金山能源集團有限公司

KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

2013
ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Xu Zhendong *(Chairman)*
Mr. Zong Hao
Mr. Zhang Wanzhong
Mr. Tian Wenwei
Mr. Xu Zhuliang
Mr. Benjamin Clark Danielson

Non-Executive Director

Mr. Zhang Yongli

Independent Non-Executive Directors

Mr. Chiu Sui Keung
Mr. Li Peiming
Mr. Lu Binghui
Mr. Lee Ping
Mr. Liu Shengming

AUDIT COMMITTEE

Mr. Chiu Sui Keung *(Chairman)*
Mr. Li Peiming
Mr. Lu Binghui

REMUNERATION COMMITTEE

Mr. Chiu Sui Keung *(Chairman)*
Mr. Tian Wenwei
Mr. Li Peiming

NOMINATION COMMITTEE

Mr. Zhang Wanzhong *(Chairman)*
Mr. Li Peiming
Mr. Chiu Sui Keung

AUTHORISED REPRESENTATIVES

Mr. Xu Zhendong
Mr. Zong Hao

COMPANY SECRETARY

Mr. Lee Tao Wai

AUDITORS

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

LEGAL ADVISER

Michael Li & Co
19/F, Prosperity Tower
39 Queen's Road Central
Central, Hong Kong

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

SHARE REGISTRAR

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

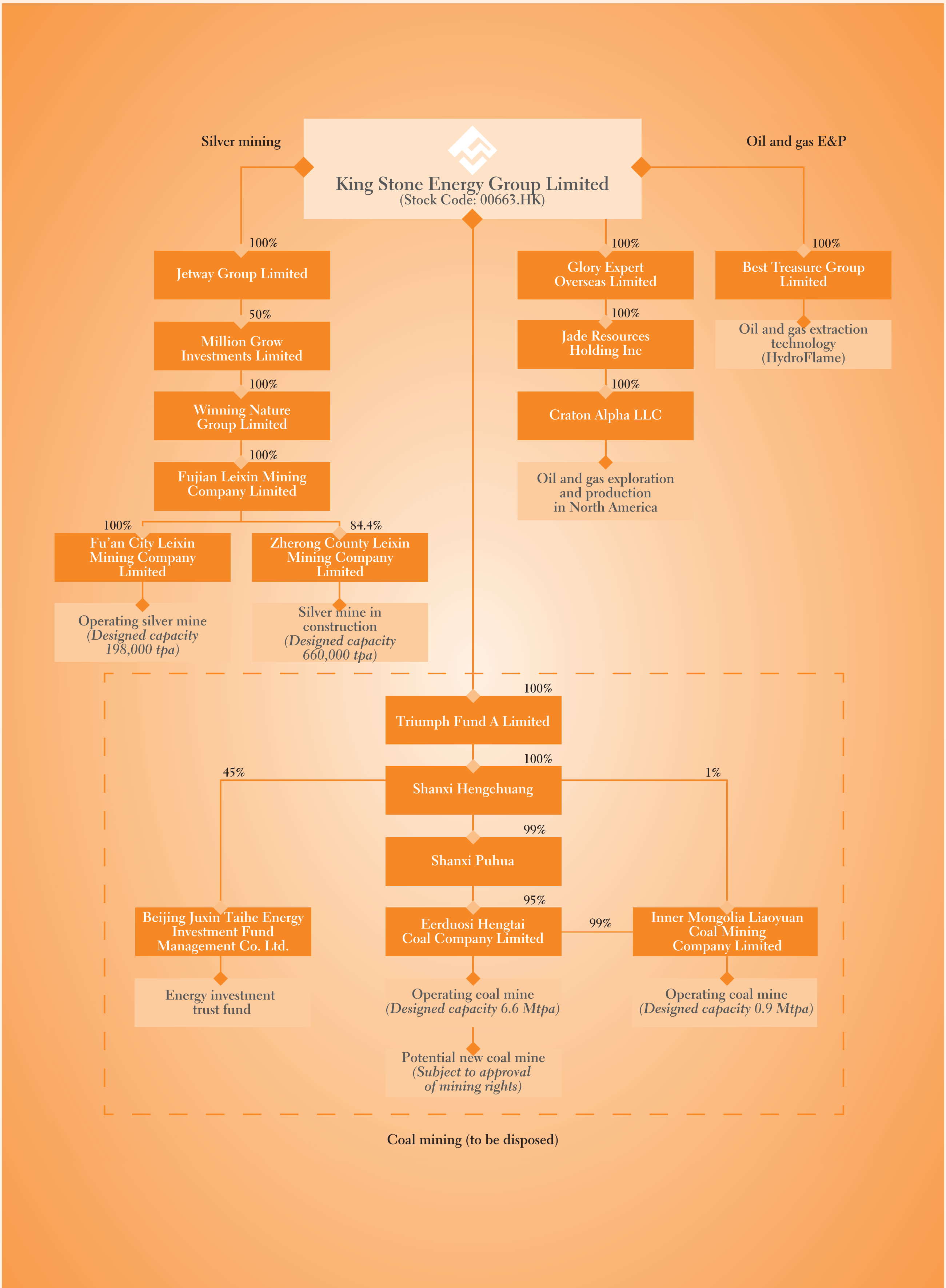
COMPANY WEBSITE

http://www.663hk.com

STOCK CODE

00663

GROUP STRUCTURE



OPERATING MINES

CAPITAL EXPENDITURE

The capital expenditure for development and mining production activities was approximately HK$196 million (2012: HK$331 million) during the year.

HENGTAI COAL MINE

Name	Eerduosi Hengtai Coal Company Limited ("Hengtai")
Location	Dongshen Coalfield of Inner Mongolia
Licensed area	~7 km^2
Mining rights validity	2007–2022
Mining Method	Underground
Coal type	Thermal
Designed capacity	6.6 million tons per annum
Status	Operating

	Resources (million tons)	**Reserves** (million tons)
Total resources/reserves (JORC compliant)	203.9	71.9
Actual output in 2010	(4.0)	(4.0)
Actual output in 2011	(3.6)	(3.6)
Actual output in 2012	(2.5)	(2.5)
Actual output in 2013	(0.9)	(0.9)
Resources/reserves as at 31 December 2013	192.9	60.9

Note: The resources/reserves as at 31 December 2013 are derived from total resources/reserves extracted from technical report issued by John T. Boyd Company dated 18 November 2009 after deduction of actual output up to 31 December 2013 based on Hengtai's record.

LIAOYUAN COAL MINE

Name	Inner Mongolia Liaoyuan Coal Mining Company Limited ("Liaoyuan")
Location	YijinhuoLuoqi, Eerduosi, Inner Mongolia
Licensed area	8.396 km^2
Mining rights validity	2013–2016
Mining Method	Underground
Coal type	Thermal
Designed capacity	0.9 million tons per annum
Status	Operating

	Resources (million tons)
Resources as at 31 December 2011 (JORC equivalent)	15.8
Actual output in 2012	(0.5)
Actual output in 2013	(0.2)
Resources as at 31 December 2013	15.1

Note: The resources as at 31 December 2013 are derived from the resources extracted from technical report issued by Roma Oil and Mining Associated Limited dated 30 March 2012 after deduction of actual output up to 31 December 2013 based on Liaoyuan's record.

OPERATING MINES

FUJIAN LEIXIN SILVER MINES

Fu'an Silver Mine (the West Mine)

Name	Fu'an City Leixin Mining Company Limited
Location	Fu'an City, Fujian
Licensed area	2.1 km^2
Mining rights validity	2010–2020
Designed capacity	198,000 tons per annum
Status	Operating

Zherong Silver Mine (the East Mine)

Name	Zherong County Leixin Mining Company Limited
Location	Zherong County, Fujian
Licensed area	4.97 km^2
Exploration rights validity	2013–2015
Designed capacity	660,000 tons per annum
Status	Under construction

	The West Mine	The East Mine
Inferred resources (million tons)	1.71	1.73
Indicated resources (million tons)	0.87	6.35
Probable ore reserves (million tons)	0.82	5.95
Ore grade (g/t)	211.4	128.6
Silver metal (tons)	173	765

Note: The above information are extracted from from technical report issued by SRK Consulting China Limited dated 10 March 2014.

CHAIRMAN STATEMENT

Dear shareholders,

On behalf of the board of directors (the "Board") of King Stone Energy Group Limited (the "Company" or "King Stone Energy", together with its subsidiaries, the "Group"), I am delighted to present the annual results for the year ended 31 December 2013.

In January 2013, King Stone Energy completed its shareholding restructuring, whereby the investment funds managed by the Jade Bird Strategic Investment officially obtained the controlling interest. In addition, the Company has commenced a series of reorganization and optimization with the new management.

In May 2013, the Company completed the acquisition of the Fujian Leixin silver mine project, of which the West Mine is an operating project with a valid mining permit, which is expected to contribute income to the Group starting this year; and the East Mine is an advanced development project, for which the Group is carrying out more in-depth exploration work. According to the Competent Person's Report, the Fujian Leixin silver mine project has a considerable resources level, whose indicators, such as the ore grade of silver, mining costs and production safety, are quite satisfactory. The Fujian Leixin silver mine project is not only a high quality mining asset of precious metal, but the first significant acquisition for the Group to diversify its business.

In November 2013, the Group successfully acquired the HydroFlame technology, which is a new heavy oil extraction technology that has obtained patents in the United States, Canada and around the world, and will be a favourable investment with highly commercial potential. During the year, the Group has begun on-site downhole tests for the HydroFlame technology, and will invest more resources for it aiming to commercialize the technology as soon as possible. Meanwhile, the Group has also been exploring upstream oil and gas E&P projects. The Group has leased over 4,500 oil and gas acreages in Texas, the United States since the fourth quarter of last year, where has very abundant oil and gas reserves and highly established pipeline facilities and infrastructures. Such property is in an ideal location for the Group to enter into upstream oil and gas business in Northern America with highly competitive costs, and is expected to be one of the core assets of the Group in the future.

While orderly injecting new assets, the Group is also proactively seeking ways to unload its dissatisfactory coal mining business and endeavors to dispose of the business promptly subject to compliance with relevant regulations. It is expected that the gearing ratio and the investment return of the Group will be significantly improved once the coal mining business is successfully disposed of.

Entering into 2014, the management and I will continue to do our best to operate and manage each new asset, ensuring such assets can make contribution to the Group's earnings as soon as practicable. I believe, with the abundant experience of the management team in the energy and mining sectors, the Group will complete a totally turnaround, delivering desirable return for the shareholders. On behalf of the Board of King Stone Energy, I would like to convey our sincere gratitude to all staff, customers and business partners of the Group, and take this opportunity to thank the shareholders of the Group for their long term support and trust.

Xu Zhendong
Chairman

31 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the mining and selling of coal and silver in the People's Republic of China ("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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

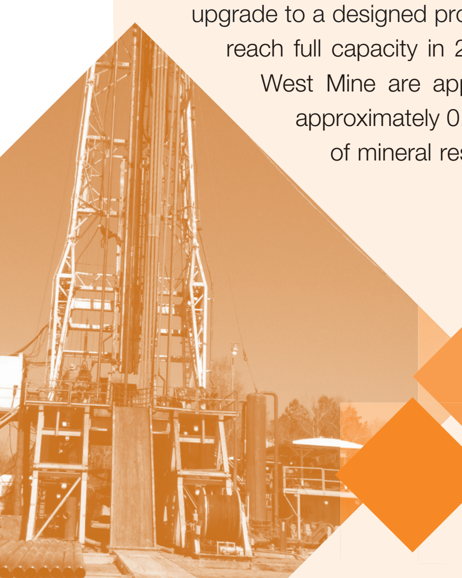
The HydroFlame technology has yet to be commercialised, but has several new engineering process applications including hot water heaters, compact steam generators, produced water treatment processes and efficient power generation systems. It has successfully passed the surface test at an abandoned well 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, the PRC, i.e., the East Mine and the West Mine. 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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, respectively during the year.

With significant decreases in ASPs of coal during the year as mentioned above, Hengtai and Liaoyuan recorded gross loss margins of 193% (2012: 20%) and 103% (2012: 5%), respectively. 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), 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. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report, 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.

In this connection, the Company had engaged an independent professional valuer to assess the value-in use of the cash-generating units (the "CGUs") and the management had derived the value-in-use of the Coal Mining Assets from the value-in-use of the CGUs. In assessing the value-in-use of the CGUs, the future cash flows of the coal mining businesses, which covered the periods to utilise the remaining reserves of the coal mines within the respective mining permit period, were discounted to the related present values using 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, production cost and other expenses, capital expenditure, production plan and discount rate, which reflected the current conditions of the market and the Group and estimated trend in the future.

When evaluating the appropriate discount rate for the CGUs, the Capital Assets Pricing Model (the "CAPM") had been used. Under CAPM, the appropriate expected rate of return was the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the CGUs was expected to be affected by other firm specific risk factors that are independent of the general market. The cost of equity was determined by the risk-free rate, market return, and estimated coefficient between the CGUs and the market and other firm specific risk factors.

There was no material change in the valuation methodology adopted by the Group. Key assumptions, which were used and materially changed since acquisition of Hengtai and Liaoyuan in December 2009 and August 2011, respectively, in the valuation of CGUs included but not limited to:

(a) Forecast gross margin, which represented sales net of tax minus production cost before depreciation and amortisation, in 2014 of Hengtai's No. 1 Coal Mine and Liaoyuan was approximately RMB74/ton (31 December 2012: RMB110/ton; acquisition date: RMB137/ton) and RMB74/ton (31 December 2012: RMB114/ton; acquisition date: RMB179/ton) respectively. Forecast gross margin in first year of production of No. 2 Coal Mine was RMB84/ton (31 December 2012: RMB118/ton; acquisition date: RMB140/ton). Such significant decreases in each of these forecasts were made reference with historical operational record and cost structure of these mines and recent market prices of coal.

