KING STONE ENERGY GROUP LIMITED
金山能源集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the "Board") of King Stone Energy Group Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2012, together with comparative figures for the previous financial year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**571,129**	995,100
Cost of inventories sold		**(661,970)**	(612,248)
Gross profit/(loss)		**(90,841)**	382,852
Gain on bargain purchase of a subsidiary		**—**	29,948
Other income and gains	5	**3,257**	52,195
Selling and distribution expenses		**(10,640)**	(4,632)
Administrative expenses		**(95,116)**	(182,754)
Other expenses		**(1,953,845)**	—
Finance costs	6	**(136,014)**	(171,751)
Share of profit/(loss) of a jointly-controlled entity		**6,279**	(28)
PROFIT/(LOSS) BEFORE TAX	7	**(2,276,920)**	105,830
Income tax credit/(expense)	8	**521,878**	(40,396)
PROFIT/(LOSS) FOR THE YEAR		**(1,755,042)**	65,434

	Note	2012 HK$'000	2011 HK$'000
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**24,466**	108,432
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**24,466**	108,432
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(1,730,576)**	173,866
Profit/(loss) for the year attributable to:			
Owners of the Company		**(1,655,263)**	55,339
Non-controlling interests		**(99,779)**	10,095
		(1,755,042)	65,434
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**(1,632,094)**	157,139
Non-controlling interests		**(98,482)**	16,727
		(1,730,576)	173,866
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*		
Basic and diluted		**HK$(1.16)**	HK$0.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,547,178**	2,151,176
Prepaid land premiums		**14,856**	15,080
Mining rights		**1,739,255**	2,964,936
Investment in a jointly-controlled entity		**23,117**	16,623
Prepayments and deposits		**60,734**	155,964
Total non-current assets		**3,385,140**	5,303,779
CURRENT ASSETS			
Inventories		**15,479**	17,216
Trade and bills receivables	*10*	**46,026**	117,100
Prepayments, deposits and other receivables		**90,686**	566,144
Pledged deposits		**3,517**	2,936
Cash and cash equivalents		**15,913**	51,928
Total current assets		**171,621**	755,324
CURRENT LIABILITIES			
Trade and bills payables	*11*	**93,016**	5,048
Other payables and accruals		**696,437**	1,181,973
Interest-bearing borrowings		**1,013,511**	555,075
Income tax payable		**228,721**	272,526
Total current liabilities		**2,031,685**	2,014,622
NET CURRENT LIABILITIES		**(1,860,064)**	(1,259,298)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,525,076**	4,044,481
NON-CURRENT LIABILITIES			
Interest-bearing borrowings		**382,513**	678,425
Convertible notes		**242,556**	221,782
Deferred tax liabilities		**125,028**	646,748
Total non-current liabilities		**750,097**	1,546,955
Net assets		**774,979**	2,497,526
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**142,873**	142,873
Reserves		**610,060**	2,234,125
		752,933	2,376,998
Non-controlling interests		**22,046**	120,528
Total equity		**774,979**	2,497,526

Notes:

1. CORPORATE INFORMATION

King Stone Energy Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered address of the Company is located at Unit 7603, 76/F, The Center, 99 Queen's Road Central, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the mining and selling of coal.

2. BASIS OF PREPARATION, PRESENTATION AND CONSOLIDATION

Basis of preparation (extract of note 2 to the financial statements for the year ended 31 December 2012)

As at 31 December 2012, the current liabilities of the Group exceeded its current assets by approximately HK$1,860 million, which indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to operate as a going concern. The consolidated financial statements of the Group have been prepared on a going concern basis, the validity of which depends upon the outcome of various measures adopted by the directors of the Company as mentioned below and the future performance of the Group.

Subsequent to the end of the reporting period, (i) on 31 January 2013, 1,555,555,000 ordinary shares of the Company with par value of HK$0.1 per share were issued and allotted to a new investor at HK$0.45 each, resulting in a net proceeds of approximately HK$663 million being received by the Company; and (ii) part of these proceeds of HK$50 million has been used to early redeem part of the Company's convertible notes of principal amount of HK$50 million issued by the Company with a redemption date of not later than 20 December 2014.

