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 2013 AND UPDATE ON THE RECENT DEVELOPMENT OF THE GROUP

HIGHLIGHTS

— The Group recorded a loss for the year attributable to owners of the Company of HK$1,373.7 million (2012: HK$1,655.3 million) of which the coal mining business incurred a loss of HK$1,264.2 million (2012: HK$1,691.1 million). Excluding the aggregate impairment losses of property, plant and equipment and mining rights of the coal mining business of HK$983.6 million (2012: HK$1,811.1 million), the Group recorded a loss attributable to owners of the Company of HK$390.1 million (2012: profit of HK$155.8 million).

— The net current liabilities of the Group of HK$2,304.7 million (2012: HK$1,860.0 million) were mainly attributable to the coal mining business which had net current liabilities of HK$2,442.7 million (2012: HK$2,052.9 million). The remaining business of the Group had net current assets of HK$138.1 million (2012: HK$192.9 million).

— Net assets attributable to owners of the Company were HK$122.3 million (2012: HK$752.9 million).

— The Company will continue to pursue unloading its coal mining business in the foreseeable future subject to compliance with the Listing Rules.

— The Company is currently examining the findings of the Competent Person's Report of the Fujian Leixin silver mining project and will consider whether to exercise the Call Option to purchase the remaining 50% interests in the project.

I. ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013, together with comparative figures for the previous financial year as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
Year ended 31 December 2013

	Notes	**2013**	2012
		HK$'000	*HK$'000*
REVENUE	*5*	**150,306**	571,129
Cost of inventories sold		**(376,423)**	(661,970)
Gross loss		**(226,117)**	(90,841)
Other income and gains	*5*	**3,132**	3,257
Selling and distribution expenses		**(6,779)**	(10,640)
Administrative expenses		**(105,150)**	(95,116)
Other expenses		**(1,045,800)**	(1,953,845)
Finance costs	*6*	**(172,688)**	(136,014)
Share of profit/(loss) of a joint venture		**(10,415)**	6,279
LOSS BEFORE TAX	*7*	**(1,563,817)**	(2,276,920)
Income tax credit	*8*	**95,778**	521,878
LOSS FOR THE YEAR		**(1,468,039)**	(1,755,042)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**31,943**	24,466
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**31,943**	24,466
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,436,096)**	(1,730,576)
Loss for the year attributable to:			
Owners of the Company		**(1,373,711)**	(1,655,263)
Non-controlling interests		**(94,328)**	(99,779)
		(1,468,039)	(1,755,042)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(1,346,635)**	(1,632,094)
Non-controlling interests		**(89,461)**	(98,482)
		(1,436,096)	(1,730,576)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*		
Basic and diluted		**HK$(0.48)**	HK$(1.16)

Consolidated Statement of Financial Position

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,361,988**	1,547,178
Prepaid land premiums		**15,848**	14,856
Mining and exploration rights		**1,840,922**	1,739,255
Goodwill		**15,852**	—
Other intangible asset		**61,094**	—
Investment in a joint venture		**13,227**	23,117
Prepayments and deposits		**107,322**	60,734
Total non-current assets		**3,416,253**	3,385,140
CURRENT ASSETS			
Inventories		**14,806**	15,479
Trade and bills receivables	*10*	**31,907**	46,026
Prepayments, deposits and other receivables		**118,075**	90,686
Pledged deposits		**3,636**	3,517
Cash and cash equivalents		**292,595**	15,913
Total current assets		**461,019**	171,621
CURRENT LIABILITIES			
Trade and bills payables	*11*	**11,760**	93,016
Other payables and accruals		**1,367,407**	696,437
Interest-bearing borrowings		**1,156,119**	1,013,511
Income tax payable		**230,390**	228,721
Total current liabilities		**2,765,676**	2,031,685
NET CURRENT LIABILITIES		**(2,304,657)**	(1,860,064)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,111,596**	1,525,076
NON-CURRENT LIABILITIES			
Other payables		**10,080**	—
Interest-bearing borrowings		**506,987**	382,513
Convertible notes		**35,953**	242,556
Deferred tax liabilities		**194,241**	125,028
Total non-current liabilities		**747,261**	750,097
Net assets		**364,335**	774,979
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**301,205**	142,873
Reserves		**(178,916)**	610,060
		122,289	752,933
Non-controlling interests		**242,046**	22,046
Total equity		**364,335**	774,979

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 and silver, oil and gas extraction and production and oil extraction technology research and development.

2. BASIS OF PREPARATION, PRESENTATION AND CONSOLIDATION

Basis of preparation (extract of note 2 to the financial statements for the year ended 31 December 2013)

As at 31 December 2013, the current liabilities of the Group exceeded its current assets by approximately HK$2,305 million, and bank loan principal aggregating to HK$256 million were overdue since October 2013. The net current liability position and overdue bank loans of the Group was attributed to Triumph Fund A Limited, a subsidiary of the Company, and its subsidiaries (collectively the "Triumph Group") having consolidated net current liabilities of HK$2,443 million as at 31 December 2013, and overdue bank loan principal aggregating to HK$256 million. The remaining part of the Group has net current assets of HK$138 million, and did not have any overdue bank loans.

The Triumph Group is the coal mining component of the Group. As a result of continuing depression of coal market, the Triumph Group incurred significant losses before tax of HK$1,444 million (including impairment losses of HK$984 million on mining rights and property, plant and equipment of the Triumph Group) as dealt with in the Group's consolidated financial statements for the year ended 31 December 2013. The operation of the Triumph Group as a going concern is very dependent on whether the Triumph Group can defer or extend the repayment of those bank loans and other liabilities which are overdue or fall due in the foreseeable future, and whether the Triumph Group can obtain new financing. All these indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Triumph Group to operate as a going concern in the foreseeable future.

