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 2014

HIGHLIGHTS

— The Group recorded a loss for the year attributable to owners of the Company of HK$1,723.5 million (2013: HK$1,373.7 million) of which the coal mining business incurred a loss of HK$1,551.3 million (2013: HK$1,264.2 million). Excluding the impairment losses of property, plant and equipment and mining rights of the coal mining business of HK$1,242 million in aggregate (2013: HK$983.6 million), the Group would record a loss attributable to owners of the Company of HK$555.4 million (2013: HK$448.6 million).

— As at 31 December 2014, net liabilities attributable to owners of the Company were HK$1,509.3 million (2013: net assets of HK$122.3 million) which comprised mainly the net liabilities of the coal mining business of HK$1,980.0 million (2013: HK$438.1 million). The remaining business of the Group had net assets of HK$470.7 million (2013: HK$560.4 million).

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

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 2014, 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 2014

	Notes	2014 HK$'000	2013 HK$'000
REVENUE	5	**39,838**	150,306
Cost of inventories sold		**(172,865)**	(376,423)
Gross loss		**(133,027)**	(226,117)
Other income and gains	5	**5,871**	3,132
Selling and distribution expenses		**(5,488)**	(6,779)
Administrative expenses		**(109,163)**	(105,150)
Other expenses		**(1,489,902)**	(1,045,800)
Finance costs	6	**(112,098)**	(172,688)
Share of loss of a joint venture		**(2,563)**	(10,415)
LOSS BEFORE TAX	7	**(1,846,370)**	(1,563,817)
Income tax credit	8	**43,111**	95,778
LOSS FOR THE YEAR		**(1,803,259)**	(1,468,039)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(5,144)**	31,943
Fair value change of an available-for-sale equity investment		**7,850**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX OF NIL		**2,706**	31,943
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,800,553)**	(1,436,096)
Loss for the year attributable to:			
Owners of the Company		**(1,723,508)**	(1,373,711)
Non-controlling interests		**(79,751)**	(94,328)
		(1,803,259)	(1,468,039)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(1,714,126)**	(1,346,635)
Non-controlling interests		**(86,427)**	(89,461)
		(1,800,553)	(1,436,096)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic and diluted		**HK$(0.57)**	HK$(0.48)

Consolidated Statement of Financial Position

31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**911,765**	1,361,988
Prepaid land premiums		**14,882**	15,848
Mining and exploration rights		**919,299**	1,840,922
Goodwill		**—**	15,852
Other intangible asset		**72,932**	61,094
Investment in a jointly venture		**10,357**	13,227
Available-for-sale equity investment		**23,775**	—
Prepayments and deposits		**63,565**	107,322
Total non-current assets		**2,016,575**	3,416,253
CURRENT ASSETS			
Inventories		**11,234**	14,806
Trade and bills receivables	*10*	**15,443**	31,907
Prepayments, deposits and other receivables		**112,050**	118,075
Pledged deposits		**3,951**	3,636
Cash and cash equivalents		**156,072**	292,595
Total current assets		**298,750**	461,019
CURRENT LIABILITIES			
Trade and bills payables	*11*	**13,255**	11,760
Other payables and accruals		**1,651,461**	1,367,407
Interest-bearing borrowings, secured		**1,581,118**	1,156,119
Income tax payable		**224,703**	230,390
Total current liabilities		**3,470,537**	2,765,676
NET CURRENT LIABILITIES		**(3,171,787)**	(2,304,657)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(1,155,212)**	1,111,596
NON-CURRENT LIABILITIES			
Other payables		**18,960**	10,080
Interest-bearing borrowings, secured		**32,976**	506,987
Convertible notes		**—**	35,953
Deferred tax liabilities		**146,571**	194,241
Total non-current liabilities		**198,507**	747,261
Net assets/(liabilities)		**(1,353,719)**	364,335
EQUITY/(DEFICITS)			
Equity attributable to owners of the Company			
Share capital: nominal value		**—**	301,205
Share premium account		**—**	1,724,472
Capital redemption reserve		**—**	523
Share capital and other statutory capital reserves	*12*	**2,108,700**	2,026,200
Equity component of convertible notes		**—**	73,052
Other reserves		**(3,618,038)**	(1,976,963)
		(1,509,338)	122,289
Non-controlling interests		**155,619**	242,046
Total equity/(Deficits)		**(1,353,719)**	364,335

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, oil extraction technology research and development and provision of finance leasing.

