our operations and growth plans in the ordinary course of business.

We have an aggregate of RMB1.0 billion of payments due under the Jewelry Park acquisition agreement (approximately RMB391.5 million has been paid to date). The payment schedule is as follows:

<b>Date</b>	<b>Original Payment Commitment (RMB in millions)</b>	<b>Revised Payment Commitment (RMB in millions)</b>	<b>Payment Commitment (US\$ in millions)**</b>
October 2013*	200	200	\$ 33
January 2014	50	50	8
June 2014	100	-	-
September 2014	150	20	3
November 2014	-	87	14
December 2014	-	35	6
January 2015†	250	-	-
February 2015†	-	26	4
April 2015	-	82	14
May 2015	-	250	41
June 2015	250	250	41
<b>Total</b>	<b>1,000</b>	<b>1,000</b>	<b>\$ 164</b>

\* Includes initial deposit made to seller

\*\* In US\$ based on current exchange rates

† Updated to reflect delay to payment schedule

For additional information regarding this acquisition agreement, see Note 5 to our consolidated financial statements appearing elsewhere in this report.

We are required to contribute a portion of our employees' total salaries to the Chinese government's social insurance funds, including pension insurance, medical insurance, unemployment insurance, job injuries insurance, and maternity insurance, in accordance with relevant regulations. We expect that the amount of our contribution to the government's social insurance funds will increase in the future as we expand our workforce and operations and commence contributions to an employee housing fund.

The ability of Vogue-Show to pay dividends may be restricted due to the PRC's foreign exchange control policies and our availability of cash. A majority of our revenue being earned and currency received is denominated in RMB. We may be unable to distribute any dividends outside of China due to PRC exchange control regulations that restrict our ability to convert RMB into U.S. Dollars. Accordingly, Vogue-Show's funds may not be readily available to us to satisfy obligations incurred outside the PRC, which could adversely affect our business and prospects or our ability to meet our cash obligations.

When we deem appropriate, we may use our cash on hand to purchase shares of our common stock in the open market. However, the Stock Repurchase Plan authorized in July 2012 providing for the repurchase by us of up to \$10 million of issued and outstanding shares of our common stock in the open market or in privately negotiated transactions at any time and from time to time during the twelve-month period ending July 12, 2013 was never utilized.

#### ***Net cash used in operating activities.***

We generated \$20.3 million of net cash from operating activities for the year ended December 31, 2014, compared to \$7.7 million of net cash for operating activities in 2013. Our operating activities provided more cash in 2014 mainly because our net income increased \$19.0 million from \$28.3 million in 2013 to \$47.3 million in 2014.

*Analysis and Expectations.* Our net cash from operating activities can fluctuate significantly due to changes in our inventories. Other factors that may vary significantly include our accounts payable, purchases of gold and income taxes. Looking forward, we expect the net cash that we generate from operating activities to continue to fluctuate as our inventories, receivables, accounts payables and the other factors described above change with increased production and the purchase of larger or smaller quantities of raw materials. These fluctuations could cause net cash from operating activities to decrease, even if our net income grows as we continue to expand. Although we expect that net cash from operating activities will increase over the long term, we cannot predict how these fluctuations will affect our cash flow in any particular accounting period.

#### ***Net cash used in investing activities.***

We used \$35.8 million of net cash for investing activities for the year ended December 31, 2014, compared to \$32.4 million in 2013.



The increase in net cash used was mainly because of the cash payment we made to finance the construction of the Jewelry Park.

*Analysis and Expectations.* While our net cash used in investing activities did not fluctuate much historically, we expect that cash used in investing activities will continue to fluctuate significantly in the short-term as we continue to invest in the development of the Jewelry Park and make payments pursuant to the terms of our agreement.

**Net cash provided by financing activities.**

Net cash provided by financing activities was \$15.2 million for the year ended December 31, 2014, compared with \$23.3 million for the year ended December 31, 2013. The decrease was mainly due to a cash dividend paid to stockholders, as well as lower overall bank borrowings.

*Analysis and Expectations.* We expect that cash generated from financing activities may increase significantly as a result of additional financing being obtained to meet the needs of expanded production and to make additional payments to finance the planned Jewelry Park project.

**Foreign Currency Translations**

We use the U.S. dollar as the reporting currency for our financial statements. Our operations are conducted through our PRC operating subsidiary, Vogue-Show, and our functional currency is the Renminbi (“RMB”). Foreign currency transactions during the year are translated to the RMB at the approximate rates of exchange on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies on the balance sheet are translated at the approximate rates of exchange at the respective balance sheet date. Non-monetary assets and liabilities are translated at the rates of exchange prevailing at the time that the asset or liability was acquired. Exchange gains or losses are recorded in the statement of operations.

Our financial statements are translated into U.S. dollars using the closing rate method. The balance sheet items are translated into U.S. dollars using the exchange rates at the respective balance sheet dates. The capital and various reserves are translated at historical exchange rates prevailing at the time of the transactions while income and expenses items are translated at the average exchange rate for the year. All gains and losses attributable to foreign currency exchange are recorded within equity.

The exchange rates used to translate amounts in RMB into U.S. dollars for the purposes of preparing the financial statements were as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
Balance sheet items, except for share capital, additional paid in capital and retained earnings, as of year end	\$1=RMB 6.1460	\$1=RMB 6.1122	\$1=RMB 6.3086
Amounts included in the statements of operations and cash flows for the year	\$1=RMB 6.1457	\$1=RMB 6.1943	\$1=RMB 6.3116

Total translation gain recorded for the year ended December 31, 2013 was \$5,820,020. Total translation loss recorded for the year ended December 31, 2014 was \$1,331,032.

No representation is made that RMB amounts have been, or could be, converted into U.S. dollars at the above rates or at all. Although Chinese government regulations now allow convertibility of RMB for current account transactions, significant restrictions still remain. Hence, such translations should not be construed as representations that RMB can be converted into U.S. dollars at the above conversion rate, or any other rate.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. Any significant revaluation of RMB may materially affect our financial condition in terms of U.S. dollar reporting.

## Off-Balance Sheet Arrangements

We currently have guaranteed payment to a non-related third-party of RMB68 million (\$11.1 million) in bank loans. The guarantee terminates in May 2015. See Note 15 to our consolidated financial statements appearing elsewhere in this report.

## Recent Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. This ASU will be effective for periods beginning after December 15, 2015, for public companies. Management is evaluating the potential impact, if any, on our financial position and results of operations.

In January 2015, FASB issued ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This Update is issued as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to the users of financial statements. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities. We do not expect the adoption of ASU 2015-01 to have material impact on our consolidated financial statements.

In November 2014, FASB issued ASU No. 2014-17, Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force). The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments in this ASU are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The adoption of ASU 2014-17 did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contract for the transfer of nonfinancial assets, unless those contracts are with the scope of other standards. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry specific guidance. The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods for services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provides users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flow arising from a reporting organization's contracts with customers. This ASU is effective for fiscal years, and interim periods within those years beginning after December 15, 2016 for public companies and 2017 for non-public entities. Management is evaluating the effect, if any, on our financial position and results of operations.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Foreign Currency Exchange Rate Risk**

Given that substantially all of our revenues are generated in RMB, yet our results are reported in U.S. dollars, devaluation of the RMB could negatively impact our results of operations. The value of RMB is subject to changes in China's governmental policies and to international economic and political developments. In January 1994, the PRC government implemented a unitary managed floating rate system. Under this system, the People's Bank of China, or the PBOC, began publishing a daily base exchange rate with reference primarily to the supply and demand of RMB against the U.S. dollar and other foreign currencies in the market during the previous day. Authorized banks and financial institutions are allowed to quote buy and sell rates for RMB within a specified band around the central bank's daily exchange rate. On July 21, 2005, PBOC announced an adjustment of the exchange rate of the U.S. dollar to RMB from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. Over the past six years, RMB has appreciated 15.7% against the U.S. dollar (from 1 U.S. dollar = 7.2946 RMB on January 1, 2008 to 1 U.S. dollar = 6.1460 RMB on December 31, 2014). While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further fluctuations of the exchange rate of RMB against the U.S. dollar, including possible devaluations. As all of our net revenues are recorded in RMB, any future devaluation of RMB against the U.S. dollar could negatively impact our results of operations.

Along these lines, the income statements of our operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currencies denominated transactions results in reduced revenue, operating expenses and net income for our international operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenue, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to successfully hedge our exchange rate risks.

### **Interest Rate Risk**

Our notes payable to banks for short-term borrowings as of December 31, 2014 and 2013 were approximately \$16.3 million, and \$49.6 million, respectively. Our notes payable to banks for long-term borrowings as of December 31, 2014 and 2013 were approximately \$3.7 million, and \$29.0 million, respectively. Interest expense paid for the years ended December 31, 2014 and 2013 was \$1.8 million and \$1.1 million, respectively.

We currently have no interest rate hedge positions in place to reduce our exposure to interest rates.

### **Commodity Price Risk**

Most of our sales are of products that include gold, precious metals and other commodities, and fluctuations in the availability and pricing of commodities would adversely impact our ability to obtain and make products at favorable prices. The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold, and, to a lesser extent, other precious and semi-precious metals and stones. In the past, we have not hedged our requirement for gold or other raw materials through the use of options, forward contracts or outright commodity purchasing, although we may do so in the future. A significant increase in the price of gold could increase our production costs beyond the amount that we are able to pass on to our customers, which would adversely affect our sales and profitability. A significant disruption in our supply of gold or other commodities could decrease our production and shipping levels, materially increase our operating costs and materially and adversely affect our profit margins. Shortages of gold, or other commodities, or interruptions in transportation systems, labor strikes, work stoppages, war, acts of terrorism, or other interruptions to or difficulties in the employment of labor or transportation in the markets in which we purchase our raw materials, may adversely affect our ability to maintain production of our products and sustain profitability. Although we generally attempt to pass increased commodity prices to our customers, there may be circumstances in which we are not able to do so. In addition, if we were to experience a significant or prolonged shortage of gold, we would be unable to meet our production schedules and to ship products to our customers in a timely manner, which would adversely affect our sales, margins and customer relations. Furthermore, the value of our inventory may be affected by commodity prices. We record the value of our inventory using the weighted average method. As a result, decreases in the market value of precious metals such as gold would result in a lower stated value of our inventory, which may require us to take a charge for the decrease in the value of our inventory.



## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-1
<a href="#">Consolidated Balance Sheets at December 31, 2014 and 2013</a>	F-2
<a href="#">Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2014, and 2013</a>	F-3
<a href="#">Consolidated Statements of Changes in Equity for the years ended December 31, 2014 and 2013</a>	F-4
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013</a>	F-5
<a href="#">Notes to Consolidated Financial Statements</a>	F-6

#### Financial Statement Schedules (Item 15(a)(2))

Financial statement schedules have been omitted because either they are not applicable or the required information is included in the financial statements or the notes thereto.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

In evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Due to the timing of the disclosures regarding the entry into certain material agreements, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (1) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In order to remedy our ineffective disclosure controls and procedures, we intend to implement further new processes and procedures to clarify internal reporting channels to ensure that the information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (1) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## Management's Report on Internal Control Over Financial Reporting

Management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d(f) under the Exchange Act) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States, or GAAP. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, (3) provide reasonable assurance that receipts and expenditures are being made only in accordance with appropriate authorization of management and the board of directors, and (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. Management based the assessment on criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will be prevented or detected on a timely basis.

Based on the assessment, management determined that, as of December 31, 2014, we did not maintain effective internal control over financial reporting due to the existence of the following material weaknesses:

- Lack of appropriate approval procedures for certain material transactions, including guarantees of third-party obligations;
- Lack of resources with technical competency to review and record non-routine or complex transactions; and
- Lack of a full-time U.S. GAAP personnel in the accounting department to monitor the recording of the transactions.

In order to remedy the material weakness of inadequate controls over cash management that we had in 2013, our Board adopted resolutions requiring management to seek Board approval prior to entering into any transactions with a value in excess of \$250,000. Further, we intend to explore implementing additional policies and procedures, which may include:

- Reporting other material transactions to the Board and obtain proper approval; and
- Recruiting qualified professionals with appropriate levels of knowledge and experience to assist in resolving accounting issues in non-routine or complex transactions.

## Changes in Internal Control over Financial Reporting

Except for the actions taken to remedy the material weaknesses described above, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during our fourth fiscal quarter of 2014.

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

- a) Directors of the Registrant.

Information with respect to our Directors is set forth under the heading "Election of Directors" in our Proxy Statement for the 2015 Annual Meeting of Stockholders and is incorporated herein by reference.

- b) Executive Officers of the Registrant.