As at the date of approval of these financial statements, the Triumph Group is in negotiation with a potential investor for obtaining external loan financing. The directors of the Company expect that funding will be received by the Triumph Group upon execution of such financing arrangement in the short term. The Triumph Group is also in active negotiation with the relevant bank for the deferral of repayment of the overdue bank loan, and to resolve the overdue bank loan issue with the bank under cooperation basis. The directors of the Company are also considering/taking other alternatives to monitor and improve the cash flows of the Triumph Group, which included extension of repayment dates of existing bank loans and other liabilities as and when they fall due in the foreseeable future, and other financing arrangements, including to obtain financing at higher borrowing costs. The directors of the Company expect that at least the payments of certain liabilities of the Triumph Group can be deferred/extended to twelve months after 31 December 2014.

As a result of the depressed coal market and the severe financial difficulties of the coal mining operations of the Triumph Group, the directors of the Company have changed the Group's business strategy and currently implemented an active plan to dispose of the Triumph Group together with its coal mining operations as a whole, so as to discharge the Group from the severe financial burden arising from the coal mining operation of the Triumph Group. As the Triumph Group and its coal mining operation as a whole represented a business component together with its relevant cash flows separated from other business components of the Group, the directors of the Company are of the view that the disposal of the Triumph Group shall not have any material adverse effect on the normal continuing operation of other business components of the Group, and the Group shall also turnaround from a net current liability position to a net current asset position upon such disposal. In addition, the Triumph Group has deficiency in net assets as at 31 December 2013 as dealt with in the Group's consolidated financial statements for the year ended 31 December 2013, and the remaining part of the Group has not provided any guarantees and/or commitments to the bank loans and other liabilities of the Triumph Group. Accordingly, the directors of the Company are of the view that the Group is able to dispose of the Triumph Group during the normal course of business of the Group without any material losses.

As at the date of approval of these financial statements, the Company had communicated with a purchaser for the disposal of the Triumph Group for certain consideration. However, the Group has not yet entered into any agreement or letter of intent in respect thereof. Currently the directors of the Company expect that the disposal of the Triumph Group can be completed in around 1 year or earlier, subject to fulfillment of relevant rules and regulations.

In light of the measures of the Group described above, the directors of the Company are of the view that the Group is able to meet with its liabilities as when they fall due in the foreseeable future. In addition, the above plan to dispose of the Triumph Group as a whole shall not have any material adverse impact to the results, cash flows and financial position of the Group. After such disposal, the remaining part of the Group is a viable group with silver mining and other businesses. Accordingly, the directors of the Company consider 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 in the foreseeable future.

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. 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 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries in the notes to the financial statements. 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and 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 — Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets (early adopted)*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, amendments to HKFRS 10, HKFRS 11, HKFRS 12, HKAS 1 and HKAS 36, and certain amendments included in *Annual Improvements 2009–2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

(b) HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011). The new HKFRS did not have material impact on the Group.

(c) HKFRS 12 sets out the disclosure requirements for subsidiaries and joint arrangements previously included in HKAS 27 *Consolidated and Separate Financial Statements* and HKAS 31 *Interests in Joint Ventures*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries and a joint venture are included in the financial statements.

(d) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.

(e) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 3 is included in the financial statements.

(f) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations) are presented separately from items which will never be reclassified. The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "Statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

(g) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group. Disclosures about the Group's impaired non-financial assets are included in the financial statements.

(h) *Annual Improvements 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. The amendment most applicable to the Group is the amendment to HKAS 1 *Presentation of Financial Statements* which clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

4. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2012, over 90% of the Group's revenue, expenses and assets were generated from the business of mining and selling coal in the People's Republic of China (the "PRC"). 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 the PRC is a single reportable segment of the Group.

During the current year, upon the acquisition of the Million Grow Group, further details of which are set out in note 13 to this announcement, and certain oil and gas assets in the United States of America (the "USA"), the Group also engaged in the mining and selling of silver, oil and gas exploration and production and oil extraction technology research and development.

For management purposes, the Group has three reportable operating segments as follows:

(a) the "Coal" operating segment engages in the mining and selling of coal in the PRC;

(b) the "Silver" operating segment engages in the mining and selling of silver in the PRC; and

(c) the "Oil and gas" operating segment engages in oil and gas exploration and production and oil extraction technology research and development in the USA.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that share of loss of a joint venture and corporate and other unallocated income/(expenses) are excluded from such measurement.