(b) Forecast sales volume in 2014 of Hengtai's No. 1 Coal Mine and Liaoyuan was 2 Mt (31 December 2012: 3.5 Mt; acquisition date: 4 Mt) and 0.5 Mt (31 December 2012: 0.9 Mt; acquisition date: 0.9 Mt) respectively. The changes in forecast sales volume assumption were made reference with decrease in sales volume of coal recorded by the Group during the year.

(c) Production for the No. 2 Coal Mine will commence in the second quarter of 2016 (31 December 2012: third quarter of 2015; acquisition date: 1st quarter of 2011).

MANAGEMENT DISCUSSION AND ANALYSIS

(d) Forecast total capital expenditure including relocation compensation for Hengtai and Liaoyuan was approximately RMB1.2 billion (31 December 2012: RMB1.3 billion; acquisition date: RMB0.65 billion) and RMB54 million (31 December 2012: RMB164 million; acquisition date: RMB54 million) respectively. The forecast total capital expenditure was adjusted for market situation, recent mines development and actual relocation compensation paid recently and expected payments.

(e) The perpetual growth rate of 3% (31 December 2012: 3%, acquisition date of Hengtai: 0%; acquisition date of Liaoyuan: 3%) was assumed in the valuation.

(f) The discount rate of 12.5% (31 December 2012: 14%, acquisition date of Hengtai: 15.55%; acquisition date of Liaoyuan: 15.75%) was used in the valuation.

Based on the above 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 the 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 the Triumph Group (which owns Hengtai and Liaoyuan) 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 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 coal mining 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 7.2% to 36% (2012: 6.15% to 7.87%) respectively.

At 31 December 2013, certain loans of approximately HK$256 million raised by Hengtai have been overdue and were not yet repaid up to date of this report. 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 fully 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 the notes 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 50% 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 respectively. The acquisition of the 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 report.

Acquisition of assets of HydroFlame

The Group acquired an advanced heavy oil extraction 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 respectively.

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 proposed disposal of the entire equity 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 owned by the Group 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2013, the capital commitments of the Group were approximately HK$56.4 million (2012: HK$32.5 million), which were mainly related to purchase of plant and machineries.

As at 31 December 2013, the entire 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 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 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 liabilities (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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Zhendong, aged 50, graduated from the Computer Science and Technology Department of Peking University in 1987. Currently, Mr. Xu is an executive director and chairman of board of directors of Beijing Beida Jade Bird Universal Sci-Tech Company Limited ("Jade Bird Universal") (a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 8095)). He is a director of each of Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited and Beida Jade Bird Universal Investments (USA) Limited respectively, which are subsidiaries of Jade Bird Universal. Mr. Xu is also the chairman of each of boards of directors of Beijing Aptech Beida Jade Bird Information Technology Co., Ltd. and Beijing Beida Jade Bird Software System Co., Ltd. and a director of Shenzhen Beida Jade Bird Sci-Tech Co., Ltd. and Hang Zhou Beida Jade Bird Sci-Tech Co., Ltd.. He was appointed as the executive director and Chairman of the Company on 12 March 2013.

Mr. Zhang Wanzhong, aged 51, is an executive director and the president and compliance officer of Jade Bird Universal. Mr. Zhang is primarily responsible for overall business development, compliance and public relations of Jade Bird Universal. He graduated from Peking University with a Master's degree in science. He worked in several administrative departments of Peking University including the vice president of the Remote Sensing and Geographic Information System Department of Peking University, which was responsible for the State's focal science and technological project. Mr. Zhang is a director of Beida Jade Bird Universal Investments (USA) Limited, Beida Jade Bird Universal Fire Alarm Device Company Limited and Chuanqi Tourism Investment Co., Ltd., which are subsidiaries of Jade Bird Universal, a director of Beijing Beida Jade Bird International Education Investment Management Co., Ltd.. He was appointed as the executive director of the Company on 1 February 2013 and is the chairman of the nomination committee of the Company.

Mr. Zong Hao, aged 44, obtained a degree of the Master of Laws from Buffalo Law School, the State University of New York in 1997. Mr. Zong is currently an independent director of Suzhou Electrical Apparatus Science Academy Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300215). Mr. Zong was the chief representative of Cherry Lane Music Publishing Company Inc. Beijing office from 2003 to 2010. He was also the executive vice president of Quintana China and Taggart China LLC from 2007 to January 2013. He was appointed as the executive director and chief executive officer of the Company on 1 February 2013.

Mr. Tian Wenwei, aged 43, holds an MBA at Business School of University of Alberta, Canada. He has over 15 years experience in finance, business and corporate merger and acquisition. He also has solid knowledge and experiences in coal industry. Mr. Tian worked in the Bank of Communications, Xian Branch, from 1991 to 1997 and in China Digital Finance Times Company, a subsidiary of China Everbright Group from 2000 to 2001. He was an officer of Puda Coal, Inc., a public company in the United States of America from 2006 to 2009. He has been a director of Triumph Fund A Limited, a subsidiary of the Company since September 2009. He was appointed as the executive director of the Company on 18 January 2010 and is a member of the remuneration committee of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Zhuliang, aged 44, obtained a diploma from Taiyuan University of Technology in 1991. Mr. Xu holds the Safety Qualification Certificate issued by the State Administration of Work Safety. Since 2009, Mr. Xu has been the Assistant to President and Vice President of Beida Jade Bird Group, and is primarily responsible for the management of the company's coal mine and chemical projects. During the period from 2006 to 2008, Mr. Xu was the manager of Shanxi Tianchengdayang Energy Chemical Industry Co. Ltd., a company specialized in the development, production and processing of energy chemical products. Prior to that, Mr. Xu was the manager of Shanxi Glamour Science & Technology Co. Ltd. During the period from 2002 to 2006, he was responsible for the research and development, investment, construction and operation of the coal mine and chemical projects of that company. He was appointed as the executive director of the Company on 12 March 2013.

Mr. Benjamin Clark Danielson, aged 43, obtained Bachelor of Science degree from the United States Military Academy at West Point in 1992 and a Master of Business Administration degree from the University of Texas at Austin in 2000. Mr. Danielson has been managing and monitoring the activities of the fund portfolio companies as well as sourcing, evaluating and executing investments for private equity funds. During the period from 2006 to 2012, Mr. Danielson worked at Quintana Capital Group, a United States-based private equity fund focused in energy-related industries, most recently acting as Chief Investment Offer, China. He was appointed as the executive director and chief investment officer of the Company on 12 March 2013.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yongli, aged 49, graduated from the Geology Department of Peking University with a Bachelor's degree in science and subsequently obtained a doctor of philosophy in engineering from Geology and Mineralogy Department of China University of Geosciences. He has been appointed as deputy general manager and chief financial officer of Beijing Beida Jade Bird Limited since November 1998 and mainly responsible for administration and finance. Currently, Mr. Zhang is the chairman of the supervisory committee of Jade Bird Universal. Mr. Zhang was a supervisor of Jade Bird Universal for the period before 8 January 2010 and was appointed as an executive director for the period from 8 January 2010 to 21 June 2012. Mr. Zhang is also the chairman of the supervisory committee of Weifang Beida Jade Bird Huaguang Technology Co., Ltd. (an A share listed company in the People's Republic of China). He is a director of Chuanqi Tourism Investment Co., Ltd. and the chairman of Beijing Beida High Technology Investment Co., Ltd. and Hang Zhou Beida Jade Bird Sci-Tech Co., Ltd. He was appointed as the non-executive director of the Company on 12 March 2013.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Sui Keung, aged 46, has over 15 years experience in the strategic management in various listed companies, financial industry and accounting field. He has possessed extensive experience in corporate finance including initial public offerings, takeovers, mergers and acquisitions, fund raising and corporate advisory. Mr. Chiu graduated with a Bachelor's Degree in Commerce from the University of Melbourne, Australia and has obtained a Master's Degree in Applied Finance from Macquarie University in Sydney, Australia. He has also obtained a Diploma in Practices in Chinese Laws and Regulations Affecting Foreign Businesses jointly organized by Southwest University of Political Science and Law, the PRC and the Hong Kong Management Association. He is a member of the American Institute of Certified Public Accountants. He is currently the executive director and chief executive officer of Sino Resources Group Limited (stock code: 223) and was the non-executive director of China New Energy Power Group Limited (stock code: 1041) during the period from September 2008 to July 2009, both of the companies are listed on the Stock Exchange. He was appointed as the independent non-executive director of the Company on 18 January 2010. Mr. Chiu is the chairman of the audit committee and the remuneration committee of the Company and a member of the nomination committee of the Company.

Mr. Li Peiming, aged 62, has served in the People's Liberation Army for 15 years. After his service in the army, Mr. Li worked in National Audit Office of the People's Republic of China ("CNAO") and possesses over 20 years of experience in auditing. During his tenure in CNAO, he has been the director of Tourism and Overseas Chinese Affairs Audit Office and Economic Law Implementation Audit office, and the executive secretary to the Party Committee for CNAO. He is currently the independent director of Wuhan Kaidi Electric Power Co., Ltd, a listed company on the Shenzhen Stock Exchange (stock code 000939.sz). He was appointed as the independent non-executive director of the Company on 30 September 2011. Mr. Li is a member of the audit committee, remuneration committee and nomination committee of the Company.

Mr. Lu Binghui, aged 38, graduated from Beijing University with a Bachelor Degree in Philosophy and a Master Degree in Economics. He has extensive experience of investment management in investment banks and private equity. From 2010 to 2012, he was the principal of Kohlberg Kravis Roberts & Co, a private equity, where he was mainly responsible for proprietary deal sourcing, transaction execution and post-investment management focusing on energy and natural resources sectors. Prior to that, he worked in Goldman Sachs Gaohua Securities Company Limited and Goldman Sachs China Business as executive director and A-share Sponsorship Representative from 2005 to 2010. From 2000 to 2005, he worked in investment banking department of Bank of China International. He was appointed as the independent non-executive director of the Company on 22 March 2013. Mr. Lu is a member of the audit committee of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee Ping, aged 53, holds a Bachelor's Degree in Mathematics and Computer Science from State University of New York at Buffalo, a Master's Degree in Computer Science and a Doctor of Philosophy in Mathematics from Cornell University. He has over 20 years' experience in energy and petroleum industry. Currently, Mr. Lee is the President and General Manager of BG Group China, a world leader in natural gas industry. He has responsibility in managing BG Group's overall portfolio in relation with China, domestic and international. Prior to joining BG Group, Mr. Lee served as President of Schlumberger China, the world largest oilfield services company, responsible for oilfield operations, technology development, engineering and manufacturing, global sourcing, and developing and implementing long term growth strategy. He also spent ten years in Schlumberger-Doll Research and Austin Research as senior and principal research scientist, and is a holder of over twenty scientific publications and two patents. He was appointed as the independent non-executive director of the Company on 8 April 2013.

Mr. Liu Shengming, aged 58, is graduated from Sichuan University with a Bachelor Degree in Analytical Chemistry and Sydney University with a Master Degree in Business Administration. He is a senior engineer and has over 20 years of solid knowledge and experience in inspection and certification sector. Currently, Mr. Liu is the president of China Certification & Inspection (Group) Co., Ltd ("CCIC"), an independent third party certification and inspection organisation providing inspection, verification, certification and testing services. Prior to joining CCIC, he worked in China Commodity Inspection Institute for over 10 years. He also worked in China Inspection Company Limited (Hong Kong) and Certification and Accreditation Administration of the People's Republic of China. He was appointed as the independent non-executive director of the Company on 7 August 2013.

SENIOR MANAGEMENT

Mr. Lee Tao Wai, aged 35, is the company secretary of the Company. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and has over 10 years of experience in auditing, accounting and corporate field. Prior to joining the Company, Mr. Lee worked in an international accounting firm and a listed company in Hong Kong as senior executive. Mr. Lee holds a Bachelor Degree in Business Administration in Accounting from the Chinese University of Hong Kong and a Master Degree in Investment Management from The Hong Kong University of Science and Technology. He joined the Group in April 2010.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

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, except for provisions A.4.1 and E.1.2 of the Code as explained on this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors of the Company (the "Directors"). Having made specific enquiry of all Directors, the Directors confirm that they have complied with the required standard as set out in the Model Code during the year.

BOARD OF DIRECTORS

The Board of Directors (the "Board") is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the management.

The Board, with balance of skills and experience, meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board has delegated certain authorities to the management for the day-to-day management of the Group's operation.

The Directors have no financial, business, family or other material/relevant relationship among themselves.

The Company has received the annual confirmation of independence from each of the independent non-executive Directors as required under Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

CORPORATE GOVERNANCE REPORT

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

The attendance of each Director at the Board meetings, certain committee meetings and general meetings during the year is as follows:

		Attended/Eligible to attend				
		Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	General meeting
Executive Directors:						
Mr. Xu Zhendong *(Chairman)*	(appointed on 12 March 2013)	1/5	N/A	N/A	N/A	0/1*
Mr. Zong Hao	(appointed on 1 February 2013)	7/8	N/A	N/A	N/A	1/1
Mr. Zhang Wanzhong	(appointed on 1 February 2013)	4/8	N/A	N/A	1/1	1/1
Mr. Tian Wenwei		10/10	N/A	1/1	N/A	1/1
Mr. Xu Zhuliang	(appointed on 12 March 2013)	3/5	N/A	N/A	N/A	1/1
Mr. Benjamin Clark Danielson	(appointed on 12 March 2013)	3/5	N/A	N/A	N/A	0/1
Mr. Wang Da Yong	(resigned on 1 February 2013)	2/2	N/A	0/0	N/A	0/0
Mr. Wang Tongtian	(resigned on 1 February 2013)	0/1	N/A	N/A	N/A	0/0
Mr. Chen Marlon Ray	(resigned on 12 March 2013)	2/4	N/A	N/A	N/A	0/0
Non-executive Directors:						
Mr. Zhang Yongli	(appointed on 12 March 2013)	3/5	N/A	N/A	N/A	1/1
Mr. Seah Ang	(resigned on 12 March 2013)	0/4	N/A	N/A	N/A	0/0
Mr. Wong Chun Hung	(resigned on 12 March 2013)	2/4	N/A	N/A	N/A	0/0
Independent non-executive Directors:						
Mr. Chiu Sui Keung		7/10	2/2	1/1	1/1	1/1
Mr. Li Peiming		7/10	2/2	1/1	1/1	1/1
Mr. Lu Binghui	(appointed on 22 March 2013)	2/4	2/2	N/A	N/A	1/1
Mr. Lee Ping	(appointed on 8 April 2013)	2/2	N/A	N/A	N/A	1/1
Mr. Liu Shengming	(appointed on 7 August 2013)	0/1	N/A	N/A	N/A	0/0
Mr. Lee Chi Hwa, Joshua	(resigned on 8 April 2013)	2/7	N/A	N/A	0/0	0/0
Mr. Lam Ka Wai, Graham	(resigned on 22 March 2013)	0/5	0/0	0/0	0/0	0/0

* 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.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

Remuneration bands	Number of persons
Up to HK$1,000,000	1
HK$1,000,001 and above	—

ROLES AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Currently, Mr. Xu Zhendong is the chairman while Mr. Zong Hao is the chief executive officer.