2. BASIS OF PREPARATION, PRESENTATION AND CONSOLIDATION

Basis of preparation (extract of note 2 to the financial statements for the year ended 31 December 2014)

As at 31 December 2014, the current liabilities of the Group exceeded its current assets by approximately HK$3,172 million, and bank loans with principal aggregating to HK$669 million were overdue as at 31 December 2014 (31 December 2013: HK$256 million). The net current liability position and overdue bank loans of the Group were attributed to Magic Field International Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (collectively the "Magic Field Group") having consolidated net current liabilities of HK$3,119 million as dealt with in the Group's consolidated statement of financial position as at 31 December 2014, inclusive of overdue bank loans with principal aggregating to HK$669 million (31 December 2013: HK$256 million). The remaining part of the Group has net current liabilities of HK$233 million as at 31 December 2014 and did not have any overdue bank loans. Subsequent to 31 December 2014, certain creditors have agreed to extend the repayment dates of current liabilities of the remaining part of the Group of HK$307 million to after 31 December 2015, or not earlier than 31 March 2016.

The Magic Field Group is the coal mining component of the Group. As a result of continuing depression of coal market, the Magic Field Group incurred significant losses before tax of HK$1,613 million (including impairment losses of HK$1,242 million on mining rights and property, plant and equipment of the Magic Field Group) as dealt with in the Group's consolidated financial statements for the year ended 31 December 2014. The operation of the Magic Field Group as a going concern is very dependent on whether the Magic Field 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 Magic Field Group can obtain new financing. All these indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Magic Field Group to operate as a going concern in the foreseeable future.

As a result of the depressed coal market and the severe financial difficulties of the coal mining operations of the Magic Field Group, the Company has the plan to dispose of Magic Field Group. Subsequent to 31 December 2014, the Group entered into a contemplated arrangement to dispose of its entire equity interest in Magic Field International Limited to a buyer (the "Buyer") at a nominal amount, and as part of the consideration, the Buyer will assume certain liabilities of the remaining part of the Group.

As the Magic Field Group and its coal mining operation as a whole represented a business component together with its relevant cash flows are separated and independent from other business components of the Group, the directors of the Company are of the view that the disposal of the Magic Field 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 after completion of such disposal, after taking into account certain current liabilities of the remaining part of the Group being assumed by the Buyer. The Magic Field Group has deficiency in net assets as at 31 December 2014 as dealt with in the Group's consolidated financial statements for the year ended 31 December 2014, and the remaining part of the Group has not provided any guarantees and/or commitments to the bank loans and other liabilities of the Magic Field Group. Accordingly, the directors of the Company are of the view that the Group is able to dispose of the Magic Field Group without any material losses. After such disposal, the remaining part of the Group is a viable group having silver mining and other businesses.

The directors of the Company are also considering/taking other alternatives to monitor and improve the cash flows of the remaining part of the Group, which included the extension of repayment dates of existing liabilities as and when they fall due in the foreseeable future, and other financing arrangements. As at the date of approval of these financial statements, the Company was in discussion with certain independent investors to issue convertible securities of the Company to such investors to the extent of US$500 million (approximately HK$3.9 billion). However, the Company has not yet entered into any binding agreement or letter of intent for such issuance of convertible securities. In addition, a substantial shareholder of the Company, Jade Bird Energy Fund II, LLP, has confirmed its ability and agreement to provide continual financial support to the remaining part of the Group such that it can meet with its liabilities as and when they fall due in the foreseeable future.

In light of the measures of the Group described above, the directors of the Company are of the view that the remaining part of the Group is able to meet with its liabilities as and when they fall due in the foreseeable future. In addition, the arrangement to dispose of the Magic Field Group shall not have any material adverse impact to the results, cash flows and financial position of the remaining part of the Group. 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 (the "HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for the available-for-sale equity investment, 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 2014. 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 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 below. 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 accumulated losses, 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 revised standards and a new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010–2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010–2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010–2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011–2013 Cycle*	*Meaning of Effective HKFRSs*

1 Effective from 1 July 2014

Other than explained below regarding the impact of Amendments to HKFRS 10, HKFRS 12, HKFRS 27, HKAS 32 and HK(IFRIC)-Int 21, and certain amendments included in *Annual Improvements 2010–2012 Cycle* and *Annual Improvements 2011–2013 Cycle*, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

(a) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.

(d) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

The Group has not applied the new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their operations and the products and has four 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;

(c) the "Oil and gas" operating segment engages in oil and gas exploration and production and oil extraction technology development in the United States of America (the "USA"); and

(d) the "Others" operating segment engages in business other than the three mentioned above in the PRC or overseas.

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 expenses are excluded from such measurement.

Segment assets exclude investment in a jointly venture, an available-for-sale equity investment, 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.

The following tables present revenue, profit/(loss), total assets and total liabilities regarding the Group's operating segments for the years ended 31 December 2014 and 2013.