Segment assets exclude investment in a jointly venture, pledged deposits, cash and cash equivalents and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude corporate and other unallocated liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers, if any, are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

For the year ended 31 December 2013

	Coal	**Silver**	**Oil and gas**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue — Sales to external customers	135,769	14,537	—	150,306
Segment results	(1,436,363)	(15,567)	(4,717)	(1,456,647)
Reconciliation:				
Share of loss of a joint venture				(10,415)
Corporate and other unallocated expenses				(96,755)
Loss before tax				(1,563,817)
Segment assets	2,568,492	887,788	61,870	3,518,150
Reconciliation:				
Investment in a joint venture				13,227
Pledged deposits				3,636
Cash and cash equivalents				292,595
Corporate and other unallocated assets				49,664
Total assets				3,877,272
Segment liabilities	(2,988,197)	(246,359)	(37,394)	(3,271,950)
Reconciliation:				
Corporate and other unallocated liabilities				(240,987)
Total liabilities				(3,512,937)

	Coal	Silver	Oil and gas	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:					
Depreciation	142,530	2,607	—	535	145,672
Amortisation of prepaid land premiums	353	26	—	—	379
Amortisation of mining rights	25,607	41	—	—	25,648
Impairment of items of property, plant and equipment	361,157	—	—	—	361,157
Impairment of mining rights	622,420	—	—	—	622,420
Impairment of trade receivables	10,538	—	—	—	10,538
Impairment of prepayments for property, plant and equipment	33,587	—	—	—	33,587
Impairment/(reversal of impairment) of other prepayments, deposits and other receivables	(4,631)	—	—	15,000	10,369
Other non-cash expenses	—	—	—	44,284	44,284
Capital expenditure*	176,838	787,825	61,051	1,660	1,027,374

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary during the year.

Geographical information

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

Information about major customers

During the year, the Group had transactions with two (2012: 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:

	2013	2012
	HK$'000	*HK$'000*
Customer A	**24,833**	*
Customer B	**19,891**	*
Customer C	*	174,646
Customer D	*	63,550
Customer E	*	57,851
	44,724	296,047

* 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 and silver 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:

	2013	2012
	HK$'000	*HK$'000*
Other income		
Bank interest income	**704**	286
Other interest income	**2,162**	1,500
Others	**62**	20
	2,928	1,806
Gains		
Gain on disposal of items of property, plant and equipment	**—**	1,049
Others	**204**	402
	204	1,451
Other income and gains	**3,132**	3,257

6. FINANCE COSTS

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

	2013	2012
	HK$'000	*HK$'000*
Interest on bank and other loans wholly repayable within five years	**128,404**	115,240
Losses on early redemption of convertible notes	**33,964**	—
Imputed interest on convertible notes	**10,320**	20,774
	172,688	136,014

7. LOSS BEFORE TAX

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

	2013	2012
	HK$'000	*HK$'000*
Depreciation	**145,672**	248,778
Amortisation of prepaid land premiums	**379**	346
Amortisation of mining rights	**25,648**	128,842
Write-down of obsolete inventories to net realisable value[@]	**1,944**	—
Loss/(gain) on disposal of items of property, plant and equipment[#]	**2,156**	(1,049)
Impairment of items of property, plant and equipment[#]	**361,157**	684,145
Impairment of mining rights[#]	**622,420**	1,126,973
Impairment of trade receivables[#]	**10,538**	10,424
Impairment of prepayments for property, plant and equipment[#]	**33,587**	29,854
Impairment of the Indemnification Asset	**—**	33,500
Impairment of other prepayments, deposits and other receivables[#]	**10,369**	63,541
Operating lease rentals in respect of buildings	**3,529**	2,410

@ This item is included in "Cost of inventories sold" in the consolidated statement of profit or loss and other comprehensive income during the year.

These items are included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income during the year. Gain on disposal of items of property, plant and equipment for the year ended 31 December 2012 was included in "other income and gains" in the consolidated statement of profit or loss and other comprehensive income during that 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 (2012: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2013	2012
	HK$'000	*HK$'000*
Current — Mainland China	**—**	5,759
Deferred	**(95,778)**	(527,637)
Total tax credit for the year	**(95,778)**	(521,878)

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,864,682,539 (2012: 1,428,729,168) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2013 and 2012 in respect of a dilution, as the deemed exercise of share options of the Company outstanding during these years and the deemed conversion of the convertible notes issued by the Company have either no dilutive effect or an anti-dilutive effect on the basic loss per share amounts for these years.

10. TRADE AND BILLS RECEIVABLES

		Group	
		2013	2012
	Notes	***HK$'000***	*HK$'000*
Trade and bills receivables	*(a)*	**53,177**	56,450
Impairment of trade receivables	*(b)*	**(21,270)**	(10,424)
	(c)	**31,907**	46,026

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	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**10,424**	—
Impairment losses recognised	**10,538**	10,424
Exchange realignment	**308**	—
At 31 December	**21,270**	10,424

At 31 December 2013, the provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$21,270,000 (2012: HK$10,424,000) with a carrying amount before provision of HK$21,270,000 (2012: 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	
	2013	2012
	HK$'000	*HK$'000*
Less than six months	**6,806**	30,409
Six months to one year	**11,536**	4,674
Over one year	**34,835**	21,367
	53,177	56,450
Provision for impairment *(note (b))*	**(21,270)**	(10,424)
	31,907	46,026

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

	Group	
	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**6,591**	20,769
Past due for less than six months	**11,372**	9,640
Past due for over six months	**13,944**	5,258
	31,907	35,667

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-day 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	
	2013	2012
	HK$'000	*HK$'000*
Less than six months	**6,190**	92,336
Six months to one year	**782**	645
Over one year	**4,788**	35
	11,760	93,016

12. SHARE CAPITAL

Shares

	2013	2012
	HK$'000	*HK$'000*
Authorised:		
15,000,000,000 ordinary shares of HK$0.1 each	**1,500,000**	1,500,000
Issued and fully paid:		
3,012,055,568 (2012: 1,428,729,168) ordinary shares of HK$0.1 each	**301,205**	142,873

A summary of the transactions during the year ended 31 December 2013 with reference to the movements in the Company's issued share capital is as follows:

	Notes	**Number of shares in issue**	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 January 2012, 31 December 2012 and 1 January 2013		1,428,729,168	142,873	1,166,813	1,309,686
Issue of shares	*(a)*	1,555,555,000	155,555	544,444	699,999
Share issue expenses	*(a)*	—	—	(1,323)	(1,323)
Exercise of the 2013 CN	*(b)*	27,771,400	2,777	14,538	17,315
At 31 December 2013		3,012,055,568	301,205	1,724,472	2,025,677

Notes:

(a) On 31 January 2013, pursuant to the completion of a subscription agreement entered into between the Company and an investor dated 12 October 2012, the Company issued and allotted 1,555,555,000 new ordinary shares with par value of HK$0.1 each at a cash consideration of HK$0.45 per share. Net proceeds of the issuance amounted to approximately HK$698,676,000. Further details of the transactions are set out in the Company's announcements dated 17 October 2012 and 31 January 2013, respectively, and the circular dated 15 November 2012.

(b) During the year, the holder of the 2013 CN (as defined in note 13) exercised the rights attached to the 2013 CN, which was issued in connection with the acquisition of Million Grow during the year, to convert into 27,771,400 shares at a conversion price of HK$0.68 per share, resulting in HK$14,538,000 being transferred from the equity component of the convertible notes to share premium account upon the conversion.

13. BUSINESS COMBINATION

Pursuant to a sale and purchase agreement and a subscription agreement both dated 30 April 2013, the Company acquired a total of 50% of the equity interest in Million Grow Investments Limited ("Million Grow", together with its subsidiaries, the "Million Grow Group") from two independent third parties (the "Vendors") at a total consideration of RMB217,000,000 (equivalent to approximately HK$272,485,000), satisfied as to RMB202,000,000 (equivalent to approximately HK$256,058,000) in cash and the remaining RMB15,000,000 (equivalent to approximately HK$18,884,000) by the issuance of convertible notes by the Company (the "2013 CN").

Million Grow is an investment holding company and its subsidiaries possess a mining right of a silver mine and exploration rights of another silver mine in Fujian province, the PRC.

On 30 April 2013, the Company also entered into a call option agreement with the Vendors pursuant to which in consideration of HK$1 paid by the Company, the Vendors had granted a call option (the "Call Option") to the Company, exercisable by the Company within 3 business days after the competent person's report of the two silver mines under the JORC Code in compliance with the requirements under Chapter 18 of the Listing Rules (the "JORC Code Report") is issued, or at a later date as agreed by the Company and the Vendors, for the acquisition of the remaining 50% equity interest in Million Grow at RMB463 million (subject to downward adjustments with reference to an agreed formula as stated in the call option agreement).

Further details of the acquisition have been set out in the announcements of the Company dated 1 May 2013 and 13 June 2013, respectively. The acquisition of the 50% equity interest in Million Grow has been completed on 30 May 2013 and the Call Option remain unexercised as at 31 December 2013.

Million Grow is a subsidiary of the Company as the Company controls the composition of its board of directors and the Company has the power over Million Grow to affect the amount of the Company's returns.

The assessment of the fair value of the Call Option requires, *inter alia*, its exercise price which depends on the total amount of silver metals and ore grade of the two mines as stated in the JORC Code Report which was only available in March 2014.

The Group has elected to measure the non-controlling interest in the Million Grow Group at the non-controlling interest's proportionate share of the Million Grow Group's identifiable net assets.

The fair values of the identifiable assets and liabilities of the Million Grow Group as at the date of the acquisition were as follows:

	HK$'000
Property, plant and equipment	74,910
Prepaid land premiums	1,256
Mining and exploration rights	686,812
Inventories	5,434
Prepayments, deposits and other receivables	4,754
Cash and bank balances	901
Other payables and accruals	(46,887)
Other interest-bearing borrowings	(126)
Deferred tax liabilities	(160,792)
Non-controlling interests	(309,437)
	256,825
Goodwill	15,660
	272,485
Satisfied by:	
Cash	256,058
Issuance of the 2013 CN	16,427
	272,485

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisition of subsidiaries are as follows:

	2013 *HK$'000*
Cash consideration	(256,058)
Cash and bank balances acquired	901
Net outflow of cash and cash equivalents in respect of the acquisition	(255,157)

Notes:

(a) The fair value of the mining and exploration rights of the Million Grow Group at the acquisition date was assessed using the information in the JORC Code Report.

(b) The conversion option of the convertible notes is classified as an equity component, the fair value of which at the issue date was HK$3,093,000. The fair value of the host debt, which is classified as a liability component, had a fair value of HK$13,334,000 at the issue date. The aggregate fair value of the convertible notes at the issue date was HK$16,427,000.

(c) Since the acquisition, Million Grow Group contributed HK$14,537,000 to the Group's revenue and HK$15,567,000 to the consolidated loss for the year ended 31 December 2013.

Had the combination taken place in the beginning of the year ended 31 December 2013, the consolidated revenue and consolidated loss of the Group for the year ended 31 December 2013 contributed by the Million Grow Group would have been HK$14,537,000 and HK$25,774,000, respectively.

14. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 27 January 2014, the Group exercised its rights under the terms of the convertible notes to fully repay the outstanding convertible notes in the principal amount of HK$39,205,000 at par value. The management estimated that a loss on early redemption of convertible notes amounting to HK$3,014,000 will be recognised for the year ending 31 December 2014.