Information with respect to our executive officers is set forth under the heading "Management" in our Proxy Statement for the 2015 Annual Meeting of Stockholders and is incorporated herein by reference.

- c) Section 16(a) Compliance.

Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is set forth under the heading "Section 16(a) Beneficial Ownership Compliance" in our Proxy Statement for the 2015 Annual Meeting of Stockholders and is incorporated herein by reference.

- d) Identification of the Audit Committee.

Information concerning our audit committee is set forth under the heading "Committee Composition" in our Proxy Statement for the 2015 Annual Meeting of Stockholders and is incorporated herein by reference.

- e) Audit Committee Financial Expert.

Information concerning our audit committee financial expert is set forth under the heading "Committee Composition" in our Proxy Statement for the 2015 Annual Meeting of Stockholders and is incorporated herein by reference.

- f) Corporate Governance/Nominating Committee.

Information concerning any material changes to the way in which security holders may recommend nominees to our Board of Directors is set forth under the heading "Director Nominations" in our Proxy Statement for the 2015 Annual Meeting of Stockholders and is incorporated herein by reference.

- g) Code of Ethics for Chief Executive Officer and Senior Financial Officers.

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. The most recent version is available on the Investor Relations section of our website at [www.kingoldjewelry.com](http://www.kingoldjewelry.com). The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K. If we make any substantive amendments to the code or grant any waiver from a provision of the code to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website, as well as via any other means required by applicable law.

### ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is set forth under the headings "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation" in our Proxy Statement for the 2015 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information regarding security ownership of certain beneficial owners and management appearing under “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information appearing under “Certain Relationships and Related Transactions” and “Corporate Governance” in our Proxy Statement for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information appearing under “Ratification of the Appointment of the Independent Registered Public Accounting Firm” in our Proxy Statement for the 2015 Annual Meeting of Stockholders is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### Financial Statements and Financial Statement Schedules

##### (1) Financial Statements:

Financial statements are shown in the Index to Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

##### (2) Financial Statement Schedules:

Financial statement schedules have been omitted because either they are not applicable or the required information is included in the financial statements or the notes thereto.

##### (3) Exhibits

<b>Exhibit No.</b>	<b>Description</b>
2.1	Reverse Acquisition Agreement, dated September 29, 2009, by and between the Registrant, Baytree Capital Associates, LLC, Wuhan Vogue-Show Jewelry Co., Ltd., Dragon Lead Group Limited and the stockholders of Dragon (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the Commission on October 5, 2009).
3.1	Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 to our Registration Statement filed on Form SB-2 with the Commission on August 13, 1999).
3.2	Amendment to Certificate of Incorporation of Registrant, dated September 29, 1995 (incorporated by reference to Exhibit 3.2 to our Registration Statement filed on Form SB-2 with the Commission on August 13, 1999).
3.3	Amendment to Certificate of Incorporation of Registrant, dated October 12, 1995 (incorporated by reference to Exhibit 3.3 to our Registration Statement filed on Form SB-2 with the Commission on August 13, 1999).
3.4	Amendment to Certificate of Incorporation of Registrant, dated January 21, 1999 (incorporated by reference to Exhibit 3.4 to our Registration Statement filed on Form SB-2 with the Commission on August 13, 1999).
3.5	Amendment to Certificate of Incorporation of Registrant, dated April 7, 2000 (incorporated by reference to Exhibit 3.5 to our Registration Statement filed on Form SB-2/A with the Commission on April 12, 2000).
3.6	Amendment to Certificate of Incorporation of Registrant, dated December 18, 2009 (incorporated by reference to Exhibit 3.6 to our Registration Statement filed on Form S-1 with the Commission on October 1, 2010).
3.7	Amendment to Certificate of Incorporation of Registrant, dated June 8, 2010 (incorporated by reference to Exhibit 3.7 to our Registration Statement filed on Form S-1 with the Commission on October 1, 2010).
3.8	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.1 to our Current Report filed on Form 8-K with the Commission on September 30, 2010).
4.1	Form of Common Stock Certificate of Registrant (incorporated by reference to Exhibit 4.1 to our Registration Statement filed on Form SB-2 with the Commission on August 13, 1999).

- 10.1 Exclusive Management Consulting and Technical Support Agreement, dated June 30, 2009, by and between Vogue-Show and Wuhan Kingold (incorporated by reference to Exhibit 10.6 to our Registration Statement filed on Form S-1 with the Commission on October 29, 2010).
- 10.2 Shareholders' Voting Proxy Agreement, dated June 30, 2009, by and between Vogue-Show and shareholders of Wuhan Kingold (incorporated by reference to Exhibit 10.7 to our Registration Statement filed on Form S-1 with the Commission on October 29, 2010).
- 10.3 Purchase Option Agreement, dated June 30, 2009, by and between Vogue-Show and shareholders of Wuhan Kingold (incorporated by reference to Exhibit 10.8 to our Registration Statement filed on Form S-1 with the Commission on October 8, 2010).
- 10.4 Pledge of Equity Agreement, dated June 30, 2009, by and between Vogue-Show and shareholders of Wuhan Kingold (incorporated by reference to Exhibit 10.9 to our Registration Statement filed on Form S-1 with the Commission on October 29, 2010).
- 10.5 Amended and Restated Call Option Agreement, dated December 17, 2009, by and between Zhihong Jia, Bin Zhao and Fok Wing Lam Winnie (whose Mandarin name is Huo Yong Lin) (incorporated by reference to Exhibit 10.11 to our Registration Statement filed on Form S-1 with the Commission on October 1, 2010).
- 10.6 Lease Agreement (English translation), dated February 1, 2015, by and between Wuhan Kingold and Vogue Show.\*

- 10.7 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.17 to our Registration Statement filed on Form S-1 with the Commission on October 1, 2010).
- 10.8 Employment Agreement, dated November 18, 2010, between Registrant and Zhihong Jia (incorporated by reference to Exhibit 10.18 to our Registration Statement filed on Form S-1 with the Commission on November 18, 2010).\*\*
- 10.9 Supplemental Agreement to Exclusive Management Consulting and Technical Support Agreement, dated October 20, 2011, by and between Vogue-Show and Wuhan Kingold (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed with the Commission on November 9, 2011).\*\*
- 10.10 Shareholders' Voting Proxy Agreement, dated October 20, 2011, by and between Vogue-Show, Registrant and shareholders of Wuhan Kingold (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed with the Commission on November 9, 2011).
- 10.11 Purchase Option Agreement, dated October 20, 2011, by and between Vogue-Show, Registrant, and shareholders of Wuhan Kingold (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed with the Commission on November 9, 2011).
- 10.12 Pledge of Equity Agreement, dated October 20, 2011, by and between Vogue-Show and shareholders of Wuhan Kingold (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed with the Commission on November 9, 2011).
- 10.13 2011 Stock Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on September 29, 2011).\*\*
- 10.14 Form of Nonqualified Stock Option Grant Agreement (incorporated by reference to Exhibit 10.2 to our Current Report filed on Form 8-K with the Commission on November 2, 2011).\*\*
- 10.15 Form of Incentive Stock Option Grant Agreement (incorporated by reference to Exhibit 10.3 to our Current Report filed on Form 8-K with the Commission on November 2, 2011).\*\*
- 10.16 Gold Lease Framework Agreement (English translation), dated January 1, 2013, between Wuhan Kingold Jewelry Company Limited and Shanghai Pudong Development Bank Ltd., Wuhan Branch (incorporated by reference to Exhibit 10.1 to our Current Report filed on Form 8-K with the Commission on March 6, 2013).
- 10.17 Gold Leasing Agreement (English translation), dated January 25, 2013, between Wuhan Kingold Jewelry Company Limited and Shanghai Pudong Development Bank Ltd., Wuhan Branch (incorporated by reference to Exhibit 10.2 to our Current Report filed on Form 8-K with the Commission on March 6, 2013).
- 10.18 Gold Leasing Agreement (English translation), dated February 22, 2013, between Wuhan Kingold Jewelry Company Limited and Shanghai Pudong Development Bank Ltd., Wuhan Branch (incorporated by reference to Exhibit 10.3 to our Current Report filed on Form 8-K with the Commission on March 6, 2013).
- 10.19 Executive Employment Agreement between Kingold Jewelry, Inc. and Bin Liu, dated April 3, 2013 (incorporated by reference to Exhibit 10.1 to our Current Report filed on Form 8-K with the Commission on April 5, 2013).\*\*
- 10.20 Acquisition Agreement (English translation), dated October 23, 2013, among Wuhan Kingold Jewelry Company Limited, Wuhan Wansheng House Purchasing Limited and Wuhan Huayuan Science and Technology Development Limited Company (incorporated by reference to Exhibit 10.1 to our Current Report filed on Form 8-K with the Commission on October 29, 2013).
- 10.21 Notice of Credit Line Changes (English translation), dated August 8, 2013, from China Construction Bank Corporation Wuhan Jiang'an Branch (incorporated by reference to Exhibit 10.2 to our Current Report filed on Form 8-K with the Commission on October 29, 2013).
- 10.22 Working Capital Loan Contract (English translation), dated December 5, 2013, between Wuhan Kingold Jewelry Company Limited and Wuhan Branch China CITIC Bank Corporation Limited (incorporated by reference to Exhibit 10.1 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).
- 10.23 Working Capital Loan Contract (English translation), dated December 5, 2013, between Wuhan Kingold Jewelry Company Limited and Wuhan Branch China CITIC Bank Corporation Limited (incorporated by reference to Exhibit 10.2 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).

- 10.24 Working Capital Loan Contract (English translation), dated December 5, 2013, between Wuhan Kingold Jewelry Company Limited and Wuhan Branch China CITIC Bank Corporation Limited (incorporated by reference to Exhibit 10.3 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).
- 10.25 Working Capital Loan Contract (English translation), dated December 6, 2013, between Wuhan Kingold Jewelry Company Limited and Wuhan Branch China CITIC Bank Corporation Limited (incorporated by reference to Exhibit 10.4 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).
- 10.26 Working Capital Loan Contract (English translation), dated December 6, 2013, between Wuhan Kingold Jewelry Company Limited and Wuhan Branch China CITIC Bank Corporation Limited (incorporated by reference to Exhibit 10.5 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).
- 10.27 Working Capital Loan Contract (English translation), dated December 6, 2013, between Wuhan Kingold Jewelry Company Limited and Wuhan Branch China CITIC Bank Corporation Limited (incorporated by reference to Exhibit 10.6 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).
- 10.28 Loan Contract of Circulating Fund (English translation), dated December 10, 2013, between Wuhan Kingold Jewelry Company Limited and Hubei Bank Co., Ltd. (Jiang'an Wuhan Branch) (incorporated by reference to Exhibit 10.7 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).
- 10.29 Loan Contract of Circulating Fund (English translation), dated December 10, 2013, between Wuhan Kingold Jewelry Company Limited and Industrial Bank Co., Ltd. (Wuhan Branch) (incorporated by reference to Exhibit 10.8 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).
- 10.30 Trust Loan Contract (English translation), dated November 29, 2013, between Wuhan Kingold Jewelry Company Limited and Chang'An International Trust Co., Ltd. (incorporated by reference to Exhibit 10.9 to our Current Report filed on Form 8-K with the Commission on February 20, 2014).
- 10.31 English Translation of Labor Contract, by and between Wuhan Kingold Jewelry Co., Ltd. and Wang Jun effective as of May 1, 2014 (incorporated by reference to Exhibit 10.1 to our Current Report filed on Form 8-K with the Commission on May 5, 2014).\*\*
- 10.32 At Market Issuance Sales Agreement, dated as of November 19, 2014 by and between MLV & Co. LLC and Kingold Jewelry, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report filed on Form 8-K with the Commission on November 19, 2014).
- 10.33 Private Placement Agreement (English translation), dated July 21, 2014, between Wuhan Kingold Jewelry Co., Ltd., Shanghai Pudong Development Bank Co., Ltd and the other institutional investors named therein. (incorporated by reference to Exhibit 10.1 to our Current Report filed on Form 8-K with the Commission on March 4, 2015).
- 10.34 Underwriting Agreement (English translation), dated August 12, 2014, between Wuhan Kingold Jewelry Co., Ltd. and Shanghai Pudong Development Bank Co., Ltd. (incorporated by reference to Exhibit 10.2 to our Current Report filed on Form 8-K with the Commission on March 4, 2015).
- 14.1 Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to our Registration Statement filed on Form S-1 with the Commission on October 29, 2010).
- 21.1 List of Subsidiaries (incorporated by reference to Exhibit 21.1 to our Registration Statement filed on Form S-1 with the Commission on October 1, 2010).