	Coal		Silver		Oil and gas		Others		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue — Sales to external customers	**27,979**	135,769	**1,830**	14,537	**9,207**	—	**822**	—	**39,838**	150,306
Segment results	**(1,614,908)**	(1,436,363)	**(118,886)**	(15,567)	**(42,280)**	(4,717)	**(723)**	—	**(1,776,797)**	(1,456,647)
Reconciliation:										
Share of loss of a joint venture									**(2,563)**	(10,415)
Corporate and other unallocated income and expenses									**(67,010)**	(96,755)
Loss before tax									**(1,846,370)**	(1,563,817)
Segment assets	**1,173,768**	2,568,492	**748,330**	887,788	**147,495**	61,870	**17,465**	—	**2,087,058**	3,518,150
Reconciliation:										
Investment in a joint venture									**10,357**	13,227
Available-for-sale equity investment									**23,775**	—
Pledged deposits									**3,951**	3,636
Cash and cash equivalents									**156,072**	292,595
Corporate and other unallocated assets									**34,112**	49,664
Total assets									**2,315,325**	3,877,272
Segment liabilities	**(3,159,513)**	(2,988,197)	**(251,031)**	(246,359)	**(30,473)**	(37,394)	**(104)**	—	**(3,441,121)**	(3,271,950)
Reconciliation:										
Corporate and other unallocated liabilities									**(227,923)**	(240,987)
Total liabilities									**(3,669,044)**	(3,512,937)

	Coal		Silver		Oil and gas		Others		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information										
Depreciation	**85,310**	142,530	**4,593**	2,607	**7,140**	—	**891**	535	**97,934**	145,672
Amortisation of prepaid land premiums	**574**	353	**70**	26	**—**	—	**—**	—	**644**	379
Amortisation of mining rights	**6,106**	25,607	**45**	41	**—**	—	**—**	—	**6,151**	25,648
Write-down of obsolete inventories to net realisable value	**3,410**	1,944	**—**	—	**—**	—	**—**	—	**3,410**	1,944
Impairment of items of property, plant and equipment	**415,950**	361,157	**1,631**	—	**—**	—	**—**	—	**417,581**	361,157
Impairment of mining and exploration rights	**825,966**	622,420	**47,019**	—	**—**	—	**—**	—	**872,985**	622,420
Impairment of goodwill	**—**	—	**14,155**	—	**—**	—	**—**	—	**14,155**	—
Impairment of trade receivables	**7,009**	10,538	**—**	—	**—**	—	**—**	—	**7,009**	10,538
Impairment of other prepayments, deposits and receivables	**9,052**	28,956	**—**	—	**—**	—	**—**	15,000	**9,052**	43,956
Other non-cash expenses	**—**	—	**—**	—	**—**	—	**3,253**	44,284	**3,253**	44,284
Capital expenditure*	**44,361**	176,838	**10,723**	791,253	**42,664**	61,052	**2,048**	1,660	**99,796**	1,030,803

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary during the year ended 31 December 2013.

Geographical information

(a) Revenue from external customers

	2014	2013
	HK$'000	*HK$'000*
In the PRC	**30,631**	150,306
In the USA	**9,207**	—
	39,838	150,306

(b) At 31 December 2014 and 2013, over 90% of the non-current assets of the Group are located in the PRC.

Information about major customers

During the year, there was an external customer (2013: two) which individually contributed to over 10% of the Group's total revenue. The revenue from sales to each of these customers is set out below:

	2014	2013
	HK$'000	*HK$'000*
Customer A	**7,891**	*
Customer B	*	24,833
Customer C	*	19,891
	7,891	44,724

* 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, silver ore by-product and oil and gas sold to customers, net of sales tax, value added tax, severance taxes, ad valorem taxes and allowances for returns and trade discounts.

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

	2014	2013
	HK$'000	*HK$'000*
Other income		
Bank interest income	**1,262**	704
Other interest income	**695**	2,162
Commission income	**1,909**	—
Others	**5**	62
	3,871	2,928
Gains		
Gain on disposal of items of property, plant and equipment	**1,989**	—
Others	**11**	204
	2,000	204
Other income and gains	**5,871**	3,132

6. FINANCE COSTS

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

	2014	2013
	HK$'000	*HK$'000*
Interest on bank and other loans wholly repayable within five years	**108,845**	128,404
Losses on early redemptions of convertible notes	**3,028**	33,964
Imputed interest on convertible notes	**225**	10,320
	112,098	172,688