TERM OF NON-EXECUTIVE DIRECTORS

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

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

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") with written terms of reference which are in line with the code provisions set out in the Code. The Audit Committee meets at least twice a year for, among other matters, reviewing the reporting of annual and interim results and other information to the shareholders, the effectiveness and objectivity of the audit process and the Company's policy and practices on corporate governance. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. The terms of reference of the Audit Committee are disclosed on the websites of the Company and the Stock Exchange. The Audit Committee consisted of Mr. Chiu Sui Keung as chairman and Mr. Li Peiming and Mr. Lu Binghui as members. All of them are independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

The Audit Committee is also responsible for performing the functions set out in the provision D.3.1 of the Code. The Audit Committee reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the code of conduct and compliance manual (if any) applicable to employees and Directors, the compliance of the Listing Rules, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

During the year, the Audit Committee held two meetings and reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters including the annual results for the year ended 31 December 2012 and interim results for the six months ended 30 June 2013 and reviewed the Company's compliance with the Code.

REMUNERATION COMMITTEE

The remuneration committee ("Remuneration Committee") of the Group was established in September 2005 with written terms of reference in line with the Code. The responsibilities of the Remuneration Committee include, among other matters, considering and recommending to the Board the Group's remuneration policy and structure and reviewing and determining the remuneration packages of the individual executive Directors and senior management. The Directors were remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. The terms of reference of the Remuneration Committee are disclosed on the websites of the Company and the Stock Exchange. Details of remunerations of the Directors for the year are disclosed in note 9 to the financial statements.

The Remuneration Committee comprised two independent non-executive Directors, Mr. Chiu Sui Keung (Chairman) and Mr. Li Peiming, and one executive Director, Mr. Tian Wenwei. The Remuneration Committee held one meeting to review the existing remuneration policy and structure of the Company during the year.

NOMINATION COMMITTEE

According to the Articles of Association, the Board has the power to appoint any person as a Director either to fill a causal vacancy or as an addition to the Board. The nomination should take into consideration the nominee's qualification, ability and potential contributions to the Company. All Directors should be subject to re-election in accordance with the Articles of Association.

The nomination committee ("Nomination Committee") was established in March 2012 with written terms of reference to (i) review and recommend the structure, size, composition and skills mix of the Board at least annually; (ii) identify and nominate candidates to fill casual vacancies of Directors for the Board's approval; (iii) assess the independence of independent non-executive Directors; (iv) regularly review the time required from a Director to perform his responsibilities; (v) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman of the Board and the chief executive. According to the board diversity policy adopted by the Nomination Committee during the year, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service etc. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background,

CORPORATE GOVERNANCE REPORT

ethnicity, professional experience, skills, knowledge and length of service etc. The final decision will be based on merit and contribution that the selected candidates will bring to the Board. The terms of reference of the Nomination Committee are disclosed on the websites of the Company and the Stock Exchange. The Nomination Committee comprised one executive Director, Mr. Zhang Wanzhong (Chairman), and two independent non-executive Directors, Mr. Chiu Sui Keung and Mr. Li Peiming.

The Nomination Committee held one meeting to review the board composition during the year.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for that period. In preparing the financial statements for the year ended 31 December 2013, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Save as disclosed in note 2 to the financial statements, there are no material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

Auditors' Responsibilities and Remuneration

An analysis of remuneration in respect of services provided by the auditors, Ernst & Young, of the Group is as follows:

	HK$'000
Audit services	3,000
Non-audit services	1,158
	4,158

Non-audit services provided by the auditors included agreed-upon procedures on interim report, services in connection with acquisition of subsidiaries and proposed disposal of subsidiaries.

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditors' Report on pages 35 to 36.

CORPORATE GOVERNANCE REPORT

Internal Control

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control procedures which include the policies, procedures, monitoring and communication activities and standard of behavior established for safeguarding the interests of the shareholders of the Company. The system of internal control aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage, rather than eliminate, the risks of failure when business objectives are being sought.

Based on its assessment which covers all material controls including financial, operational and compliance controls and risk management functions, the Board believes that for the year ended 31 December 2013, the Company's internal control is effective. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

DIRECTORS' TRAINING

Each newly appointed Director has received comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. There are also arrangements in place for providing continuing briefing and professional development to Directors at the Company's expenses whenever necessary.

During the year, all Directors were provided with regular updates on the Group's business and operations. An in house briefing was organised for Directors during the year to update the Directors on the Listing Rules.

SHAREHOLDERS' RIGHTS

The Board endeavours to maintain an on-going dialogue with shareholders. The Company encourages the shareholders to attend the general meetings and the Chairmen of the Board and the board committees should attend the annual general meeting to answer questions.

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar, Tricor Secretaries Limited. For other enquiries, shareholders may send written enquiries to the Company, for the attention of company secretary, by email to king.stone@663hk.com, fax to (852) 2530 5663, mail to Unit 7603, 76/F, The Center, 99 Queen's Road Central, Hong Kong or by submitting enquiry form at www.663hk.com.

The shareholders can convene an extraordinary general meeting. Requisition to convene an extraordinary general meeting can be deposited by the members of the Company holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. The requisitionists must submit their requisition in writing, in which it must state the objects of the meeting, and be duly signed by the requisitionists, mailed and deposited at Unit 7603, 76/F, The Center, 99 Queen's Road Central, Hong Kong (attention of company secretary); and may consist of several documents in like form, each signed by one or more requisitionists. The requisition will be verified with the Company's share registrar and upon its confirmation that

CORPORATE GOVERNANCE REPORT

the requisition is proper and in order, the company secretary will arrange the Board to convene an extraordinary general meeting by serving sufficient notice in accordance with the statutory requirements to all registered shareholders, provided that the requisitionists have deposited a sum of money reasonably sufficient to meet the Company's expenses involved in convening an extraordinary general meeting. On the contrary, if the requisition has been verified as not in order, the requisitionists will be advised of this outcome and accordingly, an extraordinary general meeting will not be convened as requested.

If within 21 days from the date of the deposit of the requisition proceed duly the Directors do not convene a meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date. A meeting convened under this section by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors in accordance to the Articles of Association of the Company and the Listing Rules. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors duly to convene a meeting shall be refunded to the requisitionists by the Company.

The following shareholders namely: (a) any number of members representing not less than 2.5% of the total voting rights of the Company on the date of the requisition; or (b) not less than 50 members holding shares in the Company on which there has been paid up on average sum, per member, of not less than HK$2,000; are entitled to submit a requisition in writing requesting the Company: (a) to give to members of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and/or (b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. A requisition signed by the shareholders concerned (or 2 or more copies which between them containing signatures of all the shareholders concerned) must be deposited at the registered office of the Company at Unit 7603, 76th Floor, The Center, 99 Queen's Road Central, Hong Kong for the attention of the Company Secretary not less than 6 weeks before an annual general meeting in the case of a requisition requiring notice of a resolution and not less than 1 week before an annual general meeting in case of any other requisition. In addition, the concerned shareholders must deposit with the requisition a sum reasonably sufficient to meet the expenses in giving effect the above. However, if, after a requisition requiring notice of a resolution has been deposited at the registered office of the Company, an annual general meeting is called for a date 6 weeks or less after the requisition has been deposited, the requisition though not deposited within the time required as referred to above shall be deemed to have been properly deposited.

The procedures for proposing a person for election as a Director are made available at the Company's website (www.663hk.com).

INVESTOR RELATIONS

The Company believes in regular and timely communication with shareholders as part of its efforts to help shareholders understand its business better and the way the Company operates. To promote effective communication with the public, the Company maintains a website (www.663hk.com) on which comprehensive information about the Company's major businesses, press releases, notices, financial information, announcements, annual and interim reports and shareholders circulars are being made available.

There was no change in the Company's constitutional documents during the year ended 31 December 2013.

REPORT OF THE DIRECTORS

The directors (the "Directors") of King Stone Energy Group Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. During the year, the Group had completed the acquisitions of silver mining business, which is operated by Million Grow Investment Limited and its subsidiaries (collectively, the "Million Grow Group") and certain oil and gas assets in the United States of America (the "USA"). Other than these developments, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's loss for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 117.

DIVIDEND

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 118. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options and convertible notes during the year are set out in notes 30, 31 and 28 to the financial statements, respectively.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2013, the Company had no reserves, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, available for distribution. However, the Company's share premium account, in the amount of HK$1,724,472,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 47% of the total sales for the year and sales to the largest customer included therein amounted to 17% of the total sales. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. Xu Zhendong *(Chairman)*	(appointed on 12 March 2013)
Mr. Zong Hao	(appointed on 1 February 2013)
Mr. Zhang Wanzhong	(appointed on 1 February 2013)
Mr. Tian Wenwei	
Mr. Benjamin Clark Danielson	(appointed on 12 March 2013)
Mr. Xu Zhuliang	(appointed on 12 March 2013)
Mr. Chen Marlon Ray	(resigned on 12 March 2013)
Mr. Wang Da Yong	(resigned on 1 February 2013)
Mr. Wang Tongtian	(resigned on 1 February 2013)

Non-executive Directors:

Mr. Zhang Yongli	(appointed on 12 March 2013)
Mr. Seah Ang	(resigned on 12 March 2013)
Mr. Wong Chun Hung	(resigned on 12 March 2013)

Independent non-executive Directors:

Mr. Chiu Sui Keung	
Mr. Li Peiming	
Mr. Liu Shengming	(appointed on 7 August 2013)
Mr. Lee Ping	(appointed on 8 April 2013)
Mr. Lu Binghui	(appointed on 22 March 2013)
Mr. Lee Chi Hwa, Joshua	(resigned on 8 April 2013)
Mr. Lam Ka Wai, Graham	(resigned on 22 March 2013)

In accordance with the Company's articles of association, (i) Directors appointed during the year shall hold office until the forthcoming annual general meeting and eligible for re-election and (ii) at each annual general meeting, one-third of the Directors shall retire from office by rotation. Mr. Zong Hao, Mr. Tian Wenwei, Mr. Chiu Sui Keung and Mr. Liu Shengming will retire at the forthcoming annual general meeting. Being eligible, Mr. Zong Hao, Mr. Chiu Sui Keung and Mr. Liu Shengming will offer themselves for re-election at the forthcoming annual general meeting. Mr. Tian Wenwei, however, will not offer himself for re-election and will retire at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of the independent non-executive Directors holding office during the year, and as at the date of this report Messrs. Chiu Sui Keung, Li Peiming, Liu Shengming, Lee Ping and Lu Binghui, still considers them to be independent.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 16 to 19 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The remuneration of the Directors is determined by the remuneration committee of the Company with reference to the Directors' duties, responsibilities and performance and the results of the Group. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 20 to 26 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2013, none of the Directors or the chief executive of the Company and their respective associates had or were deemed to have any interests in the long or short positions in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), Chapter 571 of the Laws of Hong Kong) which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests in the long or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHARE OPTION SCHEME

The Company operated a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 31 to the financial statements. No share options were granted to any parties during the year and all outstanding share options were lapsed and forfeited during the year.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	Notes	Number of share options At 1 January 2013	Lapsed during the year	Forfeited during the year	At 31 December 2013
Executive Directors:					
Mr. Wang Da Yong					
(resigned on 31 January 2013)	(d)	5,000,000	—	(5,000,000)	—
Mr. Tian Wenwei	(b)	3,750,000	(3,750,000)	—	—
Mr. Wang Tongtian	(b)	1,000,000	—	(1,000,000)	—
(resigned on 31 January 2013)	(c)	500,000	—	(500,000)	—
		10,250,000	(3,750,000)	(6,500,000)	—
Independent non-executive Director:					
Mr. Chiu Sui Keung	(c)	500,000	(500,000)	—	—
Others:					
In aggregate	(a)	616,000	(616,000)	—	—
	(b)	11,250,000	(11,250,000)	—	—
	(c)	2,000,000	(2,000,000)	—	—
		13,866,000	(13,866,000)	—	—
Total		24,616,000	(18,116,000)	(6,500,000)	—

Notes:

(a) These share options were granted on 29 September 2008 at an exercise price of HK$2.5[@] per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$2.5[†] per share. The share options exercised at any time commenced on 29 September 2008. The vesting period was from the date of grant to the commencement date of the exercise period. All of the share options were lapsed on 29 September 2013.