Extract of Independent Auditors' Report on the Group's Consolidated Financial Statements for the year ended 31 December 2013

"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 2013, 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 2013, the Group's current liabilities exceeded its current assets by HK$2,305 million. Such condition, along with other matters as set forth in note 2, indicates the existence of a significant 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 Review

The Group is principally engaged in the mining and selling of coal and silver in the PRC. Following the completion of the subscription of majority stakes of the Company by Beida Jade Bird Group in January 2013, the Company has built up a new management team with strong and comprehensive oil and gas background. Since then, the Company has been actively seeking opportunity to acquire heavy oil extraction technology and pursuing upstream oil and gas exploration and production ("E&P") projects in North America to further strengthen the asset portfolio of the Group during the year of 2013.

Coal Mining

The coal mining business of the Group continues to present a difficult and ongoing challenge for the Group. As at 31 December 2013, the total liabilities of the Group's coal mining sub-group reached HK$3.0 billion, which accounted for over 85% of the Group's total liabilities. The coal businesses debt load is far greater than the current coal mining macro environment can sustain as the global coal mining business is quite depressed. In the United States, coal price has been hurt by political policy and the price of natural gas. The advent of hydraulic fracturing has created a large enough supply that power generators have widely converted to cheaper natural gas as a fuel source for electricity generation. According to the Paris-based agency's *World Energy Outlook*, China will add more electricity generating capacity from renewable sources by year 2035 than the United States, Europe, and Japan combined. Hydro power, wind power, and solar photovoltaic cells will become the main sources of China's renewably sourced electricity. The agency predicts that China's share of global coal consumption will shrink between now and year 2035. Slowing economic growth and efforts to boost use of alternative fuels have dragged down coal prices in China, the world's biggest producer and consumer of the fuel. In view of the above, on 6 June 2013, the Company entered into a disposal agreement with an interested buyer to dispose of the coal mining business. However due to the time required to address the concerns of the Stock Exchange and the prolonged suspension of trading in the share of the Company, the disposal agreement was terminated on 22 August 2013.

Subsequent to the termination of the disposal agreement, on 30 August 2013, Shanxi Hengchuang, a wholly-owned subsidiary of the Company and the onshore holding company of the Group's coal mining business, entered into a loan agreement with an independent third party lender pursuant to which the lender would provide to Shanxi Hengchuang a loan with a principal amount of HK$360 million with Shanxi Hengchuang's equity interest in Shanxi Puhua, together with its subsidiaries Hengtai and Liaoyuan being pledged as collateral for the loan. It effectively means that the segment assets of HK$2.6 billion and segment liabilities of HK$3.0 billion, of which HK$2.4 billion are current liabilities, of the Company's coal mining sub-group have been subject to pledge. In view of the deteriorating level of financial liquidity of Hengtai and Liaoyuan, the Company has properly disclosed the relevant default risk to the lender. The loan will be used to finance the working capital needs of the silver mining and the oil and gas business of Group as well as future investment opportunities. The Company will continue to pursue unloading its coal mining business and further announcement(s) will be made by the Company in compliance with the Listing Rules as and when appropriate.

HydroFlame Technology

In November 2013, the Company successfully acquired HydroFlame technology, which is a new heavy oil extraction technology that burns a fuel directly inside a rotating stream of water. Because of the direct contact between the flame and water, very high heat transfer coefficients are achieved which render the HydroFlame devices as quite compact and highly efficient heat transfer systems.

HydroFlame has been first developing a compact and efficient downhole steam generator ("DHSG") for heavy oil recovery applications. High quality steam and fuel gases from HydroFlame DHSGs are injected into the heavy oil reservoir resulting in natural sequestration of carbon dioxide. In addition, with its unique heat transfer features, HydroFlame DHSGs can use produced water from oil fields with minimal pre-treatment. As such, the HydroFlame technology reduces the emission of greenhouse gases and water treatment need and heat losses which in turn increase efficiency.

The HydroFlame technology has yet to be commercialised, but has several new engineering process applications including hot water heaters, compact steam generators, produced water treatment processes and efficient power generation systems. It has successfully passed the surface test at an abandoned well with very promising results. The Group is working toward performing downhole tests at local oil wells in the United States. and will endeavor to develop and commercialize the HydroFlame technology both for oil extraction as well as other applications in near future.

Oil and Gas E&P Projects

Leveraging on the strong and comprehensive oil and gas expertise and investment background of the management team, in addition to the acquisition of the HydroFlame technology, the Group has also been exploring various upstream oil and gas E&P projects opportunities and securing certain leases in North America since the fourth quarter of 2013. Up to the date hereof, the Group has leased approximately 4,550 acreages in Texas, the United States and has identified three drilling locations. Drilling on one of these locations started recently and fracking is anticipated in the first half of May 2014. The HydroFlame technology, when commercialized, can be applied to the upstream oil and gas E&P projects that the Group is pursuing in the foreseeable future. The Company considers that the HydroFlame technology and the E&P projects are good opportunities for the Group to enter and soundly grow its upstream oil and gas business in North America market at low cost with prominent upside potential.

Silver Mining

In May 2013, the Group completed the acquisition of 50% equity interest in the Million Grow Group, which operates two quality silver mines in Fujian Province, i.e., the East Mine and the West Mine through Leixin. According to a Competent Person's Report issued by SRK Consulting China Limited, the Fujian Leixin project qualifies as an advanced mining property as defined by the Stock Exchange. The West Mine has a valid mining permit with approved production capacity of 100,000 ton per annum ("tpa") and a processing plant with daily ore processing capacity of 300 tons per day is already in place. An upgrade to a designed production capacity of 198,000 tpa is underway and production at the West Mine is expected to reach full capacity in 2015. According to the JORC Standard, the indicated and inferred mineral resources of the West Mine are approximately 0.87 million tons ("Mt") and 1.71 Mt, respectively and its probable reserve is approximately 0.82 Mt with ore grade of silver averaging 211.4 g/t. During the year of 2013, about 30,000 tons of mineral resources has been depleted from the West Mine which was mainly the by-product ores during the construction of the mine.