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2014	2013
	HK$'000	*HK$'000*
Depreciation	**97,934**	145,672
Amortisation of prepaid land premiums	**644**	379
Amortisation of mining and exploration rights	**6,151**	25,648
Write-down of obsolete inventories to net realisable value[@]	**3,410**	1,944
Loss on disposal of items of property, plant and equipment	**—**	2,156
Impairment of items of property, plant and equipment[#]	**417,581**	361,157
Impairment of mining and exploration rights[#]	**872,985**	622,420
Impairment of goodwill[#]	**14,155**	—
Impairment of trade receivables[#]	**7,009**	10,538
Impairment of prepayments, deposits and other receivables[#]	**9,052**	43,956
Operating lease rentals in respect of buildings	**6,188**	3,529

@ This item included in "Cost of inventories sold" in the consolidated statement of profit on 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 comprehend income during the 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 (2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2014	2013
	HK$'000	*HK$'000*
Deferred — Mainland China	**(43,111)**	(95,778)

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

The calculation of the basic loss per share amounts are based on the loss for the year attributable to ordinary equity holders of the Company of HK$1,723,508,000 (2013: HK$1,373,711,000) and the weighted average number of ordinary shares of 3,022,904,883 (2013: 2,864,682,539) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2014 and 2013 in respect of a dilution, as the share options of the Company outstanding during the year ended 31 December 2013, the warrants of the Company outstanding during the year 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

	Notes	**2014** ***HK$'000***	*2013* *HK$'000*
Trade and bills receivables	*(a)*	**43,197**	53,177
Impairment of trade receivables	*(b)*	**(27,754)**	(21,270)
	(c)	**15,443**	31,907

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:

	2014 ***HK$'000***	2013 *HK$'000*
At 1 January	**21,270**	10,424
Impairment losses recognised *(note 7)*	**7,009**	10,538
Exchange realignment	**(525)**	308
At 31 December	**27,754**	21,270

At 31 December 2014, the provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$27,754,000 (2013: HK$21,270,000). 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:

	2014	2013
	HK$'000	*HK$'000*
Less than six months	**5,657**	6,806
Six months to one year	**2,140**	11,536
Over one year	**35,400**	34,835
	43,197	53,177
Provision for impairment *(note (b))*	**(27,754)**	(21,270)
	15,443	31,907

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

	2014	2013
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,204**	6,591
Past due for less than six months	**4,453**	11,372
Past due for over six months	**9,786**	13,944
	15,443	31,907

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:

	2014	2013
	HK$'000	*HK$'000*
Less than six months	**5,443**	6,190
Six months to one year	**901**	782
Over one year	**6,911**	4,788
	13,255	11,760

12. SHARE CAPITAL

Shares

	2014	2013
	HK$'000	*HK$'000*
Authorised: (note (i))		
Ordinary shares of HK$0.1 each *(note (ii))*	**—**	1,500,000
Issued and fully paid:		
3,342,055,568 (2013: 3,012,055,568) ordinary shares	**2,108,700**	301,205

Notes:

(i) Under the Hong Kong Companies Ordinance (Cap. 622), which became effective on 3 March 2014, the concept of authorised share capital no longer exists.

(ii) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members of the Company as a result of this transition.

A summary of the transactions during the years ended 31 December 2014 and 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	Capital redemption reserve HK$'000	Total HK$'000
At 1 January 2013		1,428,729,168	142,873	1,166,813	523	1,310,209
Issue of shares	*(a)*	1,555,555,000	155,555	544,444	—	699,999
Share issue expenses	*(a)*	—	—	(1,323)	—	(1,323)
Conversion of convertible bonds	*(b)*	27,771,400	2,777	14,538	—	17,315
At 31 December 2013 and 1 January 2014		**3,012,055,568**	**301,205**	**1,724,472**	**523**	**2,026,200**
Adoption of new HK Companies Ordinance	*(c)*	**—**	**1,724,995**	**(1,724,472)**	**(523)**	**—**
Issue of shares	*(d)*	**330,000,000**	**82,500**	**—**	**—**	**82,500**
At 31 December 2014		**3,342,055,568**	**2,108,700**	**—**	**—**	**2,108,700**

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 to Belton Light Limited ("Belton Light"). 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 Company's circular dated 15 November 2012. Upon completion of the subscription, Belton Light became a major shareholder of the Company.

(b) During the year ended 31 December 2013, the holder exercised the rights attached to those convertible bonds issued by the Company in 2013 to convert 27,771,400 shares at a conversion price of HK$0.68 per share, resulting in HK$14,538,000 being credited to share premium account, of which HK$3,093,000 was transferred from the equity component of convertible notes upon the conversion.

(c) In accordance with the transitional provisions set out in section 37 of schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account and capital redemption reserve have become part of the Company's share capital.