As at the date of approval of these financial statements, the Group is in process of negotiating with a financial institution to obtain new loans for the purpose of meeting the Group's liabilities as and when they fall due. Based on the communications with the relevant financial institution and after taking into account the Group's availability of mining rights (free of charges and encumbrances) and a coal washing factory (free of charges and encumbrances) with an aggregate carrying value of HK$718 million as at 31 December 2012 for pledging purposes, operating performance and other factors, the directors of the Company are confident that these new loans will be obtained.

In addition, a substantial shareholder of the Company, Jade Bird Energy Fund II, LP, has confirmed its ability and agreement to provide continual financial support and adequate funds to the Group to meet with the Group's liabilities as and when they fall due in the foreseeable future.

The directors of the Company are also considering/taking other alternatives to monitor and improve the cash flows of the Group, which included extension of repayment dates of existing bank loans and other liabilities, and other financing arrangements. The directors of the Company expect that payments of certain liabilities of the Group can be extended to twelve months after 31 December 2012.

In light of the measures described above, and after taking into account the performance of the Group and the cash flow projection prepared by the directors of the Company, the directors of the Company are confident that the Group will have sufficient working capital to meet with its financial obligations in the foreseeable future. Accordingly the directors of the Company are of the opinion that it is appropriate to prepare these financial statements on a going concern basis. These financial statements do not include any adjustments that might be necessary should the Group not be able to continue as a going concern.

Basis of presentation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative component of convertible bonds for the year ended 31 December 2011, which has been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Asset*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

4. OPERATING SEGMENT INFORMATION

Over 90% of the Group's revenue, expenses and assets are generated from the business of mining and selling coal in Mainland China. The management of the Group makes decisions about resources allocation and assesses performance of the Group based on the operating results from these business activities. Accordingly, the directors of the Company are of the opinion that mining and selling coal in Mainland China is a single reportable segment of the Group.

The Group's revenue from external customers is derived solely from its operations in the People's Republic of China ("PRC"), and over 90% of the non-current assets of the Group are located in the PRC.

During the year, the Group had transactions with three (2011: three) external customers which individually contributed to over 10% of the Group's total revenue. The revenue generated from sales to each of these customers is set out below:

	2012	2011
	HK$'000	*HK$'000*
Customer A	**174,646**	83,469
Customer B	**63,550**	102,949
Customer C	**57,851**	*
Customer D	*	288,878
	296,047	475,296

* Less than 10% of the Group's total revenue

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of coal sold to customers, net of sales tax, value-added tax and allowances for returns and trade discounts.

An analysis of the Group's other income and gains is as follows:

	2012	2011
	HK$'000	*HK$'000*
Other income		
Bank interest income	**286**	262
Other interest income	**1,500**	6,270
Other income from termination of subscription agreements	**—**	10,000
Others	**20**	—
	1,806	16,532
Gains		
Gain on disposal of items of property, plant and equipment	**1,049**	—
Fair value gain on derivative component of convertible bonds	**—**	35,452
Others	**402**	211
	1,451	35,663
Other income and gains	**3,257**	52,195

6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2012	2011
	HK$'000	*HK$'000*
Interest on bank and other loans wholly repayable within five years	**115,240**	106,155
Imputed interest on convertible bonds	**—**	37,104
Imputed interest on convertible notes	**20,774**	26,902
Interest on convertible bonds	**—**	1,590
	136,014	171,751

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	2012	2011
	HK$'000	HK$'000
Depreciation	**248,778**	157,880
Amortisation of prepaid land premiums	**346**	357
Amortisation of mining rights	**128,842**	162,831
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**49,254**	48,247
Equity-settled share option expense	**8,029**	30,939
	57,283	79,186
Pension scheme contributions (defined contribution scheme)	**11,707**	9,453
	68,990	88,639
Auditors' remuneration	**2,730**	2,480
Impairment of items of property, plant and equipment#	**684,145**	—
Impairment of mining rights#	**1,126,973**	—
Impairment of trade receivables#	**10,424**	144
Impairment of prepayments, deposits and other receivables#	**126,895**	1,086
Operating lease rentals in respect of building	**2,410**	2,376
Write-off of items of property, plant and equipment	**—**	22,789

These items are included in "Other expenses" in the consolidated statement of comprehensive income during the current year.

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2012	2011
	HK$'000	*HK$'000*
Current — Mainland China	**5,759**	119,108
Deferred	**(527,637)**	(78,712)
Total tax charge/(credit) for the year	**(521,878)**	40,396

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss (2011: earnings) per share amounts is based on the loss (2011: profit) for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,428,729,168 (2011: 1,313,416,291) in issue during the year.