The East Mine is an advanced development project with an exploration permit valid until October 2015. Following the completion of the acquisition, the Group has carried out more in-depth exploration work with increased drilling coverage and density in the East Mine and therefore the resources level of the East Mine have been significantly improved. According to the JORC Standard, the indicated and inferred mineral resources of the East Mine are approximately 6.35 Mt and 1.73 Mt respectively and its probable reserve is approximately 5.95 Mt with ore grade of silver averaging 128.6 g/t. The designed mining and processing scale of the East Mine is 660,000 tpa. Construction of the East Mine is expected to commence in 2014 and be completed in 2016. Production at the East Mine is expected to commence at the beginning of 2016 and reach a production capacity of 660,000 tpa from 2017.

Results Review

Revenue and cost of inventories sold

The Group recorded total revenue of approximately HK$135.8 million (2012: HK$571.1 million) from coal mining during the year, representing a significant decrease of 76% compared with last year. Hengtai and Liaoyuan contributed revenue of approximately HK$99.7 million (2012: HK$419 million) and approximately HK$36.1 million (2012: HK$152.1 million) respectively and both recorded significant decreases in average selling prices ("ASPs") and sales volumes mainly because of persistent weak demand in coal market during the year. The ASPs of raw coal produced by Hengtai and Liaoyuan during the year were approximately RMB84 (2012: RMB135) and RMB121 (2012: RMB227) per ton, respectively. Hengtai and Liaoyuan recorded sales volumes of approximately 0.94 Mt (2012: 2.5 Mt) and 0.24 Mt (2012: 0.5 Mt), respectively.

The Million Grow Group, which was acquired by the Group in May 2013, generated revenue of approximately HK$14.5 million from selling by-product ores in the West Mine during the year.

Cost of inventories sold primarily consists of depreciation and amortisation of property, plant and equipment and mining rights, related labour cost and subcontracting fee for the production, taxes, supplies, utilities and other incidental expenses in relation to production of coal and trial production in the West Mine. Cost of inventories sold for coal mining and silver mining business was approximately HK$365.5 million (2012: HK$662 million) and HK$10.9 million during the year, respectively.

With significant decreases in ASPs of coal during the year as mentioned above, Hengtai and Liaoyuan recorded gross loss margins of 191% (2012: 20%) and 107% (2012: 5%). Leixin recorded a gross profit margin of 25%.

Other income and gains

Other income and gains, which mainly represented interest income earned during the year, was approximately HK$3.1 million (2012: HK$3.3 million).

Selling and distribution expenses and administrative expenses

Selling and distribution costs and administrative expenses were HK$6.8 million (2012: HK$10.6 million) and HK$105.2 million (2012: HK$95.1 million) during the year.

Administrative expenses mainly comprised staff cost for administrative functions, legal and professional fee incurred for operation, depreciation and other administrative expenses. The increase was mainly attributable to administrative expenses incurred by the newly acquired Million Grow Group being included in the Group's results during the year.

Other expenses

Other expenses mainly comprised aggregate impairments of property, plant and equipment and mining rights of Hengtai and Liaoyuan and trade and other receivables of approximately HK$983.6 million (2012: HK$1,811.1 million) and HK$20.9 million (2012: HK$74.0 million), respectively, during the year.

In view of indications of impairment including: (1) continuous deteriorating performance of coal mining business as mentioned above; and (2) further delay in production schedule of Hengtai's No. 2 Coal Mine as the coal mine exchange as disclosed in the annual report of the Company for the year ended 31 December 2012 (the "2012 Annual Report") has not been formally approved by the local government as at 31 December 2013 and up to date of this announcement, the management had estimated the recoverable amounts of the assets of the coal mining business of the Group (the "Coal Mining Assets") for impairment testing.

Based on the assessment reviewed by the independent valuer, an impairment loss totaling HK$983.6 million was made to the Coal Mining Assets and was allocated as to HK$361.2 million to property, plant and equipment (Hengtai: HK$321.5 million; Liaoyuan: HK$39.7 million) and HK$622.4 million to mining rights (Hengtai: HK$531.5 million; Liaoyuan: HK$90.9 million), based on their relative carrying amounts before the said impairment.

In addition, in 2012, an impairment loss of HK$33.5 million has been made to the indemnification asset of Liaoyuan as disclosed in 2012 Annual Report. There was no such impairment loss recognised during the year.

Finance costs

Finance costs were approximately HK$172.7 million (2012: HK$136 million) during the year, which represented mainly interest expenses for bank and other borrowings incurred for Triumph Group and Million Grow Group amounting to approximately HK$124.9 million (2012: HK$115.2 million) and HK$3.5 million (2012: nil) respectively. Imputed interest expenses for convertible notes issued in December 2009 and June 2013 amounting to approximately HK$10.3 million (2012: HK$20.8 million) in total were recognised during the year. As part of the convertible notes with principal amount of HK$250 million were early redeemed from March to June 2013, a loss of approximately HK$34 million was also recognised for the Million Grow Group during the year.