(d) During the year, pursuant to the completion of a subscription agreement ("2014 Subscription Agreement") entered into between the Company and the major shareholder, Belton Light, the Company issued and allotted 330,000,000 new ordinary shares to Belton Light at a cash consideration of HK$0.25 per share. Proceeds of the issuance amounted to approximately HK$82,500,000. Further details of the issuance are set out in the Company's announcement and circular dated 13 November 2014 and 1 December 2014, respectively.

Warrants

Pursuant to the 2014 Subscription Agreement, 330,000,000 bonus warrants were issued to Belton Light. Each warrant entitles the holder thereof to subscribe for one ordinary share at a subscription price of HK$0.35 per share, payable in cash and subject to adjustment, within 24 months from the date of issue on 19 December 2014.

13. LITIGATION

(a) A writ of summons was served by a bank (the "Plaintiff 1") in June 2014 against Eerduosi Hengtai Coal Company Limited ("Hengtai"), a subsidiary of the Company, as the borrower, and 山西普大煤業集團有限公司 ("Shanxi Puda"), as the guarantor, demanding for the repayment of a loan in the principal amount of RMB30 million (equivalent to approximately HK$37.5 million) owed by Hengtai to the Plaintiff 1 and accrued interest and penalty amounting to approximately RMB0.7 million (equivalent to approximately HK$0.87 million). The trial was heard at the Inner Mongolia Eerduosi Municipal Middle People's Court (內蒙古鄂爾多斯市中級人民法院) in September 2014. The principal and the accrued interest and penalty of the loan had been included in "Interest-bearing borrowings, secured" and "Other payables and accruals" in the consolidated statement of financial position of the Group as at 31 December 2014, respectively. The writ has been withdrawn by the Plaintiff 1 in September 2014.

(b) A writ of summons was served by another bank (the "Plantiff 2") against Hengtai, as the borrower, 山西普華德勤冶金科技有限公司 ("Shanxi Puhua"), Shanxi Puda and 內蒙古蒙發煤炭有限責任公司 (together the "Defendants") in respect of a loan in the principal amount of RMB300 million (equivalent to approximately HK$375 million) owed by Hengtai to Plantiff 2. On 28 October 2014, judgment was made by Inner Mongolia Municipal Higher People's Court (內蒙古自治區高級人民法院) that assets of the Defendants of approximately RMB310.4 million (equivalent to HK$388 million) are freezed pending trial. The principal and the accrued interest and penalty of the loan had been included in "Interest-bearing borrowings, secured" and "Other payables and accruals" in the consolidated statement of financial position of the Group as at 31 December 2014, respectively.

(c) On 30 August 2013, 山西萬基投資諮詢有限公司 (Shanxi Wanji Investment Consulting Co., Ltd, "Shanxi Wanji") and 山西恒創實業有限公司 (Shanxi Hengchuang Industrial Co., Ltd, "Shanxi Hengchuang"), a subsidiary of the Company, entered into an loan agreement pursuant to which Shanxi Wanji would provide a loan with a principal amount of HK$360 million (or equivalent in RMB) to Shanxi Hengchuang. The loan is secured by the 99% equity interest in Shanxi Puhua held by Shanxi Hengchuang. In September 2013, Shanxi Wanji advanced RMB60.0 million (equivalent to HK$75 million) to Shanxi Hengchuang. On 1 August 2014, Shanxi Wanji and Shanxi Hengchuang entered into a repayment agreement pursuant to which Shanxi Hengchuang shall repay the loan amounted to RMB60.0 million (equivalent to HK$75 million) together with any interests by 30 August 2014.

On 28 October 2014, Shanxi Wanji initiated a court proceeding against Shanxi Hengchuang at the Intermediate People's Court of Taiyuan demanding Shanxi Hengchuang to repay the loan and the incurred interest being approximately RMB64.1 million (equivalent to approximately HK$80.1 million) in aggregate. A court hearing was held on 14 January 2015. On 20 March 2015, Shanxi Wanji applied to the court to withdraw the writ.

The principal and the accrued interest and penalty of the loan had been included in "Interest-bearing borrowings, secured" and "Other payables and accruals" in the consolidated statement of financial position of the Group as at 31 December 2014, respectively.

Extract of Independent Auditors' Report on the Group's Consolidated Financial Statements for the year ended 31 December 2014

"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 2014, 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 2014, the Group's current liabilities exceeded its current assets by HK$3,172 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."

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 exploring and drilling natural gas and oil in the United States, mining and selling of coal and silver and provision of finance leasing in China. The management team of the Company possesses strong and comprehensive oil and gas plus metal mining background. As such, the Company has been actively seeking opportunity to pursue upstream oil and gas exploration and production ("E&P") projects in North America and other mining projects all around the world to further strengthen the asset portfolio of the Group.