- 23.1 Consent of Friedman, LLP\*
- 31.1 Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

101.INS XBRL Instance Document\*

101.SCH XBRL Taxonomy Extension Schema Document\*

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*

101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*

101.LAB XBRL Taxonomy Extension Label Linkbase Document\*

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*

\* Filed Herewith

\*\* Indicates a management contract or compensatory plan or arrangement

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 31, 2015

Kingold Jewelry, Inc.

By: /s/ Zhihong Jia  
Zhihong Jia  
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Zhihong Jia</u> Zhihong Jia	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 31, 2015
<u>/s/ Bin Liu</u> Bin Liu	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2015
<u>/s/ Jun Wang</u> Jun Wang	Director	March 31, 2015
<u>/s/ Zhonghong Fu</u> Zhonghong Fu	Director	March 31, 2015
<u>/s/ Guang Chen</u> Guang Chen	Director	March 31, 2015
<u>/s/ H. David Sherman</u> H. David Sherman	Director	March 31, 2015



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Stockholders of Kingold Jewelry, Inc.

We have audited the consolidated balance sheets of Kingold Jewelry, Inc. (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2014. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, New York  
March 31, 2015

**KINGOLD JEWELRY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(IN U.S. DOLLARS)**

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,331,658	\$ 2,284,930
Restricted cash	14,793,632	12,668,749
Accounts receivable	503,406	532,386
Inventories	212,396,363	174,433,501
Other current assets and prepaid expenses	57,971	8,252,387
Due from related party	-	52,354,308
Value added tax recoverable	4,501,426	6,220,866
Deferred income tax assets	-	275,882
Total current assets	<u>233,584,456</u>	<u>257,023,009</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>9,390,258</u>	<u>10,686,947</u>
<b>OTHER ASSETS</b>		
Deposit on land use right-Jewelry Park	9,819,687	32,721,442
Construction in progress - Jewelry Park	58,310,818	-
Other assets	157,078	157,946
Land use right	492,027	507,117
Total other assets	<u>68,779,610</u>	<u>33,386,505</u>
<b>TOTAL ASSETS</b>	<u>\$ 311,754,324</u>	<u>\$ 301,096,461</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short term loans	\$ 16,270,745	\$ 49,572,985
Long term loans - current maturities	28,844,777	-
Other payables and accrued expenses	2,970,770	3,499,717
Income tax payable	978,713	3,269,908
Other taxes payable	777,537	848,739
Total current liabilities	<u>49,842,542</u>	<u>57,191,349</u>
Long term loans	<u>3,672,308</u>	<u>29,004,287</u>
<b>TOTAL LIABILITIES</b>	<u>53,514,850</u>	<u>86,195,636</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
Preferred stock, \$0.001 par value, 500,000 shares authorized, none issued or outstanding as of December 31, 2014 and December 31, 2013	-	-
Common stock \$0.001 par value, 100,000,000 shares authorized, 65,963,502 and 64,953,462 shares issued and outstanding as of December 31, 2014 and December 31, 2013	65,963	64,953
Additional paid-in capital	79,460,175	76,847,205
Retained earnings		
Unappropriated	163,002,075	120,946,375
Appropriated	967,543	967,543
Accumulated other comprehensive income	14,743,718	16,074,749
Total stockholders' equity	<u>258,239,474</u>	<u>214,900,825</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 311,754,324</u>	<u>\$ 301,096,461</u>



**KINGOLD JEWELRY, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(IN U.S. DOLLARS)**

	<b>For the years ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>NET SALES</b>	<b>\$ 1,107,558,544</b>	<b>\$ 1,189,915,923</b>
<b>COST OF SALES</b>		
Cost of sales	(1,030,010,474)	(1,141,671,197)
Depreciation	(1,296,583)	(1,277,374)
Total cost of sales	<u>(1,031,307,057)</u>	<u>(1,142,948,571)</u>
<b>GROSS PROFIT</b>	<b>76,251,487</b>	<b>46,967,352</b>
<b>OPERATING EXPENSES</b>		
Selling, general and administrative expenses	7,343,951	4,749,488
Stock compensation expenses	3,149,980	1,532,563
Depreciation	130,074	155,216
Amortization	12,300	12,205
Total operating expenses	<u>10,636,305</u>	<u>6,449,472</u>
<b>INCOME FROM OPERATIONS</b>	<b>65,615,182</b>	<b>40,517,880</b>
<b>OTHER INCOME (EXPENSES)</b>		
Other Income	94,624	-
Interest Income	305,465	56,253
Other Expense	-	(81)
Interest expense	(1,847,240)	(1,051,564)
Total other expenses, net	<u>(1,447,151)</u>	<u>(995,392)</u>
<b>INCOME FROM OPERATIONS BEFORE TAXES</b>	<b>64,168,031</b>	<b>39,522,488</b>
<b>INCOME TAX PROVISION (BENEFIT)</b>		
Current	16,836,054	11,454,787
Deferred	-	(272,225)
Total income tax provision	<u>16,836,054</u>	<u>11,182,562</u>
<b>NET INCOME</b>	<b>\$ 47,331,977</b>	<b>\$ 28,339,926</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Total foreign currency translation gains (loss)	<u>\$ (1,331,031)</u>	<u>\$ 5,820,020</u>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 46,000,946</b>	<b>\$ 34,159,946</b>
Earnings per share		
Basic	<u>\$ 0.72</u>	<u>\$ 0.45</u>
Diluted	<u>\$ 0.72</u>	<u>\$ 0.44</u>
Weighted average number of shares		
Basic	<u>65,918,768</u>	<u>63,495,520</u>
Diluted	<u>66,007,075</u>	<u>63,902,912</u>

The accompanying notes are an integral part of these consolidated financial statements

**KINGOLD JEWELRY, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(IN U.S. DOLLARS)**

	Preferred stock Par value		Common stock Par value		Additional paid-in capital	Unappropriated retained earnings	Appropriated retained earnings	Accumulated other comprehensive gain	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2012	-	\$ -	54,521,140	\$ 54,521	\$ 57,656,674	\$ 92,606,449	\$ 967,543	\$ 10,254,729	161,539,916
Net income for the year	-	-	-	-	-	28,339,926	-	-	28,339,926
Shares issued for subscription agreement	-	-	7,000,000	7,000	12,515,000	-	-	-	12,522,000
Shares issued for services	-	-	810,000	810	1,202,590	-	-	-	1,203,400
Options granted for services	-	-	-	-	875,163	-	-	-	875,163
Shares issued for Warrant exercise	-	-	2,622,322	2,622	4,597,778	-	-	-	4,600,400
Foreign currency translation gain (loss)	-	-	-	-	-	-	-	5,820,020	5,820,020
Balance at December 31, 2013	-	\$ -	64,953,462	\$ 64,953	\$ 76,847,205	\$ 120,946,375	\$ 967,543	\$ 16,074,749	214,900,825
Net income for the year	-	-	-	-	-	47,331,977	-	-	47,331,977
Cash dividend paid	-	-	-	-	-	(5,276,277)	-	-	(5,276,277)
Shares issued for services	-	-	1,000,000	1,000	1,759,000	-	-	-	1,760,000
Options granted for services	-	-	-	-	843,980	-	-	-	843,980
Shares issued for warrant exercise	-	-	10,040	10	9,990	-	-	-	10,000
Foreign currency translation gain (loss)	-	-	-	-	-	-	-	(1,331,031)	(1,331,031)
Balance at December 31, 2014	-	\$ -	65,963,502	\$ 65,963	\$ 79,460,175	\$ 163,002,075	\$ 967,543	\$ 14,743,718	258,239,474

The accompanying notes are an integral part of these consolidated financial statements

**KINGOLD JEWELRY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN U.S. DOLLARS)**

	<b>For the years ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 47,331,977	\$ 28,339,926
Adjusted to reconcile net income to cash provided by operating activities:		
Depreciation	1,426,657	1,432,591
Amortization of intangible assets	12,300	12,205
Share based compensation for services	3,149,980	1,532,563
Inventory valuation allowance	-	1,088,901
Deferred tax provision (benefit)	-	(272,225)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	26,053	180,215
Inventories	(38,924,060)	(20,400,387)
Other current assets and prepaid expenses	8,193,528	(7,566,421)
Deferred offering costs	-	
Value added tax recoverable	1,959,688	1,022,705
Increase (decrease) in:		
Other payables and accrued expenses	(512,197)	1,611,132
Income tax payable	(2,273,323)	591,138
Other taxes payable	(66,538)	165,322
Net cash provided by operating activities	<u>20,324,065</u>	<u>7,737,665</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(190,403)	(78,306)
Proceeds from sale of property and equipment	1,970	-
Cash deposit for land use right-Jewelry Park	-	(32,287,748)
Cash payment in construction in progress-Jewelry Park	(35,590,752)	-
Net cash used in investing activities	<u>(35,779,185)</u>	<u>(32,366,054)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank loans-short term	24,000,521	48,915,939
Repayments of bank loans-short term	(57,031,746)	(6,457,550)
Proceeds from long term loan	3,672,486	28,619,860
Restricted cash	(2,194,663)	(12,500,836)
Proceeds from related party loan	65,082,981	-
Repayments of related party loan	(13,016,596)	(52,354,308)
Cash dividend paid	(5,276,277)	-
Net proceeds from exercise of warrants	10,000	4,600,400
Net proceeds from stock issuance	-	12,522,000
Net cash provided by financing activities	<u>15,246,706</u>	<u>23,345,505</u>
<b>EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>	<u>(744,858)</u>	<u>1,023,700</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(953,272)	(259,184)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,284,930</u>	<u>2,544,114</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,331,658</u>	<u>\$ 2,284,930</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest expense	<u>\$ 14,140,388</u>	<u>\$ 4,444,627</u>
Cash paid for income tax	<u>\$ 18,834,998</u>	<u>\$ 10,863,648</u>



**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION**

Kingold Jewelry, Inc. (“Kingold” or the “Company”) was incorporated in the State of Delaware on September 5, 1995.

Dragon Lead Group Limited (“Dragon Lead”) was incorporated in the British Virgin Islands (“BVI”) on July 1, 2008 as an investment holding company and was 100% controlled by Kingold. Wuhan Vogue-Show Jewelry Co., Limited (“Wuhan Vogue-Show”), which is principally engaged in design and manufacture of gold and platinum ornaments in the People’s Republic of China (“PRC”), was incorporated in the PRC as a wholly-owned foreign enterprise on February 16, 2009, and was 100% owned by Dragon Lead. Wuhan Vogue-Show’s business permit expires on February 16, 2019, and is renewable upon expiration. Wuhan Kingold Jewelry Co., Limited (“Wuhan Kingold”) was incorporated in the PRC on August 2, 2002 as a limited liability company. On October 26, 2007, Wuhan Kingold was restructured as a joint stock company limited by shares and its business activities are the same as those of Wuhan Vogue-Show. Wuhan Kingold’s business permit expires on March 4, 2021 and is renewable upon expiration.

Wuhan Kingold is effectively controlled by Wuhan Vogue-Show through a series of agreements and Amendment Agreements (collectively referred to as the Restructuring Agreements). In accordance with the Agreements and Amendments, shareholders holding 100% of the outstanding equity of Wuhan Kingold were parties to the agreements such that Wuhan Kingold has agreed to pay 100% of its after-tax profits to Wuhan Vogue-Show and shareholders owning 100% of Wuhan Kingold’s shares have pledged and delegated their voting power in Wuhan Kingold to Wuhan Vogue-Show.

These contractual arrangements enable Wuhan Vogue-Show to:

- exercise effective control over Wuhan Kingold;
- receive substantially all of the economic benefits from Wuhan Kingold; and
- have an exclusive option to purchase 100% of the equity interest in Wuhan Kingold, when and to the extent permitted

by PRC law.

Through such arrangements, Wuhan Kingold has become Wuhan Vogue-Show’s contractually controlled affiliate. Kingold is empowered, through its wholly owned subsidiaries Dragon Lead and Wuhan Vogue-Show, with the ability to control and substantially influence Wuhan Kingold’s daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholders’ approval. Kingold is also obligated to absorb a majority of expected losses of Wuhan Kingold, which enables Kingold to receive a majority of expected residual returns from Wuhan Kingold, and because Kingold has the power to direct the activities of Wuhan Kingold that most significantly impact Wuhan Kingold’s economic performance, Kingold, through its wholly-owned subsidiaries, accounts for Wuhan Kingold as its Variable Interest Entity (“VIE”) under ASC 810-10-05-8A. Accordingly, Kingold consolidates Wuhan Kingold’s operating results, assets and liabilities.

Kingold, Dragon Lead, Wuhan Vogue-Show and Wuhan Kingold are hereinafter collectively referred to as “the Company.”