(b) These share options were granted on 12 May 2010 at an exercise price of HK$4.96[@] per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$4.62[†] per share. The share options may be exercised in two equal portions. The first 50% portion was exercisable for a period of two years commenced on 12 May 2011 and the other 50% portion was exercisable for a period of one year commenced on 12 May 2012. The vesting periods of each of the portion was from the date of grant to the respective commencement dates of the exercise periods. 15,000,000 share options were lapsed on 12 May 2013 and 1,000,000 share options were forfeited three months after resignation of Mr. Wang Tongtian.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Notes: (Continued)

(c) These share options were granted on 26 August 2010 at an exercise price of HK$4.96@ per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$3.08† per share. The share options may be exercised in two equal portions. The first 50% portion was exercisable for a period of two years commenced on 26 August 2011 and the other 50% portion was exercisable for a period of one year commenced on 26 August 2012. The vesting periods of each of the portion was from the date of grant to the respective commencement dates of the exercise periods. 2,500,000 share options were lapsed on 26 August 2013 and 500,000 share options were forfeited three months after resignation of Mr. Wang Tongtian.

(d) These share options were granted on 10 November 2010 at an exercise price of HK$4.96@ per share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$4.54† per share. The share options may be exercised in two equal portions. The first 50% portion was exercisable for a period of two years commenced on 10 November 2011 and the other 50% portion was exercisable for a period of one year commenced on 10 November 2012. The vesting periods of each of the portion was from the date of grant to the respective commencement dates of the exercise periods. All of the share options were forfeited three months after resignation of Mr. Wang Da Yong.

@ The exercise price of these share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

† The closing price of the Company's ordinary shares as disclosed above had been adjusted for the twenty-to-one share consolidation taken place on 24 June 2011.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

REPORT OF THE DIRECTORS

PERSON WHO HAVE AN INTEREST IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as was known to the Directors and the chief executive of the Company, as at 31 December 2013, the following persons (not being Directors or chief executive of the Company of which interests were disclosed above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Total interests in long position of shares/underlying shares	Approximate percentage of the Company's issued share capital
Belton Light Limited (note 1)	Beneficial owner	1,555,555,000	51.64%
Wang Da Yong (note 2)	Through controlled corporation/Beneficial owner/spouse	238,960,500	7.93%

Notes:

1. Belton Light Limited is wholly owned by Jade Bird Energy Fund II, L.P.

2. The shares are held by Mr. Wang Da Yong under the below capacities:

   (a) 109,758,000 shares are held by Join Ascent Limited which is held as to 80% and 20% by Mr. Wang Da Yong and Mr. Tian Wenwei, respectively.

   (b) 5,838,500 shares are held by China Coal and Coke Investment Holding Company Limited which is wholly owned by Sino Bridge Investments Limited, a company wholly owned by Mr. Wang Da Yong.

   (c) 114,385,000 shares are held by Sky Circle International Limited which is wholly owned by Mr. Wang Da Yong.

   (d) 2,671,000 shares are held by Ms. Yuan Hong, the spouse of Mr. Wang Da Yong.

   (e) 6,308,000 shares are held directly by Mr. Wang Da Yong.

REPORT OF THE DIRECTORS

PERSON WHO HAVE AN INTEREST IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO (Continued)

Save as disclosed above, as at 31 December 2013, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests and/or short positions in the shares or underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group after the reporting period are set out in note 41 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Xu Zhendong
Chairman

Hong Kong
31 March 2014

INDEPENDENT AUDITORS' REPORT

Ernst & Young
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To the shareholders of King Stone Energy Group Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of King Stone Energy Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 117, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY (Continued)

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

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.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
REVENUE	6	150,306	571,129
Cost of inventories sold		(376,423)	(661,970)
Gross loss		(226,117)	(90,841)
Other income and gains	6	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	7	(172,688)	(136,014)
Share of profit/(loss) of a joint venture		(10,415)	6,279
LOSS BEFORE TAX	8	(1,563,817)	(2,276,920)
Income tax credit	11	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	12	(1,373,711)	(1,655,263)
Non-controlling interests		(94,328)	(99,779)
		(1,468,039)	(1,755,042)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
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			
Basic and diluted	13	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	14	1,361,988	1,547,178
Prepaid land premiums	15	15,848	14,856
Mining and exploration rights	16	1,840,922	1,739,255
Goodwill	17	15,852	—
Other intangible asset	18	61,094	—
Investment in a joint venture	20	13,227	23,117
Prepayments and deposits	23	107,322	60,734
Total non-current assets		3,416,253	3,385,140
CURRENT ASSETS			
Inventories	21	14,806	15,479
Trade and bills receivables	22	31,907	46,026
Prepayments, deposits and other receivables	23	118,075	90,686
Pledged deposits	24	3,636	3,517
Cash and cash equivalents	24	292,595	15,913
Total current assets		461,019	171,621
CURRENT LIABILITIES			
Trade and bills payables	25	11,760	93,016
Other payables and accruals	26	1,367,407	696,437
Interest-bearing borrowings	27	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	26	10,080	—
Interest-bearing borrowings	27	506,987	382,513
Convertible notes	28	35,953	242,556
Deferred tax liabilities	29	194,241	125,028
Total non-current liabilities		747,261	750,097
Net assets		364,335	774,979

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	301,205	142,873
Reserves	32(a)	(178,916)	610,060
		122,289	752,933
Non-controlling interests		242,046	22,046
Total equity		364,335	774,979

Director
Xu Zhendong

Director
Zong Hao

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners of the Company									
	Notes	Issued capital HK$'000 (Note 30)	Share premium account HK$'000 (Note 32(b)(i))	Capital redemption reserve HK$'000 (Note 32(b)(ii))	Equity component of convertible notes HK$'000 (Note 28)	Share option reserve HK$'000 (Note 32(b)(iii))	Exchange fluctuation reserve HK$'000 (Note 32(a))	Retained profit/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012		142,873	1,166,813	523	538,884	55,565	171,900	300,440	2,376,998	120,528	2,497,526
Loss for the year		–	–	–	–	–	–	(1,655,263)	(1,655,263)	(99,779)	(1,755,042)
Other comprehensive income for exchange differences on translation of foreign operations during the year		–	–	–	–	–	23,169	–	23,169	1,297	24,466
Total comprehensive loss for the year		–	–	–	–	–	23,169	(1,655,263)	(1,632,094)	(98,482)	(1,730,576)
Equity-settled share option arrangement	31	–	–	–	–	8,029	–	–	8,029	–	8,029
At 31 December 2012 and 1 January 2013		142,873	1,166,813*	523*	538,884*	63,594*	195,069*	(1,354,823)*	752,933	22,046	774,979
Loss for the year		–	–	–	–	–	–	(1,373,711)	(1,373,711)	(94,328)	(1,468,039)
Other comprehensive income for exchange differences on translation of foreign operations during the year		–	–	–	–	–	27,076	–	27,076	4,867	31,943
Total comprehensive loss for the year		–	–	–	–	–	27,076	(1,373,711)	(1,346,635)	(89,461)	(1,436,096)
Issue of new shares	30(a)	155,555	544,444	–	–	–	–	–	699,999	–	699,999
Share issue expenses	30(a)	–	(1,323)	–	–	–	–	–	(1,323)	–	(1,323)
Conversion of convertible notes	30(b)	2,777	14,538	–	(3,093)	–	–	–	14,222	–	14,222
Early redemption of convertible notes	28(b)	–	–	–	(465,832)	–	–	465,832	–	–	–
Acquisition of subsidiaries	33(d)	–	–	–	3,093	–	–	–	3,093	309,437	312,530
Forfeiture of share options	31(a)	–	–	–	–	(16,305)	–	16,305	–	–	–
Lapse of share options	31(b)	–	–	–	–	(47,289)	–	47,289	–	–	–
Capital contribution by a non-controlling shareholder		–	–	–	–	–	–	–	–	24	24
At 31 December 2013		301,205	1,724,472*	523*	73,052*	–*	222,145*	(2,199,108)*	122,289	242,046	364,335

* These reserve accounts comprise the consolidated negative reserves of HK$178,916,000 (2012: consolidated reserves HK$610,060,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(1,563,817)	(2,276,920)
Adjustments for:			
Finance costs	7	172,688	136,014
Loss/(gain) on disposal of items of property, plant and equipment	8	2,156	(1,049)
Bank interest income	6	(704)	(286)
Other interest income	6	(2,162)	(1,500)
Depreciation	8, 14	145,672	248,778
Amortisation of prepaid land premiums	8, 15	379	346
Amortisation of coal mining rights	8, 16	25,648	128,842
Impairment of items of property, plant and equipment	8, 14(a)	361,157	684,145
Impairment of mining rights	8, 16(c)	622,420	1,126,973
Impairment of trade receivables	8, 22(b)	10,538	10,424
Impairment of other prepayments, deposits and other receivables	8, 23(b)	43,956	126,895
Write-down of obsolete inventories to net realisable value	8	1,944	—
Equity-settled share option expenses	8, 31	—	8,029
Share of loss/(profit) of a joint venture		10,415	(6,279)
		(169,710)	184,412
Decrease in inventories		4,163	1,737
Decrease in trade and bills receivables		3,273	60,650
Decrease/(increase) in prepayments, deposits and other receivables		(34,611)	126,504
Increase/(decrease) in trade and bills payables		(81,256)	87,968
Increase/(decrease) in other payables and accruals		124,386	(49,574)
Cash generated from operations		(153,755)	411,697
Interest paid		(101,710)	(115,240)
Income tax paid		(5,023)	(49,564)
Net cash flows from/(used in) operating activities		(260,488)	246,893

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,866	1,786
Purchases of items of property, plant and equipment		(203,345)	(334,253)
Proceeds from disposal of items of property, plant and equipment		1,933	25,236
Acquisition of a subsidiary	33	(255,157)	(307,350)
Acquisition of an intangible asset		(25,390)	—
Decrease/(increase) in prepayments for non-current assets		(78,378)	287,900
Increase in pledged time deposits		(119)	(581)
Net cash flows used in investing activities		(557,590)	(327,262)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares	30(a)	699,999	—
Share issue expenses	30(a)	(1,323)	—
Early redemption of convertible bonds	28	(250,000)	—
New bank and other loans		1,289,878	606,094
Repayment of bank and other loans		(1,064,222)	(451,576)
Increase/(decrease) in other borrowings included in other payables		426,815	(99,223)
Capital contribution by non-controlling shareholders		24	—
Net cash flows from financing activities		1,101,171	55,295
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		283,093	(25,074)
Cash and cash equivalents at beginning of year		15,913	51,928
Effect of foreign exchange rate changes, net		(6,411)	(10,941)
CASH AND CASH EQUIVALENTS AT END OF YEAR		292,595	15,913
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits		192,595	15,913
Non-pledged time deposits		100,000	—
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	24	292,595	15,913

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	987	343
Investments in subsidiaries	19	272,545	802,302
Total non-current assets		273,532	802,645
CURRENT ASSETS			
Due from subsidiaries	19	49,820	—
Prepayments, deposits and other receivables	23	48,061	17,808
Cash and cash equivalents	24	260,811	7,642
Total current assets		358,692	25,450
CURRENT LIABILITIES			
Due to a subsidiary	19	—	420
Other payables and accruals	26	205,007	12,740
Total current liabilities		205,007	13,160
NET CURRENT ASSETS		153,685	12,290
TOTAL ASSETS LESS CURRENT LIABILITIES		427,217	814,935
NON-CURRENT LIABILITY			
Convertible notes	28	35,953	242,556
Net assets		391,264	572,379
EQUITY			
Issued capital	30	301,205	142,873
Reserves	32(b)	90,059	429,506
Total equity		391,264	572,379

Director
Xu Zhendong

Director
Zong Hao

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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 technology research and development.

2. BASIS OF PREPARATION, PRESENTATION AND CONSOLIDATION

Basis of preparation

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 the continuing depression of the 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 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2. BASIS OF PREPARATION, PRESENTATION AND CONSOLIDATION (Continued)

Basis of preparation (Continued)

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 the 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 adverse effect on the normal continuing operation of the 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 had deficiency in 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. 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2. BASIS OF PREPARATION, PRESENTATION AND CONSOLIDATION (Continued)

Basis of consolidation (Continued)

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 retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 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*

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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 directors of the Company reviewed and assessed the classification of the Group Investment in a joint arrangement in accordance with the requirements of HKFRS 11, and concluded that the adoption of this new HKFRS has had no 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 notes 19 and 20 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(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.

(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 notes 14 and 16 to 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(h) (Continued)

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.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements to HKFRSs 2010–2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements to HKFRSs 2011–2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

(a) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement.* This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

(b) 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 in accordance with HKFRS 9 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 Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

(c) 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 are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any accumulated impairment losses.

Investment in a joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investment in the joint venture is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of a joint venture is included in consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's investment in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of a joint venture is included as part of the Group's investment in the joint venture.

If the investment in a joint venture becomes an investment in an associate, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

Business combination is accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group and liabilities assumed by the Group to the former owners of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of the employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or a parent of the entity).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchases price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	Over the lease terms
Leasehold improvements	Over the shorter of the lease terms and five years
Plant and machinery	6.7% to 33%
Furniture, fixtures and equipment	10% to 33%
Motor vehicles	20% to 25%

In addition, certain plant and machinery used in the coal mines is depreciated using the units of production method based on the actual production volume and over the total estimated proven and probable reserves of the coal mine.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building or mining structure and other assets under construction, which are stated at cost less any accumulated impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are stated at cost less accumulated amortisation and any impairment losses, and amortisation is calculated on the straight-line basis over the lease terms of 50 years.

Mining and exploration rights

Mining and exploration rights are stated at cost less accumulated amortisation and any accumulated impairment losses. Mining and exploration rights are amortised using the units of production method based on the actual production volume and over the total estimated proven and probable reserves of the coal mine.

The cost of mining and exploration rights acquired in a business combination is the fair value as at the date of acquisition. The mining and exploration rights are subsequently assessed for impairment whenever there is an indication that the mining and exploration rights may be impaired. The amortisation period and the amortisation method for the mining and exploration rights are reviewed at least at each financial year end.