Oil and Gas E&P

Leveraging on the strong and comprehensive oil and gas expertise and investment background of the management team, the Company has been actively developing an upstream oil and gas E&P project in North America since the fourth quarter of 2013. By 31 December 2014, the Company has secured leases over 7,000 acres in East Texas, the United States, and targets to ultimately lease 12,500 acres which can sustain drilling of up to 80 wells. During the year, the Company started drilling the first well, production of which began in July 2014 and it generated revenue of approximately HK$9.2 million during production for six months in 2014. The Company started drilling the second well in

January 2015 with its expected production commencing in first half 2015. The Company will monitor the output of the first two wells and will be prepared to launch full development of the project should the results warrant.

HydroFlame Technology

HydroFlame, which was acquired by the Group in 2013, is a new heavy oil extraction technology that burns a fuel directly inside a rotating stream of water. The HydroFlame technology has yet to be commercialized, but has several new engineering process applications including hot water heaters, compact steam generators, produced water treatment processes and efficient power generation systems.

During the year of 2014, the Company completed two tests of HydroFlame at Louisiana and Texas in the United States, respectively, and concluded with a meaningful list of improvements and modifications. The Company also collated the patent rights of HydroFlame obtained in the United States, Canada, Mexico, Brazil, India and Ecuador in order to safeguard the Company's interest in this advance technology. Further patent applications may be made in China and other countries. The Company will endeavor to develop and commercialize the HydroFlame technology both for oil extraction as well as other applications in near future.

Silver Mining

The Company operates two quality silver mines via subsidiary — Fujian Leixin Mining Company Limited, in Fujian Province, China, namely the West Mine and the East Mine. 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. 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. With replacement of engineering team and technical upgrade of certain equipments and facilities, the Group carried out production for around two months and approximately 17,000 tons of ores were processed during the year of 2014.

The East Mine is an advanced development project with an exploration permit valid until October 2015. During the year of 2014, the Group continued to conduct more in-depth exploration work with increased drilling coverage and density in the East Mine. 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 Group was carrying out further exploration work at the East Mine during the year of 2014. It is expected that its mining permit can be obtained by the end of 2015.

Coal Mining

The coal mining business of the Group has remained in a straitened condition in past few years. Gloomy market demand, tightened government policies plus increasing cost of capital all casted severe challenges to the mine operations. Outputs and average selling prices ("ASPs") of coal mines in Hengtai and Liaoyuan both slumped and the Group has been suffering from significant losses from its mining business. Considering the continuous uncertain market outlook, the Company has been negotiating with a potential buyer to dispose of its coal mining business. It is believed that by offloading the below-par coal mining business, financial situation of the Group will significantly improve. In this regard, further announcement will be issued by the Company as and when required in compliance with the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange.

Provision of finance leasing

The Group has also commenced provision of finance leasing business through its wholly owned subsidiary, Beijing Qingrui Finance Leasing Co., Ltd (北京青瑞融資租賃有限公司), during the year.

Financial Review

Revenue and cost of inventories sold

The Group recorded total revenue of approximately HK$28 million from coal mining and selling (2013: HK$135.8 million) during the year, representing a significant decrease of 80% compared with last year. With persistent weak demand in coal market, ASPs and sales volumes of coal both decreased significantly to approximately RMB81 (2013: RMB92) and approximately 0.27 Mt (2013: 1.17 Mt), respectively.

Due to reasons as stated above, the Group recorded revenue of approximately HK$1.8 million from selling 126 tons of silver concentrates in the second half of this year. In 2013, revenue of approximately HK$14.5 million was generated from selling by-product ores in the West Mine.

For the oil and gas extraction and production business which commenced operation in July 2014, the Group, net to its ownership interests, has produced approximately 2,200 Bbl of oil, and approximately 240 million cubic feet of natural gas (which includes approximately 8,400 Bbl of natural gas liquids). All of which in aggregate generated revenue of approximately HK$9.2 million during the year.

The Group also recorded revenue of approximately HK$0.8 million from provision of finance leasing business during the year (2013: nil).

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 our production. Cost of inventories sold for coal mining, silver mining and oil and gas extraction and production was approximately HK$161.9 million (2013: HK$365.5 million), HK$3.8 million (2013: HK$10.9 million) and HK$7.1 million (2013: Nil), respectively during the year. There was no cost of provision of finance leasing recognised during the year (2013: nil).

For the year ended 31 December 2014, coal mining and silver mining recorded gross loss margins of 479% (2013: 169%) and 109% (2013: profit margin of 25%), respectively. Oil and gas extraction and production business recorded a profit margin of 22% during the year.