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The accompanying consolidated financial statements include the financial statements of Kingold, Dragon Lead, Wuhan Vogue-Show and Wuhan Kingold. All inter-company balances and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates required to be made by management include, but are not limited to, useful lives of property, plant and equipment, intangible assets, the recoverability of long-lived assets, inventory valuation, allowance for doubtful accounts and share based compensation. Actual results could differ from those estimates.

**Restricted Cash**

As of December 31, 2014, the Company had restricted cash of \$14,793,632 compared to \$12,668,749 as of December 31, 2013. Approximately \$3.0 million was related to the bank loan with China CITIC Bank Corporation Limited ("CITIC Bank") – see Note 6. Approximately \$11.8 million was related to the gold lease deposits with Shanghai Pudong Development Bank ("SPD Bank") and CITIC Bank– see Note 13 – Gold Lease Transactions.

**Accounts Receivable**

The Company generally receives cash payment upon delivery of a product, but may extend unsecured credit to its customers in the ordinary course of business. The Company mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and recorded based on management's assessment of the credit history of the customers and current relationships with them. At December 31, 2014 and 2013, there was no allowance recorded as the Company considers all of the accounts receivable fully collectible.

**Inventories**

Inventories are stated at the lower of cost or market value, cost is calculated on the weighted average basis. As of December 31, 2014 and 2013, respectively, the Company recorded a lower of cost or market adjustment of \$0 and \$1.1 million to adjust the carrying value to market. The cost of inventories comprises all costs of purchases, costs of fixed and variable production overhead and other costs incurred in bringing the inventories to their present location and condition.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Property and equipment**

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for additions, major renewals and betterments are capitalized, and expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis, less estimated residual value, over an asset's estimated useful life. The estimated useful lives used in connection with the preparation of the financial statements are as follows:

	<b>Estimated Useful Life</b>
Buildings	30 years
Plant and machinery	15 years
Motor vehicles	10 years
Office furniture and electronic equipment	5 – 10 years

**Construction-in-Progress**

Construction-in-progress represents property and buildings under construction and consists of construction expenditures, equipment procurement, and other direct costs attributable to the construction. Construction-in-progress is not depreciated. Upon completion and when ready for intended use, construction-in-progress is reclassified to the appropriate category within property, plant and equipment.

**Land Use Right**

Under PRC law, all land in the PRC is owned by the government and cannot be sold to an individual or company. The government grants individuals and companies the right to use parcels of land for specified periods of time. These land use rights are sometimes referred to informally as "ownership." Land use rights are stated at cost less accumulated amortization. Amortization is provided over the respective useful lives, using the straight-line method. Estimated useful life is 50 years, and is determined in connection with the term of the land use right.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Long-lived assets**

Certain assets such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets that are held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated a review of impairment of long-lived assets as of December 31, 2014 and 2013.

**Fair value of financial instruments**

The Company follows the provisions of Accounting Standards Codification (“ASC”) 820, “Fair Value Measurements and Disclosures.” ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs other than quoted prices that are observable for the asset or liability in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect management’s assumptions based on the best available information.

The carrying value of accounts receivable, other current assets and prepaid expenses, short term loans, other payables and accrued expenses approximate their fair values because of the short-term nature of these instruments. The Company determined that the carrying value of the long term loans approximated their fair value by comparing the stated loan interest rate to the rate charged by similar financial institutions.

**Revenue recognition**

Net sales are primarily composed of sales of branded products to wholesale and retail customers, as well as fees generated from customized production. In customized production, a customer supplies the Company with the raw materials and the Company creates products per that customer’s instructions, whereas in branded production the Company generally purchases gold directly and manufactures and markets the products on its own. The Company recognizes revenues under ASC 605 as follows:

*Sales of branded products*

The Company recognizes revenue on sales of branded products when the goods are delivered and title to the goods passes to the customer provided that: there are no uncertainties regarding customer acceptance; persuasive evidence of an arrangement exists; the sales price is fixed and determinable; and collectability is deemed probable.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Customized production fees*

The Company recognizes services-based revenue (the processing fee) from such contracts when: (i) the contracted services have been performed and (ii) collectability is deemed probable. Revenues from customized production services made up approximately 3.26% of total revenue for the year ended December 31, 2014, compared to 2.19% for the year ended December 31, 2013.

**Income taxes**

The Company accounts for income taxes under ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period including the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The provisions of ASC 740-10-25, "Accounting for Uncertainty in Income Taxes," prescribe a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. This interpretation also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and related disclosures. The Company does not believe that there was any uncertain tax position at December 31, 2014 or 2013.

To the extent applicable, the Company records interest and penalties as a general and administrative expense. The statute of limitations for the Company's U.S. federal income tax returns and certain state income tax returns remains open for tax years 2009 and after. As of December 31, 2014, the tax years ended December 31, 2009 through December 31, 2014 for the Company's PRC subsidiaries remain open for statutory examination by PRC tax authorities.

**Foreign currency translation**

Kingold, as well as its wholly owned subsidiary, Dragon Lead, maintain accounting records in United States Dollars ("US\$"), whereas Wuhan Vogue-Show and Wuhan Kingold maintain their accounting records in Renminbi ("RMB"), which is the primary currency of the economic environment in which their operations are conducted.

The Company's principal country of operations is the PRC. The financial position and results of its operations are determined using RMB, the local currency, as the functional currency. The results of operations and the statement of cash flows denominated in foreign currency are translated at the average rate of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange in effect at that date. The equity denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. Because cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as "Accumulated Other Comprehensive Income."

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The value of RMB against US\$ and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. Any significant revaluation of RMB may materially affect the Company's financial condition in terms of US\$ reporting. The following table outlines the currency exchange rates that were used in creating the consolidated financial statements in this report:

	December 31, 2014	December 31, 2013
Balance sheet items, except for share capital, additional paid in capital and retained earnings, as of the period ended	US\$1=RMB 6.1460	US\$1=RMB 6.1122
Amounts included in the statements of operations and cash flows for the period	US\$1=RMB 6.1457	US\$1=RMB 6.1943

**Comprehensive income**

Comprehensive income consists of two components, net income and other comprehensive income. The foreign currency translation gain or loss resulting from translation of the financial statements expressed in RMB to US\$ is reported in other comprehensive income in the consolidated statements of income and comprehensive income and the consolidated statements of changes in equity.

**Earnings per share**

The Company computes earnings per share ("EPS") in accordance with ASC 260 "Earnings per Share", which requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (i.e., options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

**Share or Stock-Based compensation**

The Company follows the provisions of ASC 718, "Compensation — Stock Compensation," which establishes the accounting for non-employee and employee stock-based awards. Under the provisions of ASC 718, the fair value of the stock issued is used to measure the fair value of services received as the Company believes such approach is a more reliable method of measuring the fair value of the services. For the non-employee stock-based awards, the fair value of the awards to non-employees may be measured every reporting period based on the value of the Company's common stock. The fair value of the equity instrument is calculated and then recognized as compensation expense over the requisite performance period.

For employee stock-based awards, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight-line basis over the requisite service period for the entire award.

**Risks and Uncertainties**

The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold, and, to a lesser extent, other precious and semi-precious metals and stones. The Company potentially has exposure to the fluctuation in gold commodity prices as part of its normal operations. In the past, the Company has not hedged its requirement for gold or other raw materials through the use of options, forward contracts or outright commodity purchasing. A significant increase in the price of gold could increase the Company's production costs beyond the amount that it is able to pass on to its customers, which would adversely affect the Company's sales and profitability. A significant disruption in the Company's supply of gold, or other commodities, could decrease its production and shipping levels, materially increase its operating costs, and materially and adversely affect its profit margins. Shortages of gold, or other commodities, or interruptions in transportation systems, labor strikes, work stoppages, war, acts of terrorism, or other interruptions to or difficulties in the employment of labor or transportation in the markets in which the Company purchases its raw materials, may adversely affect its ability to maintain production of its products and sustain profitability. Although the Company generally attempts to pass on increased commodity prices to its customers, there may be circumstances in which it is not able to do so. In addition, if the Company were to experience a significant or prolonged shortage of gold, it would be unable to meet its production schedules and to ship products to its customers in a timely manner, which would adversely affect its sales, margins and customer relations.

Furthermore, the value of the Company's inventory may be affected by commodity prices. The Company records the value of its inventory using the lower of cost or market value, cost calculated on the weighted average method. As a result, decreases in the market value of precious metals such as gold would result in a lower stated value of the Company's inventory, which may require it to take a charge for the decrease in the value of its inventory.

The Company's operations are located in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy. The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment, and foreign currency exchange. The Company's results may be adversely affected by changes in the political, regulatory and social conditions in the PRC, and by changes in governmental policies or interpretations with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things. In addition, the Company only controls Wuhan Kingold through a series of agreements. Although the Company believes the contractual relationships through which it controls Wuhan Kingold comply with current licensing, registration and regulatory requirements of the PRC, it cannot assure you that the PRC government would agree, or that new and burdensome regulations will not be adopted in the future. If the PRC government determines that the Company's structure or operating arrangements do not comply with applicable law, it could revoke the Company's business and operating licenses, require it to discontinue or restrict its operations, restrict its right to collect revenues, require it to restructure its operations, impose additional conditions or requirements with which the Company may not be able to comply, impose restrictions on its business operations or on its customers, or take other regulatory or enforcement actions against the Company that could be harmful to its business. If such agreements were cancelled, modified or otherwise not complied with, the Company would not be able to retain control of this consolidated entity and the impact could be material to the Company's operations. Although the Company has not experienced losses from these situations and believes that it is in compliance with existing laws and regulations, including the organization and structure disclosed in Note 1, this may not be indicative of future results.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Recent Accounting Pronouncements**

In February 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. This ASU will be effective for periods beginning after December 15, 2015, for public companies. Management is evaluating the potential impact, if any, on the Company’s financial position and results of operations.

In January 2015, FASB issued ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This Update is issued as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to the users of financial statements. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities. The Company does not expect the adoption of ASU 2015-01 to have material impact on the Company’s consolidated financial statements.

In November 2014, FASB issued ASU No. 2014-17, Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force). The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity’s most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments in this ASU are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The adoption of ASU 2014-17 did not have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contract for the transfer of nonfinancial assets, unless those contracts are with the scope of other standards. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry specific guidance. The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods for services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provides users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flow arising from a reporting organization’s contracts with customers. This ASU is effective for fiscal years, and interim periods within those years beginning after December 15, 2016 for public companies and 2017 for non-public entities. Management is evaluating the effect, if any, on the Company’s financial position and results of operations.

**Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation. Interest expense related to the cost of gold for the gold lease transactions in the amount of \$4,360,248 was reclassified to cost of sales from interest expense for the year ended December 31, 2013, respectively (see Note 13). This reclassification has no effect on the accompanying consolidated statements of operations and cash flows.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - INVENTORIES, NET**

Inventories as of December 31, 2014 and December 31, 2013 consisted of the following:

	As of	
	December 31, 2014	December 31, 2013
Raw materials (A)	\$ 51,502,635	\$ 42,882,587
Work-in-progress (B)	120,098,299	97,503,987
Finished goods (C)	40,795,429	35,150,454
Inventory valuation allowance	-	(1,103,527)
<b>Total inventory</b>	<b>\$ 212,396,363</b>	<b>\$ 174,433,501</b>

- (A) Included 1,546,435 grams of Au9999 gold in 2014 and 1,234,276 grams of Au9999 gold in 2013.
- (B) Included 3,530,919 grams of Au9999 gold in 2014 and 2,791,507 grams of Au9999 gold in 2013.
- (C) Included 1,183,407 grams of Au9999 gold in 2014 and 1,020,222 grams of Au9999 gold in 2013.

As of December 31, 2014, the Company did not record any lower of cost or market adjustment compared to the adjustment of \$1,103,527 as of December 31, 2013.