Intangible assets (other than goodwill and mining and exploration rights)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets of the Group are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Oil and gas patents

Purchased patents are stated at cost less any accumulated impairment losses and are amortised on the straight-line basis over their estimated useful lives of 14 to 20 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Other income and gains" in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement it evaluates if and to what extent it has retained the risk and rewards of ownership of asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred assets to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings at initial recognition. All financial liabilities are recognised initially at fair value, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, accruals, interest-bearing loans, and the liability component of convertible notes.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Convertible notes

Convertible notes which entitle the holder to convert the notes into a fixed number of equity instruments at a fixed conversion price are regarded as combined instruments consisting of a liability component and an equity component.

On initial recognition, the component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. The fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a liability on the amortised cost basis using the effective interest rate method until extinguished on conversion or redemption. In addition, the fair value of the conversion option is assessed and is recognised and included in shareholders' equity as "Equity component of convertible notes". The carrying amount of the conversion option recognised in shareholders' equity is not remeasured in subsequent years.

Upon the exercise of the conversion option of the convertible notes, the resulting ordinary shares issued are recorded by the Company as additional share capital at the nominal value of the ordinary shares issued, and the excess of the total carrying amounts of the liability and equity components of the convertible notes over the nominal value of the ordinary shares issued is recorded in the share premium account. No gain or loss is recognised in profit or loss upon conversion of the convertible notes.

When the convertible notes are redeemed, the carrying amount of the equity component of the convertible notes, if any, is transferred to retained profits or accumulated losses as a movement in reserves and any difference between the amount paid and the carrying amounts of the liability components is recognised in profit or loss. No gain or loss is recognised in profit or loss upon expiration of the conversion option.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits that have a short maturity of generally within three months when acquired.

For the purpose of the consolidated and company statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

Options which are cancelled prior to their exercise date or lapsed are deleted from the register of outstanding options. When the share options are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits/accumulated losses as a movement in reserves.

Other employee benefits — Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Subsidiaries of the Group in the People's Republic of China (the "PRC") contribute on a monthly basis to defined contribution retirement schemes organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefits payable to all existing and future retired employees under these plans and the Group has no further obligations for respective post-retirement benefits beyond the contributions made. The contributions to the schemes are charged to profit or loss as and when incurred. The employer contributions vest fully once made.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. All borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currency of certain subsidiaries and a joint venture in the PRC and certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rate prevailing at the end of the reporting period and their profits or losses are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arsing on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries in the PRC and overseas are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiaries in the PRC which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Preparation of consolidated financial statements on going concern basis

At 31 December 2013, the Group's current liabilities exceeded its current assets by HK$2,305 million. Such condition indicates the existence of a significant uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, as disclosed in note 2 of the financial statements, the directors of the Company consider that it is appropriate to prepare these financial statements on a going concern basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or disposal; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. Further details of parameters and assumptions used in the impairment assessment of the Group's coal mining assets are set out in note 14(a) to the financial statements.

Consolidation of entity in which the Group holds less than a majority of voting rights

During the year, the Group acquired 50% equity interests in Million Grow Investments Limited ("Million Grow") and the Group considered it controls Million Grow even though it owns only 50% of the voting rights. This assessment is based on the fact that the Group can appoint a majority portion of directors in the board of Million Grow and the Group is able to initiate directors' meeting in Million Grow, which controlled the business activities of Million Grow, including the relevant activities which most affected the return.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits in the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Adjustment on depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances. The net carrying amounts of property, plant and equipment in the consolidated statement of financial position of the Group at 31 December 2013 was HK$1,361,988,000 (2012: HK$1,547,178,000) (note 14).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Impairment of property, plant and equipment and mining and exploration rights

The Group assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to disposal and value in use. The carrying value of property, plant and equipment, including mining structures and mining and exploration rights, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the financial statements. Estimating the value in use requires the Group to estimate future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The net carrying amounts of property, plant and equipment and mining and exploration rights carried as assets in the consolidated statement of financial position of the Group at 31 December 2013 were HK$1,361,988,000 (2012: HK$1,547,178,000) (note 14) and HK$1,840,922,000 (2012: HK$1,739,255,000) (note 16), respectively.

Mine reserves

Engineering estimates of the Group's mine reserves (including coal and silver mines) are inherently imprecise and represent only approximate amounts because of the significant judgements involved in developing this information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on a unit of production basis. Changes in the estimate of mine reserves are also taken into account in the impairment assessment of mining assets. The net carrying amounts of property, plant and equipment and mining and exploration rights in the consolidated statement of financial position of the Group at 31 December 2013 were HK$1,361,988,000 (2012: HK$1,547,178,000) (note 14) and HK$1,840,922,000 (2012: HK$1,739,255,000) (note 16), respectively.

Progress of a coal mine exchange

The Group possess two coal mining right certificates in the area of Nianpanliang, Inner Mongolia, the PRC, namely, the No. 1 Coal Mine and the No. 2 Coal Mine. In the prior years, the area of the No. 2 Coal Mine (the "Old No. 2 Coal Mine") had been included in the scope of a city development plan of the local government, and hence the local government proposed to exchange it for another coal mine (the "New No. 2 Coal Mine") located adjacent to another existing coal mine of the Group as compensation (the "Coal Mine Exchange"). However, the Coal Mine Exchange has been significantly delayed in the prior years, and as at the date of approval of these financial statements, the Coal Mine Exchange has not been formally approved by the relevant government authorities.

The Group had communicated with relevant government authorities for the completion of the Coal Mine Exchange and obtaining the mining right certificate of the New No. 2 Coal Mine. The directors the Company estimate that the mining right certificate of the New No. 2 Coal Mine will be obtained in the foreseeable future such that the New No. 2 Coal Mine is expected to commence production in due course after construction and development. During the impairment assessment of the related coal mining rights as further detailed in note 14(a) to the financial statements, the directors of the Company have considered the impact of the delay in completion of the Coal Mine Exchange. The net carrying amount of relevant mining right carried as assets in the consolidated statement of financial position of the Group at 31 December 2013 was HK$432 million (2012: HK$726 million).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Fair value assessment of Million Grow at the acquisition date

On 31 May 2013, the Group acquired Million Grow which operated silver mining business through its subsidiaries (collectively the "Million Grow Group"), the fair values of the mining and exploration rights of the Million Grow Group at the acquisition date were assessed using the information in the technical report using JORC Code Standard, production plan prepared by the management and current and forecasted metal prices. The aggregate fair value of the mining and exploration rights in the Million Grow Group at the date of acquisition was HK$686,812,000 (note 33).

Impairment of intangible assets (other than goodwill and mining and exploration rights)

The Group assesses whether there are any indicators of impairment for its other intangible assets, which are patents for heavy oil extraction technology at the end of each reporting period. The assessment involves estimation of the anticipated revenue generated when the technology is commercialised. The net carrying amount of the other intangible assets in the consolidated statement of financial position of the Group at 31 December 2013 was HK$61,094,000 (2012: Nil) (note 18).

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, the differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which the estimate has been changed. The net carrying amount of inventories in the consolidated statement of financial position of the Group at 31 December 2013 was HK$14,806,000 (2012: HK$15,479,000) (note 21).

Impairment of trade and bills receivables and prepayments, deposits and other receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, the differences will impact the carrying values of the receivables and impairment loss in the period in which the estimate has been changed. The net carrying amounts of trade and bills receivables and prepayments, deposits and other receivables in the consolidated statement of financial position of the Group at 31 December 2013 were HK$31,907,000 and HK$225,397,000, respectively (2012: HK$46,026,000 and HK$151,420,000, respectively) (notes 22 and 23).

Provision for rehabilitation

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work to a coal mine which are discounted at a rate reflecting the term and nature of the obligation. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statement of financial position of the Group by adjusting the rehabilitation liability. At 31 December 2013, the directors of the Company estimated that no provision for rehabilitation is required (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Current tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact on the income tax and deferred tax provision in the periods in which the determination is made.

The carrying amount of current tax payable carried as liabilities in the consolidated statement of financial position as at 31 December 2013 was HK$230,390,000 (2012: HK$228,721,000).

5. 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 33 to the financial statements, and certain oil and gas assets in the USA as further detailed in note 18, 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 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 profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(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 an investment in a joint venture, pledged deposits, cash and cash equivalents and corporate and other unallocated assets as these assets are managed on a group basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

5. OPERATING SEGMENT INFORMATION (Continued)

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 HK$'000	Silver HK$'000	Oil and gas HK$'000	Total HK$'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)

NOTES TO FINANCIAL STATEMENTS

31 December 2013

5. OPERATING SEGMENT INFORMATION (Continued)

For the year ended 31 December 2013 (Continued)

	Coal HK$'000	Silver HK$'000	Oil and gas HK$'000	Others HK$'000	Total HK$'000
Other segment information:					
Depreciation	142,530	2,607	—	535	145,672
Amortisation of prepaid land premiums	353	26	—	—	379
Amortisation of mining and exploration rights	25,607	41	—	—	25,648
Write-down of obsolete inventories to net realisable value	1,944	—	—	—	1,944
Impairment of items of property, plant and equipment	361,157	—	—	—	361,157
Impairment of mining rights	622,420	—	—	—	622,420
Impairment of trade receivable	10,538	—	—	—	10,538
Impairment of other prepayments, deposits and receivables	28,956	—	—	15,000	43,956
Other non-cash expenses	—	—	—	44,284	44,284
Capital expenditure*	176,838	791,253	61,052	1,660	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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

5. OPERATING SEGMENT INFORMATION (Continued)

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 HK$'000	2012 HK$'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

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of coal and silver ore by-product 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 HK$'000	2012 HK$'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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

7. FINANCE COSTS

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

	Notes	2013 HK$'000	2012 HK$'000
Interest on bank and other loans wholly repayable within five years		128,404	115,240
Imputed interest on convertible notes	28	10,320	20,774
Losses on early redemption of convertible notes	28(b)	33,964	—
		172,688	136,014

8. LOSS BEFORE TAX

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

	Notes	2013 HK$'000	2012 HK$'000
Depreciation	14	145,672	248,778
Amortisation of prepaid land premiums	15	379	346
Amortisation of mining and exploration rights	16	25,648	128,842
Employee benefit expense (including directors' remuneration):			
Wages, salaries and other benefits		42,921	49,254
Equity-settled share option expenses	31	—	8,029
Pension scheme contributions (defined contribution scheme)		5,622	11,707
		48,543	68,990
Auditors' remuneration		3,000	2,730
Write-down of obsolete inventories to net realisable value@		1,944	—
Loss/(gain) on disposal of property, plant and equipment#		2,156	(1,049)
Impairment of items of property, plant and equipment#	14(a)	361,157	684,145
Impairment of coal mining rights#	14(a),16(c)	622,420	1,126,973
Impairment of trade receivables#	22(b)	10,538	10,424
Impairment of prepayments, deposits and other receivables#	23(b)	43,956	126,895
Operating lease rentals in respect of buildings		3,529	2,410

NOTES TO FINANCIAL STATEMENTS

31 December 2013

8. LOSS BEFORE TAX (Continued)

@ 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 comprehend 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.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2013 HK$'000	2012 HK$'000
Fees	963	1,138
Other emoluments:		
Salaries, allowances and benefits in kind	7,544	4,610
Pension scheme contributions	18	28
Equity-settled share option expenses	–	5,124
	7,562	9,762
	8,525	10,900

In the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year ended 31 December 2012 is included in the above directors' remuneration disclosures.

During the years ended 31 December 2013 and 2012, no share options have been granted to the directors of the Company and all the share options lapsed during the year ended 31 December 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

9. DIRECTORS' REMUNERATION (Continued)

An analysis of directors' remuneration, on a named basis, for directors who were holding office during the year is as follows:

Group

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2013				
Executive directors:				
Xu Zhendong (appointed on 12 March 2013)	–	804	–	804
Tian Wenwei	–	1,318	15	1,333
Benjamin Clark Danielson (appointed on 12 March 2013)	–	1,206	–	1,206
Xu Zhuliang (appointed on 12 March 2013)	–	1,447	–	1,447
Zong Hao (appointed on 1 February 2013)	–	2,157	–	2,157
Zhang Wanzhong (appointed on 1 February 2013)	–	275	–	275
Wang Da Yong (resigned on 1 February 2013)	–	322	3	325
Wang Tongtian (resigned on 1 February 2013)	–	15	–	15
Chen Marlon Ray (resigned on 12 March 2013)	–	–	–	–
	–	7,544	18	7,562
Non-executive directors:				
Zhang Yongli (appointed on 12 March 2013)	145	–	–	145
Seah Ang (resigned on 12 March 2013)	24	–	–	24
Wong Chun Hung (resigned on 12 March 2013)	35	–	–	35
	204	–	–	204

NOTES TO FINANCIAL STATEMENTS

31 December 2013

9. DIRECTORS' REMUNERATION (Continued)

Group (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2013 (Continued)				
Independent non-executive directors:				
Chiu Sui Keung	180	–	–	180
Li Peiming	180	–	–	180
Liu Shengming (appointed on 7 August 2013)	73	–	–	73
Lee Ping (appointed on 8 April 2013)	132	–	–	132
Lu Binghui (appointed on 22 March 2013)	140	–	–	140
Lam Ka Wai, Graham (resigned on 22 March 2013)	27	–	–	27
Lee Chi Hwa, Joshua (resigned on 8 April 2013)	27	–	–	27
	759	–	–	759
Total	963	7,544	18	8,525

NOTES TO FINANCIAL STATEMENTS

31 December 2013

9. DIRECTORS' REMUNERATION (Continued)

Group (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
Year ended 31 December 2012					
Executive directors:					
Wang Da Yong	—	3,128	14	2,906	6,048
Tian Wenwei	—	1,302	14	1,015	2,331
Wang Tongtian	—	180	—	403	583
Chen Marlon Ray	—	—	—	—	—
	—	4,610	28	4,324	8,962
Non-executive directors:					
Wong Chun Hung (appointed on 16 April 2012)	128	—	—	—	128
Seah Ang (appointed on 25 June 2012)	62	—	—	—	62
Li Feng (resigned on 27 February 2012)	—	—	—	—	—
Wang Daoyuan (resigned on 27 February 2012)	—	—	—	—	—
Li Yi (resigned on 1 June 2012)	275	—	—	271	546
Su Bin (resigned on 1 June 2012)	75	—	—	265	340
	540	—	—	536	1,076
Independent non-executive directors:					
Chiu Sui Keung	180	—	—	132	312
Li Peiming	180	—	—	—	180
Lee Chi Hwa, Joshua (appointed on 9 January 2012)	98	—	—	—	98
Cao Kuangyu (resigned on 23 April 2012)	57	—	—	132	189
Lam Ka Wai, Graham (appointed on 23 April 2012)	83	—	—	—	83
	598	—	—	264	862
Total	1,138	4,610	28	5,124	10,900

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2012: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2012: three) non-director, highest paid employee for the year are as follows:

	2013 HK$'000	2012 HK$'000
Salaries, allowances and benefits in kind	1,066	2,760
Pension scheme contributions	15	28
Equity-settled share option expenses	—	947
	1,081	3,735

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2013	2012
Nil to HK$1,000,000	—	1
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	—	1
	1	3

The non-director, highest paid employees were granted share options of the Company in the prior years, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year ended 31 December 2012 is included in the above non-director, highest paid employees' remuneration disclosures.