Other income and gains

Other income and gains mainly represented gain on disposal of property, plant and equipment of HK$2.0 million (2013: nil), interest income of approximately HK$2.0 million (2013: HK$2.9 million) and commission income of approximately HK$1.9 million (2013: nil) during the year.

Selling and distribution expenses and administrative expenses

Selling and distribution costs and administrative expenses were HK$5.5 million (2013: HK$6.8 million) and HK$109.2 million (2013: HK$105.2 million) respectively during the year. Administrative expenses mainly comprised staff cost for administrative functions, legal and professional fee incurred for operation, depreciation and other administrative expenses.

Other expenses

Other expenses mainly comprised impairments of property, plant and equipment, mining and exploration rights, goodwill, and trade and other receivables in aggregate of approximately HK$1,290.6 million (2013: HK$983.6 million), HK$14.2 million (2013:nil) and HK$16.1 million (2013: HK$54.5 million), respectively, during the year. The Group also recorded one-off costs associated with drilling prior to moving the drilling rig for oil and gas E&P of the first well of approximately HK$20.5 million during the year (2013: nil).

In view of indications of impairment including: (1) decline of coal and silver prices and sales volumes during the year as mentioned above; (2) that the coal mine exchange as disclosed in the previous annual reports of the Company has not been formally approved by the local government as at 31 December 2014 and up to date of this announcement; and (3) delay in completion of technical upgrade at the West Mine, the management had estimated the recoverable amounts of the assets (the "Mining Assets") of the coal mining business (the "Coal Mining Assets") and silver mining business (the "Silver Mining Assets") of the Group for impairment testing.

In this connection, the Company had engaged an independent professional valuer to assess the fair value less cost of disposal of the cash-generating units and the management has derived the fair value less cost of disposal of the Mining Assets from the fair value less cost of disposal of the cash-generating units. In assessing the fair value less cost of disposal of the cash-generating units, the future cash flows of the coal and silver mining businesses, respectively, which cover the periods to utilise the remaining reserves of the mines, are discounted to the related present values using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of coal and silver, production cost and other expenses, capital expenditure, production plan and discount rate, respectively, which reflected the current conditions of the market and the Group and estimated trend in the future. Key assumptions used in assessing the fair value less cost of disposal of the cash-generating units included discount rate after tax of 10.5% and 13% for Coal Mining Assets assessment and Silver Mining Assets assessment, respectively.

Based on the Coal Mining Assets assessment, an additional impairment loss of the Coal Mining Assets totaling HK$1,242 million was recognised and allocated to property, plant and equipment and mining rights based on their relative carrying amounts amongst the Mining Assets. Impairment of property, plant and equipment of approximately HK$416 million (2013: HK$361.2 million) and impairment of mining rights of approximately HK$826 million (2013: HK$622.4 million) were recognised during the year.

In particular, in view of no significant progress on the abovementioned coal mine exchange during these years, full impairment has been made to Hengtai coal mine no. 2 during the year.

Based on the Silver Mining Assets assessment, an impairment loss of the Silver Mining Assets totaling HK$62.6 million (2013: nil) was recognised during the year, in which approximately HK$14 million was allocated to goodwill and approximately HK$48.6 million was allocated to property, plant and equipment and mining and exploration rights based on their relative carrying amounts amongst the Silver Mining Assets. Impairment of property, plant and equipment of approximately HK$1.6 million and impairment of mining and exploration right of approximately HK$47 million were recognised during the year.

Finance costs

Finance costs were approximately HK$112.1 million (2013: HK$172.7 million) during the year, which represented mainly interest expenses for bank and other borrowings incurred for the coal mining business and silver mining business amounting to approximately HK$103.5 million (2013: HK$124.9 million) and HK$0.3 million (2013: HK$3.5 million) respectively. Imputed interest expenses for convertible notes which were fully redeemed in January 2014 amounting to approximately HK$0.2 million (2013: HK$10.3 million) were recognised during the year. As the convertible notes with principal amount of HK39.2 million (2013: HK$250 million) were early redeemed, a loss of approximately HK$3.0 million (2013: HK$34 million) was also recognised during the year.

Share of loss of a joint venture

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

Income tax

Income tax credit was approximately HK$43.1 million (2013: HK$95.8 million) during the year. It represented write-back of deferred taxation mainly arising from impairment of Mining Assets during the year. No provision for profit tax in Hong Kong and operations in the PRC and the United States has been made during the current and prior years.

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 activities during the year.

As at 31 December 2014, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.09:1 (2013: 0.17:1).