Share of profit/(loss) of a joint venture

Share of profit/(loss) of a joint venture represented share of profit/(loss) generated from the fund management company set up with CITIC Trust Co. Ltd. in 2011.

Income tax

Income tax credit was approximately HK$95.8 million (2012: HK$521.9 million) during the year. It represented write-back of deferred taxation of approximately HK$95.8 million (2012: HK$527.6 million) mainly arising from impairment of revaluated assets during the year. No provision for profit tax in both Hong Kong (2012: nil) and operation in the PRC (2012: provision of HK$5.7 million) has been made during the year.

Liquidity and Financial Review

The Group mainly financed its day to day operations and acquisitions by internally generated cash flow, equity fund raising and other financing exercises during the year. As at 31 December 2013, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.17:1 (2012: 0.08:1).

On 12 October 2012, the Company entered into a subscription agreement with an investor for subscription of 1,555,555,000 new shares of the Company at the subscription price of HK$0.45 per share. The subscription was completed in January 2013, raising a net proceed of approximately HK$698.7 million to the Group. In addition, a loan agreement with principal amount of HK$360 million was entered into between the Group and an independent lender in August 2013 as mentioned above.

As at 31 December 2013, the cash and cash equivalents of the Group were approximately HK$292.6 million (2012: HK$15.9 million). The Group recorded a net cash outflow from its operating activities of approximately HK$260.5 million (2012: inflow of HK$246.9 million) during the year.

As at 31 December 2013, the Group had outstanding interest-bearing borrowings, all of which were denominated in Renminbi, amounting to approximately HK$1,633.1 million (2012: HK$1,396 million). Of the Group's interest-bearing borrowings, 70%, 24% and 6% were repayable on demand or within one year, in the second year and in the third to the fifth year, inclusive, respectively (2012: 73%, 12%, 15%). Borrowings of approximately HK$1,291.8 million (2012: HK$870.7 million) and HK$371.3 million (2012: HK$525.3 million) were interest-bearing with floating interest rates and at fixed rates of 3% – 7.2% (2012: 6.15% – 7.87%) respectively.

Certain loans of approximately HK$256 million raised by Hengtai have been overdue during the year and were not yet repaid up to date of this announcement. The Group has been at its best effort trying to negotiate with the bank to extend the maturity dates of such loans.

As at 31 December 2013, the carrying amount of the liability component and outstanding principal of the Group's zero coupon redeemable convertible notes, which have a 5-year term from 21 December 2009, was approximately HK$36 million and HK$39.2 million, respectively (2012: HK$242.6 million and HK$289.2 million). During the year, convertible notes of principal amount of HK$250 million have been early redeemed at par by the Company. The remaining convertible notes with principal amount of approximately HK$39.2 million have been redeemed at par in January 2014.

In June 2013, zero coupon redeemable convertible notes, which have a 3-year term from 11 June 2013, of principal amount of approximately HK$18.9 million were issued for settlement of part of the consideration for the acquisition of Million Grow Group. The holder has fully exercised the rights attached to such convertible notes to convert into 27,771,400 shares at a conversion price of HK$0.68 per share in December 2013.

The Group conducted its continuing operational business transactions mainly in Renminbi, Hong Kong dollars and United States 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 represented trade and bills payables, other payables and accruals and interest-bearing bank borrowings) less cash and cash equivalents to the total capital (which represented equity attributable to owners of the Company and convertible notes), was 17.44 as at 31 December 2013, as compared to 2.18 as at 31 December 2012.

Significant Investments, Material Acquisitions and Disposals

Acquisition of Million Grow

Pursuant to a sale and purchase agreement and a subscription agreement both dated 30 April 2013, the Company acquired a total of the 50% of the equity interest in Million Grow, which indirectly held two silver mines in Fujian Province, the PRC, from Vendors for a total consideration of RMB217 million, satisfied as to RMB202 million in cash and the remaining RMB15 million by the issuance of the 2013 CN by the Company.

On 30 April 2013, the Company also entered into a call option agreement with the Vendors pursuant to which in consideration of HK$1 paid by the Company, the Vendors had granted the Call Option to the Company for acquisition of the remaining 50% equity interest in Million Grow at RMB463 million (subject to downward adjustments with reference to an agreed formula as stated in the call option agreement).

Further details of the acquisition have been set out in the announcements of the Company dated 1 May 2013, 13 June 2013 and 20 March 2014. The acquisition of 50% equity interest in Million Grow has been completed in May 2013 and the Call Option has not been exercised as at the date of this announcement.

Acquisition of assets of HydroFlame

The Group acquired an advanced heavy oil recovery technology and the related assets of HydroFlame Technologies, L.L.C. with a cash consideration of US$7,875,000 (equivalent to about HK$61.1 million) to be payable in several installments pursuant to an asset purchase agreement dated 17 September 2013. The acquisition was completed on 15 November 2013. Further details have been disclosed in the announcements of the Company dated 28 October 2013 and 18 November 2013.

Termination of proposed disposal of Triumph Fund A Limited

On 6 June 2013, the Group and an independent purchaser entered into an agreement in relation to the disposal of the entire interest in Triumph Fund A Limited which indirectly held Hengtai and Liaoyuan and an option agreement pursuant to which in consideration of HK$1 paid by the Company, the Group has the right to exercise the option to exchange for the possible new coal mine interest to be obtained by Hengtai with the coal processing plant within three years from the completion of the proposed disposal.

The proposed disposal was terminated on 22 August 2013. Further details of the proposed disposal have been set out in the announcement of the Company dated 23 August 2013.