No adjustment has been made to the basic earnings/loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution, as the share options of the Company outstanding during these years and the deemed conversion of the convertible bonds/notes issued by the Company have either no dilutive effect or an anti-dilutive effect on the basic earnings/loss per share amounts for these years.

10. TRADE AND BILLS RECEIVABLES

		Group	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
Trade and bills receivables	*(a)*	**56,450**	117,100
Impairment of trade receivables	*(b)*	**(10,424)**	—
	(c)	**46,026**	117,100

Notes:

(a) The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by the management. Trade and bills receivables are non-interest-bearing and the Group does not hold any collateral or other credit enhancements over its trade receivable balances.

(b) The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**—**	7,014
Impairment losses recognised	**10,424**	144
Amount written off as uncollectible	**—**	(7,158)
At 31 December	**10,424**	—

At 1 January 2011, the provision for impairment of trade receivables were full provision for individually impaired trade receivables of HK$7,014,000. The individually impaired trade receivables related to customers that were in financial difficulties and the receivables were not expected to be recovered. The amount, together with impairment loss of HK$144,000 recognised during the year ended 31 December 2011, had been fully written off as uncollectible during the year ended 31 December 2011.

At 31 December 2012, the provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$10,424,000 with a carrying amount before provision of HK$20,783,000. The individually impaired trade receivables were related to customers that were in financial difficulties and the receivables may not be fully recovered.

(c) An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Less than six months	**30,409**	116,427
Six months to one year	**4,674**	—
Over one year	**21,367**	673
	56,450	117,100
Provision for impairment *(note (b))*	**(10,424)**	—
	46,026	117,100

An aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**20,769**	116,427
Past due for less than six months	**9,640**	—
Past due for over six months	**5,258**	673
	35,667	117,100

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11. TRADE AND BILLS PAYABLES

The trade payables are non-interest-bearing and are normally settled on 60-day terms and bills payables are settled on 180-days terms. An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Less than six months	**92,336**	3,202
Six months to one year	**645**	1,805
Over one year	**35**	41
	93,016	5,048

12. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group carried out the following significant transactions:

(a) On 31 January 2013, the Company issued and allotted 1,555,555,000 new ordinary shares with par value of HK$0.1 each to a new investor at a cash consideration of HK$0.45 per share. Net proceeds of the issuance amounted to HK$663,000,000. Upon completion, total issued shares of the Company increased from 1,428,729,168 shares to 2,984,284,168 shares.

(b) On 11 March 2013, the Group exercised its rights under the terms of the convertible notes to partially redeem the outstanding convertible notes in the principal amount of HK$50,000,000 at par value. After the redemption, the principal amount of the outstanding convertible notes amounted to HK$239,205,000. The management estimated that a loss on early redemption of convertible notes amounting to HK$7,341,000 will be recognised for the year ending 31 December 2013.

EXTRACT OF INDEPENDENT AUDITORS' REPORT ON THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

"Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Emphasis of matter on going concern

Without qualifying our opinion, we draw attention to note 2 in the financial statements which indicates that as at 31 December 2012, the Group has current liabilities exceeded its current assets by HK$1,860 million. Such condition, along with other matters as set forth in note 2, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Should the Group be unable to continue as a going concern, adjustments relating to the carrying amounts and reclassification of assets and liabilities of the Group and the Company would have to be made to the financial statements."

DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Results Review

The Group had encountered challenges in the year of 2012. Dampened coal market, tightened policies of the local government authorities and relocation of working faces of the coal mines have collectively resulted in significant drop in revenue and margins. The adverse situation even deepened in the second half of 2012.

Coal mining business

During the year under review, the operating mine of Eerduosi Hengtai Coal Co. Ltd. ("Hengtai") produced 2.5 million tons of coal, of which only 0.9 million tons were produced in the second half of the year. Inner Mongolia Liaoyuan Coal Mining Co. Ltd. ("Liaoyuan") produced 0.5 million tons of coal, of which only 0.2 million tons were produced in the second half of the year. Total coal output of the Group dropped by 26% on a year-to-year basis. Average selling prices of coal produced by Hengtai and Liaoyuan were also down by 31% and 19% respectively as compared to the year of 2011.