During the years ended 31 December 2013 and 2012, other than mentioned above, no new share options have been granted to the above non-director, highest paid employees.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

11. 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.

	Group	
	2013 HK$'000	2012 HK$'000
Current — Mainland China	—	5,759
Deferred (note 29)	(95,778)	(527,637)
Total tax credit for the year	(95,778)	(521,878)

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax credit at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Year ended 31 December 2013								
Loss before tax	(95,237)		(1,459,991)		(8,589)		(1,563,817)	
Tax at the statutory tax rates	(15,714)	(16.5)	(364,998)	(25.0)	(2,339)	(27.2)	(383,051)	(24.5)
Loss attributable to a joint venture	—	—	2,604	0.2	—	—	2,604	0.2
Expenses not deductible for tax	15,714	16.5	51,996	3.6	2,339	27.2	70,049	4.5
Tax losses not recognised	—	—	214,620	14.7	—	—	214,620	13.7
Tax credit at the Group's effective rate	—	—	(95,778)	(6.5)	—	—	(95,778)	(6.1)

NOTES TO FINANCIAL STATEMENTS

31 December 2013

11. INCOME TAX (Continued)

Group (Continued)

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Year ended 31 December 2012								
Loss before tax	(63,944)		(2,212,976)		—		(2,276,920)	
Tax at the statutory tax rates	(10,550)	16.5	(553,244)	25.0	—	—	(563,794)	24.8
Profit attributable to a joint venture	—	—	(1,570)	0.1	—	—	(1,570)	0.1
Income not subject to tax	—	—	(1,473)	0.1	—	—	(1,473)	0.1
Expenses not deductible for tax	10,550	(16.5)	34,170	(1.5)	—	—	44,720	(2.0)
Tax losses not recognised	—	—	239	—	—	—	239	—
Tax credit at the Group's effective rate	—	—	(521,878)	23.7	—	—	(521,878)	23.0

The share of tax attributable to the joint venture amounting to HK$13,000 (2012: HK$2,161,000) (note 20) is included in "Share of profit/(loss) of a joint venture" in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2013 includes a loss of HK$94,804,000 (2012: HK$63,807,000) which has been dealt with in the financial statements of the Company.

A reconciliation of the above amount to the Company's loss for the year is as follows:

	Notes	2013 HK$'000	2012 HK$'000
Amount of consolidated loss for the year attributable to owners of the Company dealt with in the financial statements of the Company		94,804	63,807
Impairment of interests in subsidiaries recognised during the year in profit or loss			
— Investment costs in subsidiaries	19(c)	802,302	1,007,893
— Amounts due from subsidiaries	19(c)	—	180,810
The Company's loss for the year	32(b)	897,106	1,252,510

13. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2013								
At 1 January 2013:								
Cost		57,251	—	2,289,023	16,932	12,224	391,570	2,767,000
Accumulated depreciation and impairment		(25,770)	—	(1,158,628)	(11,086)	(7,104)	(17,234)	(1,219,822)
Net carrying amount		31,481	—	1,130,395	5,846	5,120	374,336	1,547,178
At 1 January 2013, net of accumulated depreciation and impairment		31,481	—	1,130,395	5,846	5,120	374,336	1,547,178
Additions		377	1,036	10,201	3,562	1,997	186,172	203,345
Acquisition of a subsidiary	33	3,323	—	24,863	815	1,036	44,873	74,910
Disposals		—	—	(605)	—	(1,655)	(1,829)	(4,089)
Impairment	(a)	(8,904)	—	(349,135)	(2,242)	(876)	—	(361,157)
Depreciation provided during the year		(1,903)	(311)	(140,388)	(1,801)	(1,269)	—	(145,672)
Transfers		348	—	159,978	11	—	(160,337)	—
Exchange realignment		955	—	34,186	209	138	11,985	47,473
At 31 December 2013, net of accumulated depreciation and impairment		25,677	725	869,495	6,400	4,491	455,200	1,361,988
At 31 December 2013:								
Cost		63,045	1,036	2,553,637	21,870	12,308	472,944	3,124,840
Accumulated depreciation and impairment		(37,368)	(311)	(1,684,142)	(15,470)	(7,817)	(17,744)	(1,762,852)
Net carrying amount		25,677	725	869,495	6,400	4,491	455,200	1,361,988

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Note	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2012								
At 1 January 2012:								
Cost		52,417	878	1,979,255	14,843	13,102	387,380	2,447,875
Accumulated depreciation		(5,314)	(308)	(282,487)	(4,969)	(3,621)	—	(296,699)
Net carrying amount		47,103	570	1,696,768	9,874	9,481	387,380	2,151,176
At 1 January 2012, net of accumulated depreciation		47,103	570	1,696,768	9,874	9,481	387,380	2,151,176
Additions		900	—	44,524	1,957	959	285,913	334,253
Disposals		—	(394)	(23,211)	(7)	(575)	—	(24,187)
Impairment	(a)	(17,523)	—	(643,756)	(3,275)	(2,357)	(17,234)	(684,145)
Depreciation provided during the year		(2,855)	(176)	(240,528)	(2,777)	(2,442)	—	(248,778)
Transfers		3,441	—	281,560	—	—	(285,001)	—
Exchange realignment		415	—	15,038	74	54	3,278	18,859
At 31 December 2012, net of accumulated depreciation and impairment		31,481	—	1,130,395	5,846	5,120	374,336	1,547,178
At 31 December 2012:								
Cost		57,251	—	2,289,023	16,932	12,224	391,570	2,767,000
Accumulated depreciation and impairment		(25,770)	—	(1,158,628)	(11,086)	(7,104)	(17,234)	(1,219,822)
Net carrying amount		31,481	—	1,130,395	5,846	5,120	374,336	1,547,178

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2013				
At 1 January 2013:				
Cost	168	—	596	764
Accumulated depreciation	(94)	—	(327)	(421)
Net carrying amount	74	—	269	343
At 1 January 2013, net of accumulated depreciation	74	—	269	343
Additions	83	1,036	—	1,119
Depreciation provided during the year	(45)	(311)	(119)	(475)
At 31 December 2013, net of accumulated depreciation	112	725	150	987
At 31 December 2013:				
Cost	251	1,036	596	1,883
Accumulated depreciation	(139)	(311)	(446)	(896)
Net carrying amount	112	725	150	987
Year ended 31 December 2012				
At 1 January 2012:				
Cost	183	878	596	1,657
Accumulated depreciation	(65)	(307)	(208)	(580)
Net carrying amount	118	571	388	1,077
At 1 January 2012, net of accumulated depreciation	118	571	388	1,077
Depreciation provided during the year	(37)	(175)	(119)	(331)
Disposals	(7)	(396)	—	(403)
At 31 December 2012, net of accumulated depreciation	74	—	269	343
At 31 December 2012:				
Cost	168	—	596	764
Accumulated depreciation	(94)	—	(327)	(421)
Net carrying amount	74	—	269	343

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(a) In view of the indications of impairment including continuous deteriorating performance of coal mining business and further delay in production schedule of the New No. 2 Coal Mine of Eerduosi Hengtai Coal Co., Ltd. ("Hengtai") 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 these financial statements, 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.

In this connection, the Company had engaged APAC Assets Valuation and Consulting Limited (2012: Savills Valuation and Professional Services Limited), an independent professional valuer, to assess the value-in-use of the cash-generating units (the "CGUs") and the management had derived the value-in-use of the Coal Mining Assets from the value-in-use of the CGUs. In assessing the value-in-use of the CGUs, the future cash flows of the coal mining businesses, which covered the periods to utilise the remaining reserves of the coal mines within the respective mining permit period, were discounted to the related present values using 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, production cost and other expenses, capital expenditure, production plan and discount rate, which reflected the current conditions of the market and the Group and estimated trend in the future. The perpetual growth rate of 3% after 2017 was assumed in the valuation.

When evaluating the appropriate discount rate for the CGUs, the Capital Assets Pricing Model (the "CAPM") had been used. Under CAPM, the appropriate expected rate of return was the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the CGUs was expected to be affected by other firm specific risk factors that are independent of the general market. The cost of equity was determined by the risk-free rate, market return, and estimated coefficient between the CGUs and the market and other firm specific risk factors. The discount rate of 12.5% (2012: 14%) was arrived by weighted average of cost of equity and cost of debt after tax.

There was no material change in the valuation methodology adopted by the Group during the current and prior years. Other key assumptions which were used in assessing the value-in-use of the CGUs included but not limited to the following parameters, and reason for changes since the last impairment assessments are as follows:

(i) Forecast gross margin, which represented sales net of tax minus production cost and before depreciation and amortisation, in the first subsequent year after 31 December 2013 was RMB74/ton (31 December 2012: RMB99/ton to RMB101/ton). Forecast gross margin in the first year of production of Hengtai's New No. 2 Coal Mine was approximately RMB84/ton (31 December 2012: RMB118/ton). The decreases in forecast gross margin in these mines were made reference with historical record of operations of the mines, recent market prices of coal and cost structure of the coal mines.

(ii) Forecast sales volume in the first subsequent year after 31 December 2013 was 2.5 million tons ("Mt") (31 December 2012: 3.8 Mt). The decrease in forecast sales volume assumption were made reference with decrease in sales volume during the year.

(iii) At 31 December 2013, production for the New No. 2 Coal Mine is forecasted to commence in the second quarter of 2016 (31 December 2012: third quarter of 2015). The change reflects the delay in the approval of the Coal Mine Exchange.

(iv) At 31 December 2013, forecast total capital expenditure including relocation compensation was approximately RMB1.24 billion (31 December 2012: RMB1.46 billion). After taking into account the additions of property, plant and equipment during the year, in the opinion of the directors, the decrease in forecast total capital expenditure was mainly due to cost savings for recent mines development adjusted for market situation and expected decrease in relocation compensation with reference to actual payment made recently and expected payments.

NOTES TO FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (Continued)

(a) (Continued)

Based on the assessment of recoverable amount of the Coal Mining Assets, the directors of the Company are of the opinion that an additional impairment loss of the Coal Mining Assets totaling HK$984 million was resulted and allocated to property, plant and equipment and mining rights of the Group's coal mining business, based on their relative carrying amounts amongst the Coal Mining Assets. Impairment provision of items of property, plant and equipment of HK$361,157,000 (2012: HK$684,145,000) and impairment provision of coal mining rights of HK$622,420,000 (2012: HK$1,126,973,000) (note 16(c)) were recognised as "Other expenses" in the consolidated statement of profit or loss and other comprehensive income during the year.

(b) The Group's property, plant and equipment with a net carrying amount of HK$88,937,000 as at 31 December 2013 (2012: HK$30,680,000) were pledged to secure certain interest-bearing other borrowings of the Group (note 27(d)).

15. PREPAID LAND PREMIUMS

		Group	
	Notes	2013 HK$'000	2012 HK$'000
Carrying amount at 1 January		14,856	15,080
Acquisition of a subsidiary	33	1,256	—
Amortisation provided during the year	8	(379)	(346)
Exchange realignment		115	122
Carrying amount at 31 December		15,848	14,856

All of the Group's leasehold lands are situated in Mainland China and are held under a medium term lease.

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16. MINING AND EXPLORATION RIGHTS

		Group			
		2013			2012
	Notes	Coal HK$'000 (Notes (a), (b))	Silver HK$'000	Total HK$'000	Total HK$'000
At 1 January:					
Cost		3,295,748	—	3,295,748	3,263,190
Accumulated amortisation		(1,556,493)	—	(1,556,493)	(298,254)
Net carrying amount		1,739,255	—	1,739,255	2,964,936
Cost at 1 January, net of accumulated amortisation and impairment		1,739,255	—	1,739,255	2,964,936
Acquisition of a subsidiary	33	—	686,812	686,812	—
Additions		—	3,428	3,428	—
Amortisation provided during the year	8	(25,607)	(41)	(25,648)	(128,842)
Impairment provided during the year	14(a), (c)	(622,420)	—	(622,420)	(1,126,973)
Exchange realignment		51,078	8,417	59,495	30,134
At 31 December		1,142,306	698,616	1,840,922	1,739,255
At 31 December:					
Cost		3,393,251	698,657	4,091,908	3,295,748
Accumulated amortisation and impairment		(2,250,945)	(41)	(2,250,986)	(1,556,493)
Net carrying amount		1,142,306	698,616	1,840,922	1,739,255

Notes:

(a) The Group's coal mining rights with a net carrying amount of approximately HK$1,142,306,000 as at 31 December 2013 (2012: HK$1,364,856,000) were pledged to secure certain interest-bearing bank borrowings of the Group (note 27(c)).