On 24 October 2014, the Company entered into a subscription agreement with the controlling shareholder, namely Belton Light Limited, for subscription of 330,000,000 new shares of the Company at the subscription price of HK$0.25 per share with 330,000,000 bonus warrant shares entitling Belton Light Limited to subscribe for up to 330,000,000 bonus warrants shares at HK$0.35 each. The subscription was completed in December 2014, raising a net proceed of approximately HK$82 million (representing net subscription price of HK$0.248 per share) to the Group. No bonus warrant was exercised up to the date of this announcement.

As at 31 December 2014, the cash and cash equivalents of the Group were approximately HK$156.1 million (2013: HK$292.6 million). The Group recorded a net cash outflow from its operating activities of approximately HK$207.2 million (2013: HK$260.5 million) during the year.

As at 31 December 2014, the Group had outstanding interest-bearing borrowings, all of which were denominated in Renminbi, amounting to approximately HK$1,614.1 million (2013: HK$1,633.1 million). Of the Group's interest-bearing borrowings, 98%, and 2% were repayable on demand or within one year and in the second year respectively (2013: 70%, 24%, in the third to the fifth year, inclusive 6%). Borrowings of approximately HK$1,251.0 million (2013: HK$1,291.8 million) and HK$363.1 million (2013: HK$371.3 million) were interest-bearing with floating interest rates and at fixed rates of 6.44% to 42% (2013: 7.2% to 36%) respectively. At 31 December 2014, certain bank loans of approximately HK$669 million and other loans of approximately HK$275 million have been overdue and were not yet repaid up to date of this announcement. The Group has been at its best effort trying to negotiate with the banks and lenders to extend the maturity dates of such loans.

The outstanding zero coupon redeemable convertible notes with principal amount of approximately HK$39.2 million as at 31 December 2013 have been fully redeemed at par in January 2014. There were no outstanding convertible notes as at 31 December 2014.

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 total debt (which represented trade and bills payables, other payables and accruals, interest-bearing borrowings and convertible notes) in a ratio to the total assets, was 1.42 as at 31 December 2014, as compared to 0.80 as at 31 December 2013.

Significant Investments, Material Acquisitions and Disposals

The Group had no material significant investments, acquisition and disposal during the year.

Capital Commitments, Charge on Group Assets and Contingent Liabilities

As at 31 December 2014, the capital commitments of the Group were approximately HK$29.5 million (2013: HK$56.4 million), which were mainly related to purchase of plant and machineries.

As at 31 December 2014, the entire bank and other borrowings of approximately HK$1,614.1 million (2013: HK$1,663.1 million) and other payables of approximately HK$275 million (2013: HK$276.8 million) were secured by certain of the Group's coal 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 2014, time deposits of approximately HK$4.0 million (2013: HK$3.6 million) were pledged for general bank facilities.

Save as disclosed above and the freezing order as mentioned in note 13(b) to this announcement, the Group had no other pledge of assets as at 31 December 2014 (2013: Nil).

As at 31 December 2014, the Group did not have any material contingent liabilities (2013: Nil).

Human Resources and Share Option Scheme

As at 31 December 2014, the Group had 400 employees. The total staff costs (including directors' remuneration) for the year ended 31 December 2014 were approximately HK$52.4 million (2013: HK$48.5 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 2014.

Future Outlook

The year of 2014 has been full of ups and downs. Prices of coal, metals, oil and gas were all in a downward trend. Profit margins of the Group's operations were unavoidably affected. It is anticipated that commodity prices will continue to fluctuate in 2015. On the other hand, the newly-acquired oil and gas E&P business and silver mining business of the Company have respectively started to operate and deliver economic contributions to the Group since 2014. The Company will overcome the adverse price environment by technically adjusting its exploration plans, production schedules and marketing strategies. It is believed that the above new businesses will provide stable revenue and cash flow to the Group in 2015.

Looking ahead, the Company will monitor closely the development of the new businesses and, depending on their performances, continue to devote further capital resources in order to maximize the return of assets. The Company will continue to review and optimize its internal control, organization structure and capital base. In the meantime, the Company will speed up the disposal of its coal mining business by negotiating with the potential buyer and consulting with the regulatory bodies in this regard. Overall, the management of the Company is of full confidence and determination to overturning the Group's business performance in the year of 2015.

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 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 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 6 June 2014 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. Lu Binghui and Mr. Lee Ping. The audit committee has reviewed the annual results for the year ended 31 December 2014.

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

Hong Kong, 31 March 2015

As at the date of this announcement, the executive Directors are Mr. Xu Zhendong, Mr. Zhang Wanzhong, Mr. Zong Hao, Mr. Xu Zhuliang and Mr. Benjamin Clark Danielson, and the independent non-executive Directors are Mr. Chiu Sui Keung, Mr. Lu Binghui, Mr. Lee Ping and Mr. Liu Shengming.