Fund management business

The Group started its fund management business through Beijing Juxin Taihe Energy Investment Fund Management Co. Ltd., (the "Fund Management Company") which was jointly set up with CITIC Trust Co. Ltd in 2011. The Fund Management Company managed energy trust funds which invested in quality coal mines and clean energy projects in China. While the business was nearly break even in 2011, the Group had shared a profit of HK$6.3 million in the year of 2012. It is believed that the continuous growth of the trust fund business will increasingly contribute a major part of income to the Group.

Revenue

The Group recorded total revenue of approximately HK$571.1 million (2011: HK$995.1 million) during the year, representing a decrease of 43% compared with last year. Hengtai and Liaoyuan (which was acquired by the Group in August 2011) contributed revenue of approximately HK$419 million (2011: HK$834.2 million) and approximately HK$152.1 million (five-month period from August 2011 to December 2011: HK$160.9 million) during the year, respectively.

The average selling prices ("ASPs") of raw coal produced by Hengtai and Liaoyuan during the year were approximately RMB135 (2011: RMB197) and RMB227 (2011: RMB279) per ton, respectively. Hengtai and Liaoyuan recorded sales volume of approximately 2.5 million tons (2011: 3.6 million tons) and 0.5 million tons (five-month period from August 2011 to December 2011: 0.5 million tons), respectively. Significant decreases in both ASPs and sales volume were mainly due to weak demand in coal market which was significantly affected by economic slowdown in China during the year.

Cost of inventories sold

Cost of inventories sold primarily consists of depreciation and amortisation, salaries and labour cost for the production, taxes, supplies, utilities and other incidental expenses in relation to production. Cost of inventories sold was approximately HK$662 million (2011: HK$612.2 million) during the year, representing an increase of 8% compared with last year. Notwithstanding a general decrease in production activities during the year, the Group recorded an increase in cost of inventories sold which was mainly attributable to (1) increase in depreciation charges by approximately HK$90 million; and (2) increase in cost of inventories sold for Liaoyuan due to consolidation of full year results of Liaoyuan in the Group's results during the year.

Gross profit/(loss) and gross profit/(loss) margin

The Group recorded a gross loss margin of 16% (2011: gross profit margin of 38%) during the year, which was mainly attributable to the decrease in ASPs and the increase in production costs as mentioned above during the year. Hengtai and Liaoyuan recorded gross loss margins of 20% (2011: gross profit margin of 39%) and 5% (2011: gross profit margin of 34.7%), respectively.

Gain on bargain purchase of a subsidiary

There was no acquisition of subsidiary during the year. In 2011, an one-off gain on acquisition of Liaoyuan in August 2011 of approximately HK$29.9 million was recognised.

Other income and gains

Other income and gains decreased from approximately HK$52.2 million to HK$3.3 million this year. The decrease was mainly due to the absence of a fair value gain on derivative component of convertible bonds of approximately HK$35.5 million and other income of HK$10 million arising from the termination of subscription agreements which were one-off items recorded in 2011.

Selling and distribution expenses

Selling and distribution expenses were HK$10.6 million during the year as compared with approximately HK$4.6 million for last year. The increase was mainly due to increase in transportation costs of coal to customers.

Administrative expenses

Administrative expenses mainly comprised staff costs for administrative and finance functions including equity-settled share option expenses, legal and professional fees incurred for operation and other incidental administrative expenses.

Administrative expenses were approximately HK$95.1 million (2011: HK$182.8 million) during the year. The significant decrease was mainly attributable to (1) decrease in equity-settled share option expenses from approximately HK$30.9 million in last year to approximately HK$8 million in current year; (2) general decrease in administration costs which were in line with decrease in production activities.

Other expenses

Other expenses mainly comprised impairments of items of property, plant and equipment, mining rights, trade receivables and prepayments, deposits and other receivables of approximately HK$684.1 million, HK$1,127 million, HK$10.4 million and HK$126.9 million, respectively, during the year.

In view of the significant decreases of ASPs and sales volumes of coal during the year (especially in the second half this year), which are indications of impairment, the management had estimated the recoverable amounts of the assets of the coal mining business of the Group. Based on the assessment of value in use of the assets (which the management considered as the recoverable amounts) for coal mining business by using discounted cash flow models which have been reviewed by an independent valuer, an impairment loss totaling HK$1,841 million was resulted and was allocated as to HK$684.1 million to property, plant and equipment HK$1,127 million to mining rights and HK$29.9 million to prepayments for property, plant and equipment based on their relative carrying amounts.