**NOTE 4 - PROPERTY AND EQUIPMENT, NET**

The following is a summary of property and equipment as of December 31, 2014 and December 31, 2013:

	As of	
	December 31, 2014	December 31, 2013
Buildings	\$ 2,496,012	\$ 2,509,815
Plant and machinery	19,502,409	19,444,059
Motor vehicles	37,097	71,906
Office and electric equipment	652,268	630,626
Subtotal	22,687,786	22,656,406
Less: accumulated depreciation	(13,297,528)	(11,969,459)
<b>Property and equipment, net</b>	<b>\$ 9,390,258</b>	<b>\$ 10,686,947</b>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$1,426,657 and \$1,432,591, respectively.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 – DEPOSIT ON LAND USE RIGHT AND CONSTRUCTION IN PROGRESS**

On October 23, 2013, the Company, through its wholly-owned subsidiary, Wuhan Kingold, entered into an agreement (the “Agreement”) with Wuhan Wansheng House Purchasing Limited (“Wuhan Wansheng”) and Wuhan Huayuan Science and Technology Development Limited Company (“Wuhan Huayuan”). The Agreement provides for the build out of the planned “Shanghai Creative Industry Park Project,” which is proposed to be renamed to “Kingold Jewelry Cultural Industry Park” (the “Jewelry Park Project” or the “Project”). Pursuant to the Agreement, Wuhan Kingold will acquire the land use rights for a parcel of land (the “Land”) in Wuhan for a total of 66,667 square meters (approximately 717,598 square feet, or 16.5 acres) (the “Land Use Right”), which has been approved for real estate development use. Wuhan Kingold has committed to provide a total sum of RMB1.0 billion (approximately US\$164 million) for the acquisition of this Land Use Right and to finance the entire development and construction of a total of 192,149 square meters (approximately 2,068,000 square feet) of commercial properties, which are proposed to include a commercial wholesale center for various jewelry manufacturers, two commercial office buildings, a commercial residence of condominiums as well as a five-star hotel.

As of December 31, 2014, Wuhan Kingold had made RMB391.5 million (approximately US\$63.7 million) payments toward the construction of the Jewelry City Project. Of the RMB391.5 million, RMB 60.4 million (approximately US\$9.82 million) was for the deposit on the Land Use Right, which represents the total cost of the Land Use Right. Wuhan Kingold is also required to make the construction payments to finance the entire construction project, as estimated based on certain construction project milestones listed below. Wuhan Kingold recorded RMB 358.3 million (approximately US\$58.4 million) as Construction in Progress which included total payment made plus capitalized interest of RMB27.2 million (approximately US\$4.3 million) on the long-term bank loan. Due to a delay by the construction company in charge of the Project’s construction (the “Construction Company”), the Company has delayed its payments to the construction company by five to six months. However, this delay is not expected to impact the total expected cost of RMB1.0 billion (approximately US\$164 million).

Upon the completion of the whole project in accordance with the specific requirements agreed upon by both signing parties, Wuhan Kingold will have 100% ownership of the properties situated on the land and intends to either sell or lease various properties. The following table identifies the original payment milestones as well as the new payment milestones, which have been revised to reflect the delays with construction progress associated with those milestones. The Company will continue to evaluate the milestone payment commitments in relation to actual progress and completion and will revise as deemed necessary.

Date	Original Payment Commitment (RMB in millions)	Revised Payment Commitment (RMB in millions)	Payment Commitment (US\$ in millions)**
October 2013*	200	200	\$ 33
January 2014	50	50	8
June 2014	100	-	-
September 2014	150	20	3
November 2014	-	87	14
December 2014	-	35	6
January 2015†	250	-	-
February 2015†	-	26	4
April 2015	-	82	14
May 2015	-	250	41
June 2015	250	250	41
<b>Total</b>	<b>1,000</b>	<b>1,000</b>	<b>\$ 164</b>

\* Includes initial deposit made to seller

\*\* In US\$ based on current exchange rates

† Updated to reflect delay to payment schedule

Because the Land Use Right will not be transferred to Wuhan Kingold until the completion of the entire project, the payments of RMB 331.1 million made plus capitalized interest of RMB27.2 million as of December 31, 2014 were recorded as “Construction-in-Progress” on the balance sheet until the Project is completed and certified for use. Upon the completion of the Project, the excess of RMB1.0 billion commitment over the actual amount spent on the construction of the Project shall be deemed as the actual cost of the Land Use Right. As of December 31, 2014, the payments of RMB 60.4 million made as of December 31, 2014 were recorded as “Deposit on Land Use Right”.



**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - LOANS**

Short term loans consist of the following:

	As of	
	December 31, 2014	December 31, 2013
a) Loan payable to Xing Ye Bank Wuhan Branch	\$ -	\$ 7,853,146
b) Loans payable to CITIC Bank Wuhan Branch	-	17,996,793
c) Loans payable to CITIC Bank Wuhan Branch	13,016,596	15,542,685
d) Loan payable to Jiang'an Wuhan Branch of Hubei Bank Co	3,254,149	8,180,361
e) Loans payable to CITIC Bank Wuhan Branch	-	-
<b>Total short term loans</b>	<b>\$ 16,270,745</b>	<b>49,572,985</b>

a) Loan payable to Xing Ye Bank Wuhan Branch with an aggregate amount of RMB48 million (equivalent to approximately US\$7.8 million) consists of one Loan Contract signed on December 10, 2013, with a maturity date of April 17, 2014, and has an annual interest rate of 6.6%. This loan is guaranteed by the Company's Chairman and Chief Executive Officer's personal credit. The loan was repaid on April 17, 2014.

b) Loans payable to CITIC Bank Wuhan Branch with an aggregate amount of RMB110 million (equivalent to approximately US\$18.1 million) consists of three working capital loan contracts originated on December 5, 2013, with maturity dates of March 1, 2014, March 5, 2014, and March 20, 2014, respectively. The annual interest rate is 6.6%. All the loans from CITIC Bank Wuhan Branch were secured by restricted cash of RMB22 million (equivalent to approximately US\$3.6 million). The Loans were paid off by their due dates and restricted cash of RMB16 million (equivalent to approximately US\$2.6 million) was released as of March 31, 2014. The remaining restricted cash of RMB6 million (equivalent to approximately US\$1 million) was released in April, 2014.

c) Loans payable to CITIC Bank Wuhan Branch with an aggregate amount of RMB95 million (equivalent to approximately US\$15.4 million) consists of three working capital loan contracts signed on December 6, 2013 with maturity dates of April 11, 2014, April 18, 2014 and May 8, 2014, respectively. The annual interest rate is 6.9%. All loans from CITIC Bank Wuhan Branch were secured by restricted cash of RMB23 million (equivalent to approximately US\$3.8 million). The loans were repaid. New loans payable to CITIC Bank Wuhan Branch with an aggregate amount of RMB80 million (equivalent to approximately US\$13.0 million) consists of three working capital loan contracts originated on April 17, 2014, May 6, 2014 and May 29, 2014, with maturity dates of April 17, 2015, May 6, 2015 and May 29, 2015, respectively. The annual interest rate is 6.9%, 7.2% and 7.2%, respectively. All the loans from CITIC Bank Wuhan Branch were secured by restricted cash of RMB18 million (equivalent to approximately US\$3 million). The loan is also secured by 160 kilograms of Au9999 gold, approximately \$6.3 million of which was pledged by Wuhan Kingold as at December 31, 2014.

d) Loan payable to Bank of Hubei, Wuhan Jiang'an Branch with an aggregate amount of RMB50 million (equivalent to approximately US\$8.1 million) consists of one Loan Contract signed on December 10, 2013 with a maturity date of April 18, 2014. The annual interest rate is 6.6%. This loan is guaranteed by the Company's Chairman and Chief Executive Officer's personal credit. This loan was repaid in full on April 18, 2014. New loans payable to Bank of Hubei, Wuhan Jiang'an Branch with an aggregate amount of RMB20 million (equivalent to approximately US\$3.3 million) originated on August 26, 2014, with a maturity date of August 26, 2015. The annual interest rate is 6.6%. This loan is secured by the Company's building and land use rights.

e) Loan payable to CITIC Bank Wuhan Branch with an aggregate amount of RMB47.5 million (equivalent to approximately US\$7.7 million) consists of one working capital loan signed on March 18, 2014 with a maturity date of September 18, 2014 was repaid. The annual interest rate is 6.9%. The restricted cash of RMB50 million (equivalent to approximately US\$8 million) was released after repayment.

Interest expense for the above mentioned loans amounted to \$1,847,240 and \$1,051,564 for the years ended December 31, 2014 and 2013, respectively.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Long term loans consists of the following:

	As of	
	December 31, 2014	December 31, 2013
f) Loan payable to Chang'an International Trust Co., Ltd.	\$ 32,517,085	\$ 29,004,287
Less current maturities	(28,844,777)	-
<b>Total long term loans</b>	<b>\$ 3,672,308</b>	<b>\$ 29,004,287</b>

f) On November 29, 2013, Wuhan Kingold entered into a Trust Loan Contract in the amount of RMB200 million (equivalent to approximately US\$32.5 million as of the spot rate on December 31, 2014) with Chang'an International Trust Co., Ltd. (the "Trust Loan") in order to undertake the aforementioned acquisition of the Jewelry Park Project (see Note 5). The Trust Loan was approved on December 3, 2013. The loan has a 24-month term, and bears interest at a fixed rate of 13.5% per annum. The loan is secured by 1,000 kilograms of Au9999 gold, which approximately \$39.2 million as at December 31, 2014 was pledged by Wuhan Kingold. Interest for the Trust Loan in the amount of \$4.4 million for the year ended December 31, 2014 was capitalized into construction in progress and was not recorded as part of total interest expenses.

**NOTE 7 - INCOME TAXES**

The Company is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which each entity is domiciled.

Kingold is incorporated in the United States and has incurred net operating loss for income tax purposes for 2014 and 2013. The Company has loss carry forwards of approximately \$13,917,000 for U.S. income tax purposes available for offsetting against future taxable U.S. income, expiring in 2034. Management believes that the realization of the benefits from these losses is uncertain due to its history of continuing losses in the United States. Accordingly, a full deferred tax asset valuation allowance has been provided and no deferred tax asset benefit has been recorded. The valuation allowance as of December 31, 2014 was approximately \$4,732,000. The net increase in the valuation allowance for the years ended December 31, 2014 was approximately \$1,650,000.

Dragon Lead is incorporated in the BVI, and under current laws of the BVI, income earned is not subject to income tax.

Wuhan Vogue-Show and Wuhan Kingold are incorporated in the PRC and are subject to PRC income tax, which is computed according to the relevant laws and regulations in the PRC. The applicable tax rate is 25% for the years ended December 31, 2014 and 2013.

The Company recorded \$0 deferred income tax assets as of December 31, 2014 compared to \$0.275 million as of December 31, 2013, from its foreign operations, which was related to an inventory allowance reflecting the decline in gold prices.

The Company intends to reinvest its foreign profits indefinitely in order to avoid a tax liability upon repatriation to the United States. Since the U.S. holding company does not have any earnings and profits, and distribution made in 2014 was deemed as a return of capital for U.S. income tax purpose.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Significant components of the income tax provision were as follows for the years ended December 31, 2014 and 2013:

	For the years Ended December 31,	
	2014	2013
<b>Current tax provision</b>		
Federal	\$ -	\$ -
State	-	-
Foreign	16,836,054	11,454,787
	<u>16,836,054</u>	<u>11,454,787</u>
<b>Deferred tax provision (benefit)</b>		
Federal	\$ -	\$ -
State	-	-
Foreign	-	(272,225)
	<u>-</u>	<u>(272,225)</u>
<b>Income tax provision</b>	<u>\$ 16,836,054</u>	<u>\$ 11,182,562</u>

Income (loss) from continuing operations before income taxes was allocated between the U.S. and foreign components for for the years ended December 31, 2014 and 2013:

	For the years Ended December 31,	
	2014	2013
<b>United States</b>	<b>\$ (4,853,346)</b>	<b>\$ (2,669,344)</b>
<b>Foreign</b>	<b>69,021,377</b>	<b>42,191,832</b>
	<u>64,168,031</u>	<u>39,522,488</u>

The following table reconciles the U.S. statutory rates to the Company's effective rate for the years ended December 31, 2014 and 2013:

	For the years ended December 31,	
	2014	2013
US statutory rate	34%	34%
Foreign income not recognized in U.S.A.	(34)%	(34)%
China income tax	25%	25%
US loss not subject to PRC tax	1.9%	1.7%
Miscellanies and non-deductable expense	(0.7)%	1.6%
Effective tax rate	<u>26.2%</u>	<u>28.3%</u>

**NOTE 8 - EARNINGS PER SHARE**

As of December 31, 2014, Kingold had 294,000 warrants issued and outstanding in connection with the issuance of its common stock in public offerings. Of these warrants: 150,000 warrants were issued in 2011, with an exercise price of \$3.25, and will expire on January 13, 2016; and 144,000 warrants were issued in 2011, with an exercise price of \$3.99, and will expire on January 13, 2016. As of December 31, 2014, the warrants issued in 2011 were anti-dilutive because the exercise prices were higher than the average market price for the year ended December 31, 2014. Accordingly, such warrants are not included in weighted average shares calculation.