(b) As further detailed in note 4 to the financial statements, the area of the Old No. 2 Coal Mine had been included in the scope of a city development plan of the local government, and hence the local government proposed to exchange it for the New No. 2 Coal Mine located adjacent to an existing coal mine of the Group as compensation. However, the Coal Mine Exchange has been significantly delayed in the current and prior years, and as at the date of approval of these financial statements, the Coal Mine Exchange has not been formally approved by the relevant government authorities and therefore the Coal Mine Exchange has not yet commenced. At 31 December 2013, the net carrying value of relevant coal mining right, which represented its cost less accumulated amortisation and impairment, as dealt with in the Group's consolidated financial statements, amounted to HK$432 million (2012: HK$726 million).

The Group is currently continuing its communication with relevant government authorities for the completion of the Coal Mine Exchange and obtaining the mining right certificate of the New No. 2 Coal Mine, but the completion of the Coal Mine Exchange is dependent on the progress of the proceedings and approval of the relevant government authorities. At the date of approval of these financial statements, the Group has not yet achieved much progress in respect thereof.

NOTES TO FINANCIAL STATEMENTS

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16. MINING AND EXPLORATION RIGHTS (Continued)

Notes: (Continued)

(b) (Continued)

After due and careful enquiry and taking into account legal and other advice, the directors of the Company are of the opinion that (i) the Group has a valid coal mining right certificate on the Old No. 2 Coal Mine which entitled the Group to exchange for the coal mining right certificate of the New No. 2 Coal Mine as compensation from the local government; (ii) the application for the exchange is conducted in accordance with relevant PRC regulations and local government's coal resource integration policies; and (iii) there are no legal or other impediments to complete the Coal Mine Exchange and obtain the relevant coal mining right certificate. Accordingly, the directors of the Company are of the view that the Group can ultimately complete the Coal Mine Exchange and obtain the related coal mining right certificate.

The directors of the Company estimate that the coal mining right certificate of the New No. 2 Coal Mine will be obtained in the foreseeable future such that the New No. 2 Coal Mine is expected to commence production in due course after construction and development. During the impairment assessment of the related coal mining rights as further detailed in note 14(a) to the financial statements, the directors of the Company have considered the impact of the delay in completion of the Coal Mine Exchange.

(c) The movements in the provision for impairment of mining rights are as follows:

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	1,126,973	—
Impairment losses recognised (note 8)	622,420	1,126,973
At 31 December	1,749,393	1,126,973

17. GOODWILL

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	—	—
Acquisition of a subsidiary (note 33)	15,660	—
Exchange realignment	192	—
At 31 December	15,852	—

At 31 December 2013, goodwill amounting to HK$15,852,000 arose from the acquisition of a subsidiary, Million Grow during the year, which is principally engaged in the mining and selling of silver through the Million Grow Group. Further details of the acquisition are set out in note 33 to the financial statements.

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17. GOODWILL (Continued)

Impairment testing of goodwill

The goodwill arose from the acquisition of the Million Grow Group during the year was allocated to the silver mining operating segment. The directors of the Company had carried out impairment test to the goodwill as at 31 December 2013 according to the Group's accounting policy, and it is concluded that no impairment on the goodwill is necessary based on the fact that the recoverable amount of the silver mining operating segment cash-generating unit exceeded the aggregate amount of its net carrying value and goodwill, the recoverable amount of which was determined as the fair value less cost of disposal. In this connection, the fair value less costs of disposal was assessed using cash flow projections based on financial budgets covering the tenure of the respective mining and exploration licenses of 5 to 12 years and were approved by the management. In assessing the fair value less costs of disposal of the silver mining operating segment, significant unobservable inputs (Level 3) as defined in HKFRS 13 were used.

Key assumptions and significant unobservable inputs used in the fair value less costs of disposal estimations

The following describes each key assumption adopted and inputs used by the management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

- Budgeted revenue
  In respect of the revenue from the silver mining operating segment, the budgeted revenue is based on (i) the total reserve ore grade and volume of ore metal as stated on the report based on the JORC Code standard; (ii) the total projected annual productions as assessed and estimated by the management; and (iii) the projected market prices of silver.

- Budgeted operating cost
  The budgeted operating cost for the first year of production is based on information included in the technical report prepared under the JORC Code standard, which increases in line with the growth rate in subsequent years.

- Growth rate
  The growth rate used is based on the PRC consumer price index inflation rate. The growth rate applied to the cash flow projections ranges between 3% to 3.1%.

- Discount rate
  The discount rate used is before tax and reflects specific risks relating to the silver mining operating segment. The discount rate applied to the cash flow projections ranges between 17.3% to 18.3%.

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18. OTHER INTANGIBLE ASSET

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	—	—
Addition	61,052	—
Exchange realignment	42	—
A 31 December	61,094	—

During the year, pursuant to the relevant asset purchase agreement, the Group acquired all the rights, titles and interests from the vendor of certain oil and gas patents with a consideration of US$7,875,000 (equivalent to HK$61,052,000), payable by instalments within two years from 15 November 2013, which is the date of completion of the acquisition, at a fixed interest rate of 5% per annum.

The oil and gas patents acquired are registered in the USA and Canada with remaining useful life of 14 and 20 years, respectively. The patents provide the owner with the rights to use and develop a new heavy oil extraction technology with the aim of increasing production efficiency in extracting crude oil and natural gas. Further details of the acquisition have been set out in the announcements of the Company dated 28 October 2013 and 18 November 2013, respectively.

19. INTERESTS IN SUBSIDIARIES

		Company	
	Notes	2013 HK$'000	2012 HK$'000
Investments in subsidiaries, included in non-current assets:			
Unlisted shares, at cost	(b)	2,082,740	1,810,195
Impairment of unlisted shares	(c)	(1,810,195)	(1,007,893)
		272,545	802,302
Due from subsidiaries, included in current assets	(d)	230,040	180,810
Impairment	(c)	(180,220)	(180,810)
		49,820	—
Due to subsidiaries, included in current liabilities	(d)	—	(420)
Total interests in subsidiaries		322,365	801,882

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19. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(a) Particulars of the principal subsidiaries, which were indirectly held by the Company unless otherwise specified, are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of indirect equity attributable to the Company	Principal activities
Triumph Fund A Limited	Cayman Islands	US$50,000	100	Investment holding
山西普華德勤冶金科技有限公司 ("Shanxi Puhua Deqin")*Δ	The PRC/ Mainland China	RMB150,000,000	99	Investment holding
Eerduosi Hengtai Coal Co., Ltd. ("Hengtai")*Δ	The PRC/ Mainland China	RMB180,000,000	94	Mining and selling of coal
Mongolia Liaoyuan Mining Co., Ltd. ("Liaoyuan")*Δ	The PRC/ Mainland China	RMB5,000,000	94	Mining and selling of coal
Jetway Group Limited ("Jetway")	British Virgin Islands ("BVI")	US$ 1	100	Investment holding
Million Grow Investment Limited ("Million Grow")**@	BVI	US$57,404	50	Investment holding
福建磊鑫礦業有限公司 (Fujian Leixin Mining Company Ltd. "Fujian Leixin")*@	PRC/ Mainland China	RMB59,600,000	50	Investment holding
福安市磊鑫礦業有限公司 (Fu'an City Leixin Mining Company Ltd., "Fu'an Leixin")*@	PRC/ Mainland China	RMB10,000,000	50	Mining and selling of silver
柘榮縣磊鑫礦業有限公司 (Zherong County Leixin Mining Company Ltd., "Zherong Leixin")*@	PRC/ Mainland China	RMB20,500,000	42	Mining and selling of silver
Best Treasure Group Limited#Ω	BVI	US$1	100	Oil extraction technology development
Jade Resources Holdings Inc.#	USA	US$1	100	Investment holding
Craton Alpha LLC#	USA	US$10,000,000	100	Oil and gas extraction and production

Ω Directly held by the Company.

* Registered as limited liability companies under PRC law.

** Million Grow, is a non-wholly owned subsidiary of Jetway which is a wholly-owned subsidiary of the Group, and accordingly, Million Grow is accounted for as a subsidiary by virtue of the Group's control over it.

@ Acquired during the year, further details of the acquisition are included in note 33 to the financial statements.

\# Established during the year.

Δ Pursuant to a loan agreement entered into between the Group and an independent third party, the equity interest of Shanxi Puhua Deqin, Hengtai and Liaoyuan were pledged for a loan from a third party (note 26(a)). At 31 December 2013, the deficiency in assets of these subsidiaries as dealt with in the Group's consolidated financial statements for the year ended 31 December 2013 was approximately HK$503 million.

NOTES TO FINANCIAL STATEMENTS

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19. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(a) (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(b) At 31 December 2013, Jetway and its subsidiaries (collectively, the "Jetway Group") is considered as subsidiaries that have material non-controlling interests and details of which are as follows:

Percentage of equity interest held by non-controlling interests as at 31 December 2013:	**50%**
	HK$'000
Loss for the year allocated to non-controlling interests	**(7,163)**
Accumulated balances of non-controlling interests as at 31 December 2013	**305,997**

The following table illustrates the summarised financial information of the Jetway Group as at 31 December 2013 and for the year then ended. The amounts disclosed are before any inter-company eliminations:

	HK$'000
Revenue	**14,537**
Other revenue and gains	**1,428**
Total expenses	**(30,104)**
Loss for the year	**(14,139)**
Total comprehensive loss for the year	**(7,109)**
Current assets	**123,108**
Non-current assets	**873,268**
Current liabilities	**(258,837)**
Non-current liabilities	**(162,749)**
Net cash flows from operating activities	**97,356**
Net cash flows used in investing activities	**(87,501)**
Net cash flows used in financing activities	**(126)**
Net increase in cash and cash equivalents	**9,729**

In the opinion of the directors, there is no subsidiary that has material non-controlling interests to the Company's consolidated financial statements requiring disclosure under HKFRS 12 as at 31 December 2012.

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19. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(c) In view of the HK$2,795 million (2012: HK$1,811 million) accumulated impairment provision of the Coal Mining Assets (note 14(a)) held by the subsidiaries as at 31 December 2013, which is an indicator of impairment of the Company's investments in the relevant subsidiaries, the directors of the Company have assessed and made an additional impairment provision of HK$802,302,000 (2012: HK$1,007,893,000) (note 12) against the Company's investments in subsidiaries during the year.

The movement in the provision for impairment of amounts due from subsidiaries which had been loss-making for some time is as follows:

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	180,810	—
Impairment loss recognised (note 12)	—	180,810
Amount written off as uncollectible	(590)	—
At 31 December	180,220	180,810

(d) All balances with subsidiaries as at 31 December 2013 and 2012 are unsecured, interest-free and have no fixed terms of repayment.

20. INVESTMENT IN A JOINT VENTURE

	Group	
	2013 HK$'000	2012 HK$'000
Share of net assets	13,227	23,117

NOTES TO FINANCIAL STATEMENTS

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20. INVESTMENT IN A JOINT VENTURE (Continued)

Notes:

(a) Particulars of the Group's joint venture, which is indirectly held by the Company, registered and operating in the PRC, are as follows:

Name	Registered and paid-up capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
聚信泰和能源投資基金管理有限責任公司("Juxin Taihe")	RMB30,000,000	45	45	45	Financial management

(b) Juxin Taihe is the only joint venture of the Group and is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of Juxin Taihe adjusted for any differences in accounting policies, and reconciled to the carrying amount in the financial statements:

	2013 HK$'000	2012 HK$'000
Cash and cash equivalents	67	15,829
Other current assets	21,964	28,465
Current assets	22,031	44,294
Non-current assets	13,467	13,495
Financial liabilities, excluding trade and other payables	(6,104)	(6,195)
Other current liabilities	—	(223)
Current liabilities	(6,104)	(6,418)
Non-current liabilities	—	—
Net assets	29,394	51,371
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	45%	45%
Carrying amount of the investment	13,227	23,117
Revenue	3,627	32,376
Bank Interest income	77	279
Depreciation and amortisation	(141)	(77)
Tax	(29)	(4,803)
Profit/(loss) and total comprehensive income/(loss) for the year	(23,145)	13,952

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21. INVENTORIES

	Group 2013 HK$'000	2012 HK$'000
Raw materials	12,416	8,925
Finished goods	2,332	6,352
Sub-materials and parts	58	202
	14,806	15,479

22. TRADE AND BILLS RECEIVABLES

	Notes	Group 2013 HK$'000	2012 HK$'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 HK$'000	2012 HK$'000
At 1 January	10,424	—
Impairment losses recognised (note 8)	10,538	10,424
Exchange realignment	308	—
At 31 December	21,270	10,424

NOTES TO FINANCIAL STATEMENTS

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22. TRADE AND BILLS RECEIVABLES (Continued)

Notes: (Continued)

(b) (Continued)

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 HK$'000	2012 HK$'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 HK$'000	2012 HK$'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.

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
	Notes	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Prepayments, deposits and other receivables	(a)	364,355	244,815	78,061	32,808
Impairment	(b)	(138,958)	(93,395)	(30,000)	(15,000)
		225,397	151,420	48,061	17,808
Portion classified as current assets		(118,075)	(90,686)	(48,061)	(17,808)
Non-current portion		107,322	60,734	—	—

Notes:

(a) At 31 December 2012, the net carrying amount of the Group's prepayments, deposits and other receivables amounting to HK$31,617,000 was pledged to secure for an interest-bearing other borrowing of the Group (note 27(d)).

(b) The movement in the provision for impairment of prepayments, deposits and other receivables is as follows:

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	93,395	—
Impairment loss recognised (note 8)	43,956	126,895
Amount of indemnification asset written off as uncollectible (note (c))	—	(33,500)
Exchange realignment	1,607	—
At 31 December	138,958	93,395

During the year ended 31 December 2013, the impairment loss recognised in profit or loss included impairment of individually impaired receivable balances aggregating to HK$43,956,000 (2012: HK$126,895,000, including impairment of the Indemnification Asset as further detailed in note 23(c)) (note 8) which had past due and the directors of the Company expect that the receivables will be either unrecoverable or only partially recoverable.