An impairment loss of HK$33.5 million has been made to the indemnification asset (the "Indemnification Asset") of RMB125.1 million (equivalent to approximately HK$155.6 million) during the year. As disclosed in the annual report of the Company for the year ended 31 December 2011 (the "2011 Annual Report"), the Indemnification Asset was recognised to represent an amount receivable from the vendor of Liaoyuan (the "Vendor") as it had agreed under the sale and purchase agreement (the "Sale and Purchase Agreement") to undertake the repayment of all liabilities of Liaoyuan existed prior to completion of acquisition of Liaoyuan. During 2011, the management negotiated with the Vendor to set off the Indemnification Asset against the unpaid consideration and other payable to the Vendor, which amounted to RMB128 million (approximately HK$157 million). Such set off arrangement has, however, not been agreed by the Vendor. The management assessed the recoverability of the Indemnification Asset based on the amount that could be recovered from the Vendor from time to time. As a result of the supplemental agreement entered in May 2012 (as detailed in sub-section headed "Supplemental Agreement of Acquisition" below, the Indemnification Asset would be recovered (and reduced) by the amount of net liabilities settled by a third party on behalf of Liaoyuan. Given that (1) the management assessed that HK$92.7 million would be recovered from the third party under the supplemental agreement; and (2) late payment charges of HK$29.4 million on outstanding consideration payable to the Vendor have been waived under the supplemental agreement, but the Indemnification Asset was aged over one year and remained unsettled as at the date of this announcement, an impairment loss of the Indemnification Asset of HK$33.5 million was made and was written off as uncollectible during the year.

Finance costs

Finance costs were approximately HK$136 million (2011: HK$171.8 million) during the year, which represented mainly interest expenses for bank and other loans in the PRC amounting to approximately HK$115.2 million (2011: HK$106.2 million). Imputed interest expenses in respect of convertible notes amounting to approximately HK$20.8 million (2011: HK$26.9 million) were incurred during the year. No interest expenses in respect of the convertible bonds which were fully redeemed in September 2011 were incurred during the year (2011: HK$38.7 million).

Share of profit of a jointly-controlled entity

Share of profit of a jointly-controlled entity represented share of profit generated from the Fund Management Company. The investee operated at near break even in 2011.

Income tax

Income tax credit was approximately HK$521.9 million (2011: expenses of HK$40.4 million) during the year. It represented provision for taxation for operating profit generated from mainland operations of approximately HK$5.7 million (2011: HK$119.1 million) and write-back of deferred tax liabilities of approximately HK$527.6 million (2011: HK$78.7 million) which was mainly due to impairment, depreciation and amortisation of non-current assets of approximately HK$192.5 million and fair value adjustments arising from acquisition of subsidiaries of approximately HK$312.4 million. No provision for Hong Kong profits tax has been made during the year (2011: Nil).

Profit/(loss) for the year attributable to owners of the Company

Loss for the year attributable to owners of the Company was approximately HK$1,655.3 million (2011: profit of HK$55.3 million) during the year. The significant turnaround was mainly attributable to (1) significant decreases in revenue recorded; and (2) impairment losses of property, plant and equipment, mining rights and trade receivables, and prepayment, deposits and other receivables during the year.

Liquidity and Financial Review

The Group mainly financed its day to day operations by internally generated cash flows and banking facilities during the year. As at 31 December 2012, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.08:1 (2011: 0.37:1).

As at 31 December 2012, the cash and cash equivalents of the Group were approximately HK$15.9 million (2011: HK$51.9 million). During the year, the Group recorded a net cash inflows generated from its operating activities of approximately HK$246.9 million (2011: HK$784.6 million).

As at 31 December 2012, the Group had outstanding interest-bearing borrowings amounting to approximately HK$1,396 million (2011: HK$1,233.5 million). Of the Group's interest-bearing borrowings, 73%, 12% and 15% were repayable within one year, in the second year and in the third to the fifth year, inclusive, respectively (2011: 45%, 30%, 25%). All the interest-bearing loans of the Group were denominated in Renminbi. Interest-bearng loans of approximately HK$870.7 million (2011: HK$863.5 million) bear floating interest rates and interest-bearing loans of approximately HK$525.3 million (2011: HK$370 million) were charged at fixed rates of 6.15%–7.87% (2011: 6.31%) per annum.