As of December 31, 2014, Kingold also had 3,130,000 options outstanding to purchase the same number of shares of the Company's common stock. Of those options, 120,000 options were granted in 2011, with an exercise price of \$2.27, and will expire on October 31, 2021; 1,500,000 options were granted in 2011, with an exercise price of \$2.59, and will expire on October 31, 2021; 1,300,000 options were granted in 2012, with an exercise price of \$1.22, and will expire on January 9, 2022; 120,000 options were granted in 2012, with an exercise price of \$1.49, and will expire on April 1, 2022; and 90,000 options were granted in 2013, with an exercise price of \$1.18, and will expire on July 16, 2023. As of December 31, 2014, 1,300,000 options granted in 2012 and 90,000 options granted in 2013 were considered dilutive and were included in the weighted average shares-diluted calculation using the treasury stock method. The other options granted were anti-dilutive because the exercise prices were higher than the average market price for

the year ended December 31, 2014. Accordingly, they are not included in weighted average shares calculation.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table presents a reconciliation of basic and diluted net income per share:

	For the years Ended December 31,	
	2014	2013
Net income	\$ 47,331,977	\$ 28,339,926
Weighted average number of common shares outstanding - Basic	65,918,768	63,495,520
Effect of dilutive securities:		
Unexercised warrants and options	88,307	407,392
Weighted average number of common shares outstanding - Diluted	66,007,075	63,902,912
Earnings per share-Basic	\$ 0.72	\$ 0.45
Earnings per share-Diluted	\$ 0.72	\$ 0.44

**NOTE 9 - EQUITY**

On October 25, 2013, 400,000 shares were issued to Financial Buzz Media Networks LLC. \$546,000 and \$182,000 stock compensation expense was recognized in connection with this transaction for the years ended December 31, 2014 and 2013, respectively.

On January 10, 2014, the Company entered into a consulting agreement with Sailesh C. Barchha (the "Consulting Agreement") to assist the Company in expanding into the international market. Pursuant to the terms of the Consulting Agreement, the Company has entered into a joint venture agreement with Kuwait Support Services Company W.L.L., or KSS, a major multi-business group headed by His Excellency Sheikh Ameer Al Sabah of Kuwait. In connection with such joint venture with KSS, Mr. Barchha will provide certain management consulting and financial advisory services to the Company over a two year term from January 10, 2014 to January 9, 2016. In exchange for such services, the Company has issued to Mr. Barchha an aggregate of 1,000,000 shares of common stock of the Company on January 14, 2014. The fair value of this common stock compensation is based on the closing stock price on the date at which the 1,000,000 shares were granted. \$1,760,000 of stock compensation expense was recognized for the year ended December 31, 2014, of which \$660,000 of stock compensation expense was recognized for the year of 2014. The Company wrote off \$1,100,000 of prepaid expenses as stock compensation expense recorded as of December 31, 2014, because the consulting service was completed in 2014. There was not much activities in this joint venture arrangement in 2014.

On June 17, 2014, the Company issued a press release announcing that the Board of Directors of the Company approved a special cash dividend of US\$0.08 per share of common stock. The total amount of approximately US\$5.3 million cash dividend was paid in August 2014.

For the year ended December 31, 2014, the Company issued 10,040 shares for the exercise of the warrants (see Note 10 — Warrants).

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 - WARRANTS**

Following is a summary of the status of warrant activities as of December 31, 2014:

	<u>Warrants Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Average Remaining Life in Years</u>
Outstanding, January 1, 2014	1,417,778	\$ 1.74	0.86
Granted			
Forfeited	(1,113,738)	\$ 1.21	
Exercised	(10,040)	\$ 0.996	
Outstanding, December 31, 2014	<u>294,000</u>	\$ 3.61	0.63

**NOTE 11 - OPTIONS**

On March 24, 2011, the Board of Directors voted to adopt the 2011 Stock Incentive Plan (the "Plan"), which was later ratified by the Company's stockholders on October 31, 2011, at the 2011 annual meeting.

The Plan permits the granting of stock options (including incentive stock options as well as nonstatutory stock options), stock appreciation rights, restricted and unrestricted stock awards, restricted stock units, performance awards, other stock-based awards or any combination of the foregoing. Under the terms of the Plan, up to 5,000,000 shares of the Company's common stock may be granted.

For options issued prior to January 1, 2012, the compensation expense of \$441,754 and \$441,754 were recorded as part of operating expense-stock compensation for the 1,620,000 options above for the years ended December 31, 2014 and 2013, respectively.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On January 9, 2012, the Company granted 1,300,000 options with an exercise price of \$1.22 to certain members of management and directors. These options can be exercised within ten years from the grant date once they become exercisable. The options become exercisable in accordance with the schedule below: (a) 25% of the options become exercisable on the first anniversary of the grant date (such date is the initial vesting date), and (b) 6.25% of the options become exercisable on the date three months after the initial vesting date and on such date every third month thereafter, through the fourth anniversary of the grant date. The fair value of the options was calculated using the Black-Scholes options pricing model using the following assumptions: volatility of 124.81%, risk free interest rate of 1.98 %, and expected term of 10 years. The fair value of the options was \$1,516,435. In accordance with the vesting periods, \$379,109 and \$379,109 were recorded as part of operating expense-stock compensation for the 1,300,000 options above for the years ended December 31, 2014 and 2013, respectively.

On April 1, 2012, the Company granted 120,000 options with an exercise price of \$1.49 to its Chief Financial Officer (“CFO”) per his employment agreement. These options can be exercised within ten years from the grant date once they become exercisable. The options become exercisable every three months starting from grant date for the one year service period from April 1, 2012. The fair value of the options was calculated using the Black-Scholes options pricing model using the following assumptions: volatility of 124.50%, risk free interest rate of 2.23%, and expected term of 10 years. The fair value of the options was \$170,967. Since the service period from April 1, 2012 to April 1, 2013, \$0 and \$42,742 were recorded as part of operating expense-stock compensation for the 120,000 options above for the years ended December 31, 2014 and 2013, respectively.

On April 3, 2013, the Compensation Committee of the Company’s Board of Directors approved a grant to the Company’s CFO of 360,000 shares of common stock. The Company recorded a total of \$475,400 as share-based compensation for the year ended December 31, 2013.

On July 16, 2013, the Company granted 90,000 options with an exercise price of \$1.18 to its non-employee directors, which options expire ten years from the grant date under the Plan. These options became exercisable in accordance with the following schedule: (a) 25% of the options became exercisable on the first anniversary of the grant date (the “Initial Vesting Date”), and (b) 6.25% of the options became exercisable on the date three months after the Initial Vesting Date and on such date every third month thereafter, through the fourth anniversary of the grant date. The fair value of the options was calculated using the Black-Scholes options pricing model using the following assumptions: volatility of 118.01%, risk free interest rate of 2.55%, and expected term of 6.25 years. The fair value of the options was \$92,458. In accordance with the vesting periods, \$23,117 and \$11,557 were recorded as part of operating expense-stock compensation for the 90,000 options above for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, the Company had 2,570,000 outstanding vested stock options with a weighted average remaining term over 6.58 years. As of December 31, 2014, the Company had 560,000 unvested stock options with a weighted average remaining term over 6.66 years. Unrecorded stock-based compensation expense was \$547,331 as of December 31, 2014.

The following table summarizes the Company’s stock option activity:

	<b>Number of options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life in Years</b>	<b>Fair Value</b>
Outstanding, December 31, 2013	3,130,000	\$ 1.93	7.66	3,727,830
Exercisable, December 31, 2013	1,849,375	\$ 2.08	7.78	2,230,185
Granted				
Forfeited				
Exercised				
Outstanding, December 31, 2014	3,130,000	\$ 1.93	6.66	3,727,830
Exercisable, December 31, 2014	2,570,000	\$ 2.03	6.58	3,079,941

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 - CONCENTRATIONS AND RISKS**

The Company maintains certain bank accounts in the PRC and BVI, which are not insured by Federal Deposit Insurance Corporation ("FDIC") insurance or other insurance. The cash and restricted cash balance held in the PRC bank accounts was \$16,052,999 and \$14,660,013 as of December 31, 2014 and December 31, 2013, respectively. The cash balance held in the BVI bank accounts was \$7,774 and \$9,847 as of December 31, 2014 and December 31, 2013, respectively. As of December 31, 2014 and December 31, 2013, the Company held \$61,986 and \$274,016 of cash balances within the United States, of which \$0 and \$24,016 was in excess of FDIC insurance limits of \$250,000 as of December 31, 2014 and December 31, 2013, respectively.

For the years ended December 31, 2014 and 2013, almost 100% of the Company's assets were located in the PRC and 100% of the Company's revenues were derived from its subsidiaries located in the PRC.

The Company's principal raw material used during the year was gold, which accounted for almost 100% of its total purchases for the years ended December 31, 2014 and 2013. The Company purchased gold directly, and solely, from the Shanghai Gold Exchange, the largest gold trading platform in the PRC.

No customer accounted for more than 10% of annual sales for the years ended December 31, 2014 or 2013.

**NOTE 13 - GOLD LEASE TRANSACTIONS**

1) Gold lease transactions with China Construction Bank's Wuhan Jiang'an Branch ("CCB")

On December 20, 2012, Wuhan Kingold entered into a gold lease agreement with China Construction Bank's Wuhan Jiang'an Branch ("CCB") that became effective in January 2013, originally terminated on October 26, 2013 and extended to September 25, 2015 (the "Gold Lease Agreement"). Gold leased under the Gold Lease Agreement bears interest at a rate of approximately 6% per annum and is calculated based on the actual weight of gold leased (in grams), the price of gold (yuan/gram) at the time of delivery, and number of days the gold was leased. The Company leased 676 kilograms of gold (valued at approximately RMB226 million or US\$36 million) from CCB in January 2013. At the end of the lease, the Company will need to return 676 kilograms of gold to CCB. Wuhan Kingold received notification from CCB that the total credit line under the Gold Lease Agreement was increased in August 2013 to RMB400 million (approximately US\$65.4 million), an increase of RMB150 million from the original credit line of RMB250 million. In September 2014, the credit line was extended to another 12 months. Wuhan Kingold used the increased credit line to lease roughly 575 kilograms of additional gold in the third quarter of 2013. In the third quarter of 2014, the Company returned 575 kilograms of gold to CCB. On December 18, 2013 and January 13, 2014 the Company returned 430 and 246 kilograms of gold to CCB, respectively. On January 14, 2014 and February 12, 2014, the Company leased additional 570 and 310 kilograms of gold, respectively, with aggregate market value of RMB218 million (approximately US\$35.7 million). On January 14, 2015 and February 12, 2015, respectively, the Company extended the lease to another 12 months. On September 19, 2014 and September 25, 2014, the Company leased an additional 235 and 300 kilograms of gold, respectively, with aggregate market value of RMB129 million (approximately US\$21.1 million), based on the Gold Lease Agreement. On December 29, 2014, the Company leased an additional 100,000 kilograms of gold, with aggregate market value of RMB24 million (approximately US\$4 million), based on the Gold Lease Agreement.

At December 31, 2014, 1,515,000 grams of leased gold were outstanding and not yet returned to the Bank which is due in various months through out of 2015.

2) Gold lease transactions with SPD Bank

On January 1, 2013, Wuhan Kingold entered into a gold lease framework agreement (the "Framework Agreement") with SPD Bank. In February 2013, Wuhan Kingold leased an aggregate of 530 kilograms of gold with a market price of approximately RMB176 million (US\$28.1 million) from SPD Bank pursuant to separate lease agreements entered into under the Framework Agreement. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB15.8 million (approximately US\$2.5 million) and pledge the amount to SPD Bank. The leases each have an initial term of approximately 12 months, and provide for an interest rate of 6% per annum. Lease payments to SPD are due quarterly beginning in March 2013, and are calculated based on the stated annual rate of 6%, the actual weight of gold leased (in grams), the fair market price of gold at the time of delivery, and the actual number of days the gold was leased. At the end of the leases in February 2014, the Company returned 530 kilograms of gold to SPD Bank.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On July 25, 2013, Wuhan Kingold borrowed an aggregate of 100 kilograms of gold with a market price of approximately RMB26.8 million (approximately US\$4.4 million). This gold lease agreement has an initial term of approximately 6 months with a lease rate of 6% per annum. Wuhan Kingold secured its obligation to pay rent (and return the leased gold to SPD Bank at the end of the lease term) by depositing cash into an account at SPD Bank equal to approximately RMB2.4 million (approximately US\$391,000) and pledging the account to SPD Bank. On January 24, 2014, the Company extended the lease period to an additional 12 months when the lease expired. Wuhan Kingold is required to deposit cash into an account at SPD Bank equal to approximately RMB4.4 million (approximately US\$713,915). On July 10, 2014, the Company returned 100 kilograms of gold to SPD Bank and entered a new lease agreement to borrow 310 kilograms of gold with an aggregate market value of RMB81.4 million (approximately US\$13.2 million). This gold lease agreement has an initial term of approximately 12 months with a lease rate of 6% per annum.