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

Capital Commitments, Charge on Group Assets and Contingent Liabilities

As at 31 December 2013, the capital commitments of the Group were approximately HK$30.3 million (2012: HK$32.5 million), which were mainly related to purchase of plant and machineries.

As at 31 December 2013, bank and other borrowings of approximately HK$1,663.1 million (2012: HK$923.3 million) and other payables of approximately HK$276.8 million (2012: nil) were secured by certain of the Group's mining rights, property, plant and equipment and prepayments, deposits and other receivables and guarantees given by a former shareholder of Triumph Fund A Limited, a former director of Hengtai, certain independent third parties and equity interests of subsidiaries.

As at 31 December 2013, time deposits of approximately HK$3.6 million (2012: HK$3.5 million) were pledged for general bank facilities.

Save as disclosed above, the Group had no other pledge of assets as at 31 December 2013 (2012: nil).

As at 31 December 2013, the Group did not have any material contingent liability (2012: nil).

Human Resources and Share Option Scheme

As at 31 December 2013, the Group had 395 employees. The total staff costs (including directors' remuneration) for the year ended 31 December 2013 were approximately HK$48.5 million (2012: HK$69.0 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 share option scheme, the Company may offer to any eligible participants including employee of the Group options to subscribe for shares in the Company. No share option was granted nor exercised during the year. There were no outstanding share options as at 31 December 2013.

Future Outlook

Year 2014 is expected to be a year of turnaround for the Group. While the Company will continue to seek for unloading its below-par coal mining business, the other newly invested businesses are expected to start generating considerable revenue for the Group.

In Texas, the United States, the Group has identified three drilling locations and already started drilling at one of these locations, where fracking is tentatively scheduled in the middle of May 2014. Other resource plays who are drilling in nearby formation have recently announced very encouraging results for the wells they have already drilled. With such promising prospects, and with more than 4,550 leased acreages already secured, the Group will continue to enlarge its drilling scale in the area. It is anticipated that the upstream E&P projects will generate income for the Group as soon as the second half of 2014.

In the meantime, the Group intends to continue to develop and commercialize the HydroFlame technology both for oil extraction as well as other applications. As part of the development and commercialization process, the Group will consider taking both financial and strategic partners as necessary in order to most effectively commercialize the technology. The Group is optimistic with the HydroFlame technology which, when commercialized, can be applied to the potential upstream oil and gas E&P projects that the Group may pursue in the foreseeable future, thereby creating values and business opportunities to the Group.

Furthermore, commercial production of the West Mine is expected to commence in 2nd quarter of 2014 as construction work for the 100,000 tpa production capacity has already been completed. The Company also intends to undergo a production upgrade in order to ramp up its capacity to 198,000 tpa. More in-depth exploration work will be carried out in the East Mine to further strengthen its resources level, while mine construction is expected to begin later this year. The Company is committed to devoting sufficient financial resources to this advanced mining project in order to further improve the mine design, ore quality and production capacity.

The Company believes that the above new projects will contribute stable revenue and earnings to the Group in the foreseeable future. The Company will also continue to restructure its investment portfolios and further diversify its investments into other projects in order to bring values to the shareholders.

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:

(1) Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. All of the existing non-executive directors and independent non-executive directors of the Company are not appointed on specific terms, though all of them are subject to retirement by rotation at the annual general meeting of the Company.

    According to the Articles of Association of the Company, one third of the directors shall retire from office by rotation. 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.

(2) Under provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting. However, the chairman of the Board was unable to attend the annual general meeting held on 31 May 2013 due to his personal engagement.

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 2013.

Publication of Annual Report

The annual report of the Company for the year ended 31 December 2013 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.

II. UPDATE ON THE RECENT DEVELOPMENT OF THE GROUP

Call Option on the Remaining Shares in Million Grow

Reference is made to the announcements of the Company dated 1 May 2013, 13 June 2013 and 20 March 2014 in relation to the acquisition of 50% equity interest in Million Grow Group which is engaged in the silver mining project. Following the completion of the acquisition, the Group has carried out more in-depth exploration work in the mines and therefore the resources level of the mines have been improved. The latest Competent Person's Report on the mines prepared under JORC code by SRK Consulting China Limited has revealed very promising findings with the silver resources/reserves and silver ore grades while also demonstrated a clear-cut production path of the project. In this regard, the Company is carefully studying and examining the report findings and will consider whether to exercise the Call Option to purchase the remaining 50% interests in the project under the call option agreement. Discussion with the Vendors of the project is underway.

Possible Disposal of the Coal Mining Business

As elaborated in the "Business Review" section of this announcement, the performance of the coal mining business of the Group has remained unsatisfactory and casted severe financial burden to the Group. The Company, who strives to act for the interests of its shareholders, will continue to pursue to unload its coal mining business including but not limited to possible disposal of the coal mining sub-group (the "Possible Disposal") in the foreseeable future. There is no binding agreement entered into in respect of the Possible Disposal as at date of this announcement.

Further announcement(s) will be made by the Company in relation to the Call Option and/or the Possible Disposal in compliance with the Listing Rules as and when appropriate. **As the Call Option may or may not be exercised and the Possible Disposal may or may not materialize, shareholders and investors are advised to exercise caution when dealing in the shares of the Company.**

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

Hong Kong, 31 March 2014

As at the date of this announcement, the executive Directors are Mr. Xu Zhendong, Mr. Zhang Wanzhong, Mr. Tian Wenwei, Mr. Zong Hao, 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. Lu Binghui, Mr. Lee Ping and Mr. Liu Shengming.