As at 31 December 2012, the carrying amount of the liability component of the Group's zero coupon redeemable convertible notes was approximately HK$242.6 million (2011: HK$221.8 million). The zero coupon convertible notes, which have a 5-year term from 21 December 2009, are redeemable in whole or in part at face value by the Company at any time after 3 years from the issuance date. No conversion or redemption of the convertible notes took place during the year. In March 2013, convertible notes of principal amount of HK$50 million have been early redeemed at par by the Company.

The Group conducted its continuing operational business transactions mainly in Renminbi and Hong Kong dollars. The Group did not arrange any forward currency contracts for hedging purposes.

Gearing Ratio

The gearing ratio of the Group, measured as net debt (which represents trade and bills payables, other payables and accruals and interest-bearing borrowings less cash and cash equivalents) to the total capital (which includes equity attributable to owners of the Company and convertible notes) was 2.18 as at 31 December 2012, as compared to 0.91 as at 31 December 2011.

Subscription for Shares

On 12 October 2012, the Company entered into the subscription agreement with an investor pursuant to which the Company has conditionally agreed to issue and allot and the investor has conditionally agreed to subscribe in cash for 1,555,555,000 new shares at the subscription price of HK$0.45 per subscription share. The subscription was completed in January 2013 raising a gross proceed of HK$700 million. Details of the subscription were set out in the announcements dated 17 October 2012 and 31 January 2013 and the circular dated 15 November 2012.

Significant Investments, Material Acquisitions and Disposals

On 31 August 2011, the Company entered into a memorandum of understanding (the "MOU") to acquire not less than 51% equity interest of one of the coal mines in Shanxi, the PRC. The MOU lapsed on 31 January 2012 and the earnest money of HK$180 million has been refunded by the vendor accordingly.

Save as disclosed above, the Group had no other material acquisition or disposal during the year.

Updates of Acquisition of Liaoyuan

1. ***Guaranteed Profit***

As set out in the announcement of the Company dated 25 July 2011 in relation to acquisition of Liaoyuan (the "Acquisition"), the consideration payable by the Group for the Acquisition is subject to adjustment depending on whether the actual profit after tax of Liaoyuan for the period from the date of completion of Acquisition to 31 December 2011 (the "Actual Profit") reached RMB54 million or not (the "Guaranteed Profit"). Based on mutual understanding between the parties to the Sale and Purchase Agreement, the Actual Profit and Guaranteed Profit should be determined under the PRC accounting standards. Based on the financial statements of Liaoyuan prepared under the PRC accounting standards, the Actual Profit of Liaoyuan (which was generated from its ordinary and usual course of principal business and not from any extraordinary items) was approximately RMB54.8 million (approximately HK$65.9 million) which exceeded the Guaranteed Profit. As the Guaranteed Profit was met, no adjustment was required to be made to the consideration payable to the Vendor. The remaining consideration of RMB100 million was settled on 31 May 2012.

The reference to the profit of Liaoyuan of HK$62,971,000 in the "2011 Annual Report" was determined and presented based on Hong Kong accounting standards which was so disclosed to be consistent with the accounting policies adopted by the Group in the 2011 Annual Report.

2. ***Supplemental Agreement of Acquisition***

According to the supplemental agreement entered among the Vendor, the Group and 內蒙古華特能源有限公司, an independent third party (the "Third Party", who assisted the Vendor to operate Liaoyuan), in May 2012 (the "Supplemental Agreement"), (i) the Group agreed to release

RMB100 million from the custody account to settle the remaining consideration of RMB100 million, (ii) there would be no claim by the Vendor against the Group for any delay in payment of the second instalment of RMB150 million in February and April 2012 which was obligated to be paid to the Vendor on 31 October 2011, (iii) the Third Party, who is specialised in mine operation and has extensive connection with local government authorities, would assist in smoothening the operation of Liaoyuan such as application for the mining licenses of approved production capacity to 0.9 million tons per annum; and (iv) certain assets and liabilities (i.e. net liabilities) of Liaoyuan existed prior to 1 June 2012 would be taken up by the Third Party and all the obligations of the Vendor under the Sale and Purchase Agreement should be considered duly fulfilled. Details of the Supplemental Agreement were set out in the announcement of the Company dated 5 October 2012.