On December 16, 2013, Wuhan Kingold leased an aggregate of 120 kilograms of gold with a market price of approximately RMB29.7 million (US\$4.9 million) from SPD Bank pursuant to separate lease agreements entered into under the Framework Agreement. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB3 million (US\$486,760) and pledge the amount to SPD Bank. This gold lease agreement has an initial term of approximately 12 months with a lease rate of 6% per annum. At the end of the leases, the Company returned 120 kilograms of gold to SPD Bank.

On January 2, 2014, Wuhan Kingold entered into a gold lease agreement with SPD Bank and leased an aggregate of 85 kilograms of gold with a market price of approximately RMB20.5 million (US\$3.3 million). The lease has an initial term of approximately 12 months, and provides for an interest rate of 7.5% per annum. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB2 million (approximately US\$324,507) and pledge the amount to SPD Bank. Lease payments to SPD are due quarterly beginning in March 2014, and are calculated based on the stated annual rate of 7.5%, the actual weight of gold leased (in grams), the fair market price of gold at the time of delivery, and the actual number of days the gold was leased. At the end of the lease, the Company returned 85 kilograms of gold to SPD Bank.

On January 10, 2014, Wuhan Kingold entered into a gold lease agreement with SPD Bank and leased an aggregate of 210 kilograms of gold with a market price of approximately RMB51.0 million (US\$8.3 million). The lease has an initial term of approximately 6 months, and provides for an interest rate of 7% per annum. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB11.4 million (approximately US\$1.9 million) and pledge the amount to SPD Bank. Lease payments to SPD are due quarterly beginning in March 2014, and are calculated based on the stated annual rate of 7%, the actual weight of gold leased (in grams), the fair market price of gold at the time of delivery, and the actual number of days the gold was leased. At the end of the lease in July 2014, the Company returned 210 kilograms of gold to SPD Bank.

On February 12, 2014, Wuhan Kingold entered into a gold lease framework agreement (the "Framework Agreement") with SPD Bank. In February 2014, Wuhan Kingold leased an aggregate of 320 kilograms of gold with a market price of approximately RMB81.7 million (US\$13.4 million) from SPD Bank pursuant to separate lease agreements entered into under the Framework Agreement. The lease has an initial term of approximately 4 months, and provides for an interest rate of 6% per annum. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB20.4 million (approximately US\$3.3 million). Lease payments to SPD are due quarterly beginning in March 2014, and are calculated based on the stated annual rate of 6%, the actual weight of gold leased (in grams), the fair market price of gold at the time of delivery, and the actual number of days the gold was leased. At the end of the lease, the Company returned the 320 kilograms of gold to SPD Bank. On June 27, 2014, Wuhan Kingold leased another aggregate of 320 kilograms of gold with a market price of approximately RMB84.4 million (US\$13.7 million) from SPD Bank pursuant to separate lease agreements entered into under the Framework Agreement. The lease has an initial term of approximately 12 months, and provides for an interest rate of 6% per annum. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB15.4 million (approximately US\$2.5 million).

On July 18, 2014, the Company leased an additional 310 kilograms of gold (valued at approximately RMB81.4 million or approximately US\$13.2 million) from Shanghai Pudong Development Bank. The lease has an initial term of approximately 12 months and provides for an interest rate of 6% per annum.

On October 22, 2014, the Company leased an additional 80 kilograms of gold (valued at approximately RMB19.8 million or approximately US\$3.2 million) from Shanghai Pudong Development Bank. The lease has an initial term of approximately 12 months and provides for an interest rate of 6% per annum. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB15.8 million (approximately US\$2.6 million) for the two leases signed in July and October, 2014.

On December 17, 2014 the Company leased an additional 120 kilograms of gold (valued at approximately RMB28.7 million or approximately US\$4.7 million) from Shanghai Pudong Development Bank. The lease has an initial term of approximately 12 months and provides for an interest rate of 6% per annum. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB3.0 million (approximately US\$0.5 million).

On December 18, 2014 the Company leased an additional 85 kilograms of gold (valued at approximately RMB 20.3 million or approximately US\$3.3 million) from Shanghai Pudong Development Bank. The lease has an initial term of approximately 12 months and provides for an interest rate of 6% per annum. The Company is required to deposit cash into an account at SPD Bank equal to approximately RMB2.0 million (approximately US\$0.3 million).

At December 31, 2014, 915,000 grams of leased gold were outstanding and not yet returned to the Bank which is due in various months through out of 2015.

**KINGOLD JEWELRY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

3) Gold lease transaction with CITIC Bank

On August 28, 2013, Wuhan Kingold entered into a gold lease framework agreement with the Wuhan branch of CITIC Bank, and subsequently leased an aggregate of 150 kilograms of gold (valued at approximately RMB41.6 million or approximately US\$6.7 million) from CITIC Bank pursuant to lease agreement entered into under the framework agreement. The lease has an initial term of approximately 12 months, and provides for an interest rate of 5.6% per annum. Lease payments to CITIC Bank are due at the end of the leasing period. At the end of the lease, the Company extended the lease period by an additional nine months with a value of approximately RMB38.1 million or approximately US\$6.2 million. Under the gold lease agreement with CITIC Bank, the Company is required to deposit cash into an account at CITIC equal to approximately RMB8.4 million (approximately US\$1.4 million) and pledge the amount to CITIC Bank. On January 27, 2014, Wuhan Kingold leased additional 150 kilograms of gold (valued at approximately RMB36.5 million or approximately US\$5.9 million), pursuant to separate lease agreements entered into under the Framework Agreement. The Company is required to deposit cash into an account at CITIC equal to approximately RMB7.3 million (approximately US\$1.2 million) and pledge the amount to CITIC Bank. On February 21, 2014, Wuhan Kingold leased additional 200 kilograms of gold (valued at approximately RMB51.6 million or approximately US\$8.4 million) pursuant to separate lease agreements entered into under the Framework Agreement. The Company is required to deposit cash into an account at CITIC equal to approximately RMB10.5 million (approximately US\$1.7 million) and pledge the amount to CITIC Bank. On March 5, 2014, Wuhan Kingold leased an additional 150 kilograms of gold (valued at approximately RMB39.9 million or approximately US\$6.5 million) pursuant to separate lease agreements entered into under the Framework Agreement. The Company is required to deposit cash into an account at CITIC equal to approximately RMB9 million (approximately US\$1.5 million) and pledge the amount to CITIC Bank. These three leases have a term of 6 months and provides for an interest rate of 6% per annum. At the end of these leases, the Company extended the lease period by an additional nine months with an aggregate value of approximately RMB129 million (approximately US\$20.9 million).

At December 31, 2014, 650,000 grams of leased gold were outstanding and not yet returned to the Bank which is due in various months through out of 2015.

The Company leased the gold as a way to fuel its growth and will return the same amount of gold to CCB, SPD Bank and CITIC Bank at the end of the respective lease agreements. Under these gold lease arrangements, each of CCB, SPD Bank and CITIC Bank retains beneficial ownership of the gold leased to the Company and treats it as if the gold is placed on consignment to the Company. All three banks have their own representatives on the Company's premises to monitor on a daily basis the use and security of the gold leased to the Company. Accordingly, the Company records these gold lease transactions as operating leases because the Company does not have ownership nor has it assumed the risk of loss for the leased gold.

As of December 31, 2014 and December 31, 2013, 3,080 kilograms and 1,721 kilograms of leased gold, at the amount of \$125.8 million and \$83.7 million, respectively, will be returned within fiscal year 2015. Interest expense for the leased gold for the years ended, 2014 and 2013 was \$7.1 million and \$4.4 million, respectively, which was included in the cost of sales.

**NOTE 14 - RELATED PARTY TRANSACTIONS**

On December 31, 2013, the Company temporarily advanced a total of RMB400 million (approximately US\$65 million) to a company owned by one of the directors of Wuhan Kingold. The purpose of the temporary advancement was to provide temporary funds in connection with such company's annual capital verification in China. The funds were returned to the Company in full on January 2, 2014. The Company also previously borrowed RMB80 million (approximately US\$13 million) from the same company to meet its temporary working capital needs on December 2, 2013. The loan had an annual interest rate of 6% and matured on January 28, 2014. The loan was repaid on the due date.

## **NOTE 15 – COMMITMENTS AND CONTINGENCIES**

### **Commitments**

Future payment commitments under the purchase agreement of “Kingold Jewelry Cultural Industry Park” amounted to RMB 608.5 million (US\$99 million). See Note 5 “Deposit on Land Use Right.”

### **Guarantee**

In March and May 2014, the Company guaranteed payment to a nonrelated third party, Wuhan Hengtong Weibang Trading LTD Co. (“Wuhan Hengtong”), for RMB68 million (approximately US\$11.1 million) in bank loans (the “Guarantee”). Such Guarantee will terminate in May 2015 when the guaranteed agreement expires.

On September 6, 2013, the Company guaranteed payment to a nonrelated third party, Wuhan Hengtong Weibang Trading LTD Co. (“Wuhan Hengtong”), for RMB20 million (approximately US\$3.2 million) in bank loans (the “Guarantee”). Wuhan Hengtong deposited RMB8 million with the Company as the collateral. Such Guarantee will terminate upon payment and/or cancellation of the obligation once it is repaid. A payment by the Company would be triggered by failure of the guaranteed party to fulfill its obligation covered by the Guarantee. The Guarantee expired in September 2014. The Company refunded the deposit of RMB8 million to Wuhan Hengtong in September 2014.

## **NOTE 16 – SUBSEQUENT EVENTS**

On February 9, 2015, Wuhan Kingold received a Notice of Acceptance of Registration (the “Acceptance”) from the PRC’s National Association of Financial Market Institutional Investors (the “NAFMII”), registering the issuance of up to RMB 750 million (approximately US\$120 million) of debt financing instruments by Wuhan Kingold pursuant to a Non-Public Oriented Debt Financing Instruments Private Placement Agreement, by and among Wuhan Kingold, Shanghai Pudong Development Bank Co., Ltd (“Pufa Bank”) and the other institutional investors named therein (together with Pufa Bank, the “Investors”), dated July 21, 2014 (the “Private Placement Agreement”). Such Private Placement Agreement became valid upon the Acceptance. In connection with the Private Placement Agreement, Wuhan Kingold and Pufa Bank entered into an Underwriting Agreement dated August 12, 2014, appointing Pufa Bank as the lead underwriter and bookkeeping manager for the issuance of the debt securities. The debt financing program is intended to operate similar to a commercial paper program. Under the program, Wuhan Kingold may issue the debt securities at any time within two years from the date of the Acceptance, with the initial issuance completed within six months from the date of the Acceptance. Wuhan Kingold is required to report any issuance to the NAFMII. The Private Placement Agreement provides that the Investors are entitled to, but are not required to, participate in any issuance, and prohibits using the proceeds from any issuance of debt securities for real estate and equity acquisition transactions. The total amount of the first phase issuance will be RMB 400 million (approximately US\$64 million), and will be secured by certain gold or gold products held by Wuhan Kingold. The total amount of the second phase issuance will be RMB 350 million (approximately US\$56 million), and will be secured by certain real property and construction in progress (including the Kingold Jewelry Cultural Industry Park). In connection with the foregoing, Wuhan Kingold and Pufa Bank have entered into a Credit Agent Agreement (the “Credit Agent Agreement”), pursuant to which Pufa Bank serves as the agent of the holders of the debt securities. Zhihong Jia, Chairman and Chief Executive Officer of the Company, has executed a guaranty, to guarantee Wuhan Kingold’s obligations under the Credit Agent Agreement. In March 2015, Wuhan Kingold completed the first RMB400 million issuance under the Private Placement Agreement.

On March 5, 2015, the Company entered into a gold lease agreement with CITTC Bank to lease additional 150 kilograms of gold (valued at approximately RMB 36.8 million or approximately US\$6.0 million). The lease has initial term of one month and provides an interest rate of 6% per annum. The Company is required to deposit cash into an account at CITTC Bank equal to RMB 8.0 million (approximately US\$1.3 million).

The Company continues to seek favorable additional financing to meet its capital requirements to fund its operations and growth plans in the ordinary course of business.

**KINGOLD JEWELRY, INC.**  
**SCHEDULE 1 - PARENT COMPANY BALANCE SHEETS**  
**(IN U.S. DOLLARS)**  
**(Unaudited)**

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 61,986	\$ 274,016
Other current assets and prepaid expenses	500	546,000
Total current assets	<u>62,486</u>	<u>820,016</u>
<b>OTHER ASSETS</b>		
Investment in subsidiaries	258,866,245	214,333,066
Total other assets	<u>258,866,245</u>	<u>214,333,066</u>
<b>TOTAL ASSETS</b>	<u>\$ 258,928,731</u>	<u>\$ 215,153,082</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Other payables and accrued expenses	\$ 689,257	\$ 252,257
Total current liabilities	<u>689,257</u>	<u>252,257</u>
<b>TOTAL LIABILITIES</b>	<u>689,257</u>	<u>252,257</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
Preferred stock, \$0.001 par value, 500,000 shares authorized, none issued or outstanding as of December 31, 2014 and December 31, 2013	-	-
Common stock \$0.001 par value, 100,000,000 shares authorized, 65,963,502 and 64,953,462 shares issued and outstanding as of December 31, 2014 and December 31, 2013	65,963	64,953
Additional paid-in capital	79,460,175	76,847,205
Retained earnings		
Unappropriated	163,002,075	120,946,375
Appropriated	967,543	967,543
Accumulated other comprehensive income	14,743,718	16,074,749
Total stockholders' equity	<u>258,239,474</u>	<u>214,900,825</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 258,928,731</u>	<u>\$ 215,153,082</u>

The accompanying notes are an integral part of Schedule 1.

**KINGOLD JEWELRY, INC.**  
**SCHEDULE 1 - PARENT COMPANY STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**(IN U.S. DOLLARS)**  
**(Unaudited)**

	<b>For the years ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>OPERATING EXPENSES</b>		
Selling, general and administrative expenses	\$ (1,703,367)	\$ (1,136,780)
Stock compensation expenses	(3,149,980)	(1,532,563)
Total operating expenses	(4,853,347)	(2,669,343)
<b>EQUITY INCOME OF SUBSIDIARIES</b>	52,185,324	31,009,269
<b>NET INCOME</b>	47,331,977	28,339,926
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS</b>	(1,331,031)	5,820,020
<b>COMPREHENSIVE INCOME</b>	\$ 46,000,946	\$ 34,159,946

The accompanying notes are an integral part of Schedule 1.

**KINGOLD JEWELRY, INC.**  
**SCHEDULE 1 - PARENT COMPANY STATEMENTS OF CASH FLOWS**  
**(IN U.S. DOLLARS)**  
**(Unaudited)**

	<b>For the years ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 47,331,977	\$ 28,339,926
Adjusted to reconcile net loss to cash used in		
Share based compensation for services	3,149,980	1,532,563
Income from subsidiaries	(46,410,211)	(31,009,269)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Other current assets and prepaid expenses	545,500	(546,000)
Increase (decrease) in:		
Other payables and accrued expenses	437,000	249,284
Net cash used in operating activities	5,054,246	(1,433,496)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment made on investment in subsidiaries	-	(15,425,282)
Net cash used in investing activities	-	(15,425,282)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividend paid	(5,276,277)	-
Net proceeds from exercise of warrants	10,000	4,600,400
Net proceeds from stock issuance	-	12,522,000
Net cash provided by financing activities	(5,266,276)	17,122,401
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(212,030)</b>	<b>263,623</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>274,016</b>	<b>10,393</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 61,986</b>	<b>\$ 274,016</b>

The accompanying notes are an integral part of Schedule 1.

**KINGOLD JEWELRY, INC.**  
**NOTES TO SCHEDULE 1**

**1. Basis of presentation**

Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted. The Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries.

**2. Restricted net assets**

Schedule I of Article 5-04 of Regulation S-X requires the condensed financial information of registrant shall be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the registrant's proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiaries in the form of loans, advances or cash dividends without the consent of a third party (i.e., lender, regulatory agency, foreign government, etc.).

The parent company financial statements have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X as the restricted net assets of the subsidiaries of Kingold Jewelry, Inc. exceed 25% of the consolidated net assets of Kingold Jewelry, Inc. The ability of our Chinese operating affiliates to pay dividends may be restricted due to the foreign exchange control policies and availability of cash balances of the Chinese operating subsidiaries. Because a significant portion of our operations and revenues are conducted and generated in China, a significant portion of our revenues being earned and currency received are denominated in Renminbi (RMB). RMB is subject to the exchange control regulation in China, and, as a result, we may be unable to distribute any dividends outside of China due to PRC exchange control regulations that restrict our ability to convert RMB into US Dollars.

**3. Equity Transactions**

On October 25, 2013, 400,000 shares were issued to Financial Buzz Media Networks LLC. \$546,000 and \$182,000 stock compensation expense was recognized in connection with this transaction for the years ended December 31, 2014 and 2013, respectively.

On January 10, 2014, the Company entered into a consulting agreement with Sailesh C. Barchha (the "Consulting Agreement") to assist the Company in expanding into the international market. Pursuant to the terms of the Consulting Agreement, the Company has entered into a joint venture agreement with Kuwait Support Services Company W.L.L., or KSS, a major multi-business group headed by His Excellency Sheikh Ameer Al Sabah of Kuwait. In connection with such joint venture with KSS, Mr. Barchha will provide certain management consulting and financial advisory services to the Company over a two year term from January 10, 2014 to January 9, 2016. In exchange for such services, the Company has issued to Mr. Barchha an aggregate of 1,000,000 shares of common stock of the Company on January 14, 2014. The fair value of this common stock compensation is based on the closing stock price on the date at which the 1,000,000 shares were granted. \$1,760,000 of stock compensation expense was recognized for the year ended December 31, 2014, of which \$660,000 of stock compensation expense was recognized for the nine months ended September 30, 2014. The Company wrote off \$1,100,000 of prepaid expenses as stock compensation expense recorded as of December 31, 2014, because the consulting service was completed in 2014.

On June 17, 2014, the Company issued a press release announcing that the Board of Directors of the Company approved a special cash dividend of US\$0.08 per share of common stock. The total amount of approximately US\$5.3 million cash dividend was paid in August 2014.

For the year ended December 31, 2014, the Company issued 10,040 shares for the exercise of the warrants (see Note 10 — Warrants).

**4. Subsequent Events**

On February 9, 2015, Wuhan Kingold received a Notice of Acceptance of Registration (the "Acceptance") from the PRC's National Association of Financial Market Institutional Investors (the "NAFMII"), registering the issuance of up to RMB 750 million (approximately US\$120 million) of debt financing instruments by Wuhan Kingold pursuant to a Non-Public Oriented Debt Financing Instruments Private Placement Agreement, by and among Wuhan Kingold, Shanghai Pudong Development Bank Co., Ltd ("Pufa Bank") and the other institutional investors named therein (together with Pufa Bank, the "Investors"), dated July 21, 2014 (the "Private Placement Agreement"). Such Private Placement Agreement became valid upon the Acceptance. In connection with the Private Placement Agreement, Wuhan Kingold and Pufa Bank entered into an Underwriting Agreement dated August 12, 2014, appointing Pufa Bank as the lead underwriter and bookkeeping manager for the issuance of the debt securities. The debt financing program is

intended to operate similar to a commercial paper program. Under the program, Wuhan Kingold may issue the debt securities at any time within two years from the date of the Acceptance, with the initial issuance completed within six months from the date of the Acceptance. Wuhan Kingold is required to report any issuance to the NAFMII. The Private Placement Agreement provides that the Investors are entitled to, but are not required to, participate in any issuance, and prohibits using the proceeds from any issuance of debt securities for real estate and equity acquisition transactions. The total amount of the first phase issuance will be RMB 400 million (approximately US\$64 million), and will be secured by certain gold or gold products held by Wuhan Kingold. The total amount of the second phase issuance will be RMB 350 million (approximately US\$56 million), and will be secured by certain real property and construction in progress (including the Kingold Jewelry Cultural Industry Park). In connection with the foregoing, Wuhan Kingold and Pufa Bank have entered into a Credit Agent Agreement (the "Credit Agent Agreement"), pursuant to which Pufa Bank serves as the agent of the holders of the debt securities. Zhihong Jia, Chairman and Chief Executive Officer of the Company, has executed a guaranty, to guarantee Wuhan Kingold's obligations under the Credit Agent Agreement. In March 2015, Wuhan Kingold completed the first RMB400 million issuance under the Private Placement Agreement.

On March 5, 2015, the Company entered into a gold lease agreement with CITTC Bank to lease additional 150 kilograms of gold (valued at approximately RMB 36.8 million or approximately US\$6.0 million). The lease has initial term of one month and provides an interest rate of 6% per annum. The Company is required to deposit cash into an account at CITTC Bank equal to RMB 8.0 million (approximately US\$1.3 million).

The Company continues to seek favorable additional financing to meet its capital requirements to fund its operations and growth plans in the ordinary course of business.

# Lease Agreement

**Wuhan Kingold Jewelry, Inc., as Lessor: (hereinafter referred to as Party A)**

**Wuhan Vogue-Show Jewelry Co., Ltd., as Lessee: (hereinafter referred to as Party B, together with Party A, the "Parties")**

In accordance with the **Real Estate Management Laws of the People's Republic of China (PRC)** and the **Administration Procedures of Wuhan relating to Leasing of Urban Premises**, Party A and Party B have reached an agreement through friendly consultation to conclude the following contract.

- 1, Party A will lease to Party B the premises owned by Party A itself, which is located at No. 15, Fifth Floor, Unit No. 1-3 of the Economic Development Zone, Jiang'an District, Wuhan, Hubei Province, PRC. The registered size of the leased premises is 96 square meters.
- 2, The rental will be 10,000 RMB per year, and the term of lease is five years. After the lease term, Party B will have the priority to continue to lease the premises.
- 3, The lease term will commence on February 1, 2015. Payment of rental will be one installment every six months. Party B will pay the rental before using the premises. In case the rental is overdue, Party B will pay 0.5 percent of the amount due per day as overdue fines. If the rental is more than fifteen days overdue, Party A has the right to take back the premises.
4. If Party B's production and operation so requires, on the condition of observing relevant PRC regulations and laws, Party B shall have the right to repair the premises (provided that Party B shall not change the major structure of the premises). Party B will bear the cost of such repairs. When the lease term expires, all the leased property in the leased premises (including repairs, not including other facilities) shall be returned to Party A, and Party B shall not be entitled to compensation for any newly-increased value.
5. During the lease term, Party A shall pay the expenses of electricity and water incurred by Party B in connection with its operation on the leased premises.
6. During the term, Party B shall ensure that the premises and its equipment and facilities are in useful and safe condition in accordance with relevant PRC laws, decrees and pertinent rules and regulations.
7. Except for national policies and irresistible causes, the Parties shall perform their respective obligations under this contract and shall not terminate the contract without reasonable reasons. One Party shall notify the other Party three months before such Party proposes to change the terms of the contract or to terminate the contract before its expiration, and the Parties shall execute an agreement in written form, otherwise, this contract will continuously have effectiveness.
8. A Party's breach of any of the foregoing provisions should be deemed as a breach of the contract, and such Party who breaches this contract shall compensate for any loss caused to the other Party.
- 9, The contract shall become effective upon the execution (and affixed with official seal) by both Parties.
- 10, There are four originals of this contract. Each Party shall hold two originals. The Parties shall use their best efforts to settle any outstanding issues under this contract through friendly consultation.

Lessor(Party A)

Lessee(Party B)

(Official Seal)

(Official Seal)

Date: February 1, 2015

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**FRIEDMAN LLP**  
ACCOUNTANTS AND ADVISORS

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-179260) and Form S-8 (No. 333-177661) of Kingold Jewelry, Inc. of our reports dated March 31, 2015, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appear in this Annual Report on Form 10-K of the Company for the year ended December 31, 2014.

/s/ Friedman LLP

New York, NY  
March 31, 2015

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Zhihong Jia, certify that:

1. I have reviewed this Annual Report on Form 10-K of Kingold Jewelry, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2015

/s/ Zhihong Jia  
Zhihong Jia  
Chairman of the Board and Chief Executive Officer

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Bin Liu, certify that:

1. I have reviewed this Annual Report on Form 10-K of Kingold Jewelry, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 31, 2015

/s/ Bin Liu  
Bin Liu  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kingold Jewelry, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chairman of the Board and Chief Executive Officer of the Registrant, certifies, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Zhihong Jia  
Zhihong Jia  
Chairman of the Board and Chief Executive Officer

Date: March 31, 2015

*The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being "filed" as part of the Form 10-K or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.*

*A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.*

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kingold Jewelry, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer of the Registrant, certifies, in accordance with 18

U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Bin Liu  
Bin Liu  
Chief Financial Officer

Date: March 31, 2015

*The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being "filed" as part of the Form 10-K or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.*

*A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.*

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