Capital Commitments, Charge on Group Assets and Contingent Liabilities

As at 31 December 2012, the capital commitments of the Group were approximately HK$32.5 million (2011: HK$64.9 million). The capital commitments were mainly related to purchase of machineries for the operation of coal mines.

As at 31 December 2012, the bank loans of approximately HK$809 million were secured by certain of the Group's mining rights and guarantees given by a former shareholder of Triumph Fund A Limited (a subsidiary of the Company), a former director of Hengtai and certain independent third parties.

As at 31 December 2012, time deposits of approximately HK$3.5 million (2011: HK$2.9 million) were pledged for general bank facilities.

Save as disclosed above, the Group had no other pledge of assets as at 31 December 2012.

As at 31 December 2012 and 31 December 2011, the Group did not have any material contingent liability.

Human Resources and Share Option Scheme

As at 31 December 2012, the Group had 355 employees. The total staff costs for the year ended 31 December 2012 were approximately HK$69 million (2011: HK$88.6 million). The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for employees' better personal development and growth.

Pursuant to the Company's new share option scheme adopted on 30 May 2012, the Company may offer to any eligible participants including employee of the Group options to subscribe for shares in the Company for a period of 10 years. As at 31 December 2012, a total of 24,616,000 share options were outstanding and were held by directors and employees. No share option was granted or exercised during the year.

Future Outlook

Stepping into the year of 2013, the Company is pleased to announce the completion of the share subscription with the introduction of a new controlling shareholder led by Beida Jade Bird Group. The subscription has provided the Company adequate funding to significantly improve its financial liquidity, as well as to grasp any potential investment opportunities when they arise. The new management team of the Company, who possesses profound industry knowledge of natural resources investments, is eager to bring the Company into a new prosperity.

In view of the performance of coal mining business, the Company will review its investment portfolios on a timely basis and on the other hand, the Company plans to further diversify its investments into other natural resources which include but not limited to precious metals, oil and gas on a worldwide basis. The new management team believes that by investing into commodities of which prices are highly transparent and are available for hedging, the revenue and cash flows of the Company will become relatively stable and foreseeable.

Leveraging on the solid experience of natural resources investments, the new management team will capably cope with the ever-changing market environment and react quickly to potential investment opportunities.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices (the "Code") which adopted practices that meet the requirements set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year, with the following exceptions:

(a) Under provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

    Mr. Wang Da Yong had been the chairman and the chief executive officer of the Company during the year. The Board considered that the structure would not impair the balance of power and authority between the Board and the management of the Group as the balance of power and authority is ensured by the operations of the board committees which comprise experienced and high calibre individuals and meet frequently to discuss issues. The Board also considered that the structure enables the effectiveness and efficiency of the Group's operations and is beneficial to the business prospects of the Group.

Following the resignation of Mr. Wang Da Yong as director of the Company with effect from 1 February 2013, Mr. Xu Zhendong is now the chairman while Mr. Zong Hao is the chief executive officer. In this connection, the Company has complied with this provision.

(b) Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, and subject to re-election in accordance with the Articles of Association of the Company. All of the existing non-executive directors and independent non-executive directors of the Company are not appointed for specific terms, however, all of them are subject to retirement by rotation in accordance with the Articles of Association of the Company.

According to the Articles of Association of the Company, one third of the directors shall retire from office by rotation at the annual general meeting of the Company and every director shall be subject to retirement by rotation at least once every three years. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less than those in the Code.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company, namely Mr. Chiu Sui Keung, Mr Li Peiming and Mr. Lu Binghui. The audit committee has reviewed the annual results for the year ended 31 December 2012.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2012 will be published on the websites of the Company (http://www.663hk.com) and the Stock Exchange (http://www.hkex.com.hk) and despatched to the shareholders in due course.

By order of the Board
King Stone Energy Group Limited
Xu Zhendong
Chairman

Hong Kong, 28 March 2013

As at the date of this announcement, the executive Directors are Mr. Xu Zhendong, Mr. Zhang Wanzhong, Mr. Zong Hao, Mr. Tian Wenwei, Mr. Xu Zhuliang and Mr. Benjamin Clark Danielson, the non-executive Director is Mr. Zhang Yongli, and the independent non-executive Directors are Mr. Chiu Sui Keung, Mr. Li Peiming, Mr. Lee Chi Hwa, Joshua and Mr. Lu Binghui.