(c) Pursuant to the relevant sale and purchase agreement in connection with the acquisition of Liaoyuan in 2011 (the "Liaoyuan Sale and Purchase Agreement"), the vendor (the "Liaoyan Vendor") had agreed to undertake the repayment of all liabilities of Liaoyuan which existed prior to the completion of the acquisition. Therefore, the Group has recognised the amount of such liabilities undertaken by the Liaoyuan Vendor amounting to RMB125.1 million (equivalent to HK$155.6 million, at the then exchange rate) upon the completion of the acquisition as an indemnification asset (the "Indemnification Asset") within prepayment, deposit and other receivables.

NOTES TO FINANCIAL STATEMENTS

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

In settlement of the Indemnification Asset by the Liaoyuan Vendor and the unpaid consideration by the Group, in May 2012, a supplemental agreement (the "Supplemental Agreement") was entered into between the Liaoyuan Vendor, the Group and an independent third party (the "Third Party", who sold Liaoyuan to the Liaoyuan Vendor and assisted the Liaoyuan Vendor to operate Liaoyuan). Pursuant to the terms of the Supplemental Agreement, inter alia, (i) the Group agreed to release the final payment in respect of the purchase consideration to the Liaoyuan Vendor upon the execution of the Supplemental Agreement, and the Liaoyuan Vendor will remit such proceeds to the Third Party; (ii) all receivables and liabilities of Liaoyuan which existed prior to 1 June 2012 and any disputes arising in respect thereof would be taken up by the Third Party; and (iii) except for matters agreed in the Supplemental Agreement, upon execution of the Supplemental Agreement, all the obligations of the Liaoyuan Vendor, the Group and the Third Party under the Liaoyuan Sale and Purchase Agreement are immediately fulfilled.

After due and careful review, the directors of the Company considered that Liaoyuan's net liabilities as at 31 May 2012 (after net-off of receivables of RMB5.0 million, equivalent to HK$6.1 million, entitled by the Third Party) of at least RMB74.7 million (equivalent to HK$92.7 million, at the then exchange rate) shall be undertaken by the Third Party. The directors of the Company also noted that such net liabilities mainly included payables to the Third Party and its affiliated entities, and payables and charges already settled by the Third Party after 31 May 2012. Also, the Group has not encountered any claims or demand for settlement of such liabilities during the year ended 31 December 2012 and up to the date of approval of the 2012 annual consolidated financial statements. In addition, the Supplemental Agreement has not required the Group to pay for any late payment charges on the outstanding purchase consideration of Liaoyuan under the Liaoyuan Sale and Purchase Agreement, but stipulated that upon its execution, all the previous contractual obligations of the Group under the Liaoyuan Sale and Purchase Agreement are fulfilled immediately, and hence such late payment charges of RMB23.9 million (equivalent to HK$29.4 million, at the then exchange rate) accrued in 2011 shall no longer be payable by the Group.

Accordingly, net liabilities of the Group aggregating to HK$122.1 million had been derecognised from the Group's financial statements as at 31 December 2012, and the Group's Indemnification Asset had been reduced to the extent of the aggregate net liabilities undertaken by the Third Party and the Liaoyuan Vendor, which amounted to HK$122.1 million. The remaining balance of the Indemnification Asset of HK$33.5 million, which shall no longer be recoverable from the Liaoyuan Vendor or the Third Party, was considered impaired and written off in the Group's financial statements for the year ended 31 December 2012.

24. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Cash and bank balances other than time deposits	192,595	15,913	160,811	7,642
Time deposits	103,636	3,517	100,000	—
	296,231	19,430	260,811	7,642
Less: Time deposits pledged for general bank facilities	(3,636)	(3,517)	—	—
Cash and cash equivalents	292,595	15,913	260,811	7,642

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31 December 2013

24. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

Notes:

(a) At 31 December 2013, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$15,456,000 (2012: HK$8,273,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

25. 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 HK$'000	2012 HK$'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

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26. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Accruals		383,903	295,913	3,473	2,740
Receipts in advance		43,256	31,808	—	—
Interest payable		26,694	16,537	1,534	—
Value-added tax and other tax payables		351,783	305,069	—	—
Loans from third parties	(a)	461,941	35,126	200,000	—
Deferred consideration of an intangible asset	(b)	35,662	—	—	—
Other payables	(c)	74,248	11,984	—	10,000
		1,377,487	696,437	205,007	12,740
Portion classified as current liabilities		(1,367,407)	(696,437)	(205,007)	(12,740)
Non-current portion		10,080	—	—	—

Notes:

(a) As at 31 December 2013, included in other loans from independent third parties are loans of RMB16,841,000 (equivalent to HK$21,568,000) (2012: Nil), which are unsecured, bear interests at a rate of 15% per annum and was repayable within one year. In addition, included in other loans from independent third parties is a loan of HK$276,842,000 (2012: Nil), which is secured by certain equity interests of the Group's subsidiaries engaged in the coal mining business, bear interest at a rate of 8% per annum and is repayable with one year.

Except for the other loans mentioned above, the loans from third parties as at 31 December 2013 and 2012 are unsecured, interest-free and have no fixed terms of repayment.

(b) During the year, the Group acquired certain intangible assets from an independent third party at a consideration of US$7,875,000 (equivalent to HK$61,052,000), of which US$3,275,000 (equivalent to HK$25,390,000) was paid during the year, US$3,300,000 (equivalent to HK$25,582,000) will be paid in 2014 and the remaining balance of US$1,300,000 (equivalent to HK$10,080,000), which was reclassified as a non-current liability, will be settled in 2015.

(c) Other payables are unsecured, non-interest-bearing and repayable on demand.

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27. INTEREST-BEARING BORROWINGS

Group

		2013			2012		
	Notes	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current							
Bank loans — unsecured	(b)	—	—	—	6.3 to 9.5	2013	472,682
Bank loans — secured	(b), (c)	6.3 to 9.8	2014	986,027	8.7 to 8.8	2013	497,560
Current portion of other loans — secured	(d)	6.2 to 36.0	2014	170,092	6.2	2013	43,269
				1,156,119			1,013,511
Non-current							
Bank loans — secured	(b), (c)	8.0 to 8.5	2015	384,210	8.7	2014 to 2015	310,975
Other loans — secured	(d)	6.2 to 8.2	2015 to 2016	122,777	6.2	2014 to 2015	71,538
				506,987			382,513
				1,663,106			1,396,024
Analysis into:							
Bank loans repayable:							
On demand				256,140			—
Within one year				729,887			970,242
In the second year				384,210			124,390
In the third to fifth years, inclusive				—			186,585
				1,370,237			1,281,217
Other loans repayable:							
Within one year				170,092			43,269
In the second year				25,537			46,886
In the third to fifth years, inclusive				97,240			24,652
				292,869			114,807
				1,663,106			1,396,024

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BORROWINGS (Continued)

Notes:

(a) All the interest-bearing loans are denominated in RMB and their respective carrying amounts approximate to their fair values as at the end of the reporting period.

(b) Certain of the Group's bank loans are guaranteed by a subsidiary of the Group, Shanxi Puhua Deqin, and certain independent third parties, including 內蒙古蒙發煤炭有限責任公司, 山西普大煤業集團有限公司, Mr. Zhao Ming (a former shareholder and convertible notes holder of the Company) and Mr. Hao Shenhai (a former director of Hengtai) (2012: also included 內蒙古東達蒙古王有限公司 and 內蒙古恒東能源集團有限責任公司).

(c) Certain of the Group's bank loans are secured by certain of the Group's coal mining rights (note 16(a)).

(d) At 31 December 2012, the Group's other loan from an independent third party is secured by certain of the Group's property, plant and equipment (note14(b)) and prepayments, deposits and other receivables (note 23(a)), bore interest at a rate of 3 years loan interest rate from the People's Bank of China and was repayable by 12 quarterly instalments commencing on 18 April 2012.

In addition to the above mentioned other loan which is due on 18 April 2015, at 31 December 2013, the Group's other loans from independent third parties included a loan which is secured by certain items of the Group's property, plant and equipment (note 14(b)), bears interest at a rate of 3 years loan interest rates from the People's Bank of China plus a margin of 2 % and is repayable by 12 quarterly instalments commencing on 16 July 2013.

(e) The Group's secured bank borrowings as at 31 December 2013 included two bank loans in a total principal amount of RMB200,000,000 (equivalent to HK$256,000,000) (2012: Nil) which bear interest at a rate of 6.9% per annum and have been overdue during the year. The two overdue bank borrowings were secured by certain of the Group's coal mining rights with a net carrying amount of approximately HK$284,014,000 and may be subject to detention by the borrower. As at 31 December 2013, interest payables and penalties of the two overdue bank loans amounted to HK$6,065,000 (2012: Nil) and HK$3,966,000 (2012: Nil), respectively.

28. CONVERTIBLE NOTES

On 21 December 2009, the Company issued zero coupon redeemable convertible notes in an aggregate principal amount of HK$1,805,000,000 (the "2009 CN"), for the acquisition of Triumph Fund A Limited and its subsidiaries. The 2009 CN have a maturity term of five years, however, the Company has the right at any time after three years of the issuance date (i.e., from 21 December 2012) to redeem in whole or in part the 2009 CN at par value. The 2009 CN can be converted into ordinary shares at the initial conversion price of HK$1.25 per share (adjusted for the twenty-to-one share consolidation which took place on 24 June 2011).

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28. CONVERTIBLE NOTES (Continued)

The movements in the carrying and the principal amounts of the convertible notes are as follows:

Group and Company

		2013		2012	
	Notes	Principal amount HK$'000	Carrying amount HK$'000	Principal amount HK$'000	Carrying amount HK$'000
At 1 January		289,205	242,556	289,205	221,782
Issuance of the 2013 CN	(a)	18,885	13,335	—	—
Conversion of the 2013 CN	30(b)	(18,885)	(14,222)	—	—
Redemption of the 2009 CN	(b)	(250,000)	(216,036)	—	—
Imputed interest expense	7	—	10,320	—	20,774
At 31 December		39,205	35,953	289,205	242,556

Notes:

(a) On 30 April 2013, the Company issued zero coupon redeemable convertible notes in an aggregate principal amount of HK$18,885,000 (the "2013 CN") for the acquisition of the Million Grow Group. The 2013 CN have a maturity term of three years, however, the Company has the rights at any time before the maturity date (i.e., from 30 April 2016) to redeem in whole or in part the 2013 CN at par value. The 2013 CN can be converted into ordinary shares at the initial conversion price of HK$0.68 per share. The fair values of the equity and liability components of the 2013 CN at the date of grant were HK$3,093,000 and HK$13,335,000, respectively.

(b) During the year, the Company exercised its rights under the terms of the 2009 CN to partially redeem the outstanding 2009 CN in the principal amount of HK$250,000,000 at par value. Accordingly, the relevant portion of the equity component of the 2009 CN of HK$465,832,000 was transferred to accumulated losses (2012: Nil) and a loss on early redemption of convertible notes, being the difference between the cash proceeds paid and the carrying amount of the relevant liability component of the convertible notes redeemed of HK$216,036,000, amounting to HK$33,964,000 (note 7) was recognised as "Finance costs" in profit or loss during the year (2012: Nil).

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29. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities/(deferred tax assets) during the year are as follows:

Group

	Loss available for offsetting future taxable profit HK$'000	Accruals of salaries and welfare HK$'000	Impairment, depreciation and amortisation of non-current assets HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2012	—	(68,870)	7,079	708,539	646,748
Deferred tax recognised in profit or loss during the year (note 11)	(28,004)	5,219	(192,467)	(312,385)	(527,637)
Exchange realignment	(330)	(368)	(264)	6,879	5,917
At 31 December 2012 and 1 January 2013	(28,334)	(64,019)	(185,652)	403,033	125,028
Acquisition of a subsidiary (note 33)	—	—	—	160,792	160,792
Deferred tax recognised in profit or loss during the year (note 11)	17,122	61,908	(65,373)	(109,435)	(95,778)
Exchange realignment	(578)	(692)	(6,753)	12,222	4,199
At 31 December 2013	(11,790)	(2,803)	(257,778)	466,612	194,241

Notes:

(a) At 31 December 2013, unused tax losses and deductible temporary differences of approximately HK$816,512,000 (2012: HK$255,372,000) and HK$305,657,000 (2012: Nil), respectively, have not been recognised as deferred tax assets, as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these tax credits can be utilised.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate of 5% may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2013, no deferred tax has been recognised for withholding taxes as there is no unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

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30. SHARE CAPITAL

Shares

	2013 HK$'000	2012 HK$'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)
Conversion 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 Company's circular dated 15 November 2012.

(b) During the year, the holder of the 2013 CN exercised the rights attached to the 2013 CN to convert 27,771,400 shares at a conversion price of HK$0.68 per shares, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

30. SHARE CAPITAL (Continued)

Share options

Details of the Company's share option scheme (the "Scheme") and the share options issued under the Scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

The Company operated a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

No share option was granted to any parties during the years ended 31 December 2013 and 2012. Certain of the share options granted to the directors of the Company resigned during the year were forfeited in accordance with the terms stated in the Scheme and all the remaining share options granted under the Scheme lapsed during the year.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The share option may be exercised under the Scheme at any time during a period not exceeding five years after the date when the option is granted and expiring on the last date of this period.

The exercise price is determined by the directors, but shall not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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31. SHARE OPTION SCHEME (Continued)

The movements of the number of share options outstanding during the year are as follows:

	Notes	2013	2012
At 1 January		24,616,000	24,616,000
Forfeited during the year	(a)	(6,500,000)	—
Lapsed during the year	(b)	(18,116,000)	—
At 31 December		—	24,616,000

Notes:

(a) 6,500,000 (2012: Nil) share options were forfeited during the year upon the expiry of the three-month post-resignation exercise period of two ex-directors. Accordingly, the portion of share option reserves of HK$16,305,000 (2012: Nil) was transferred to accumulated losses.

(b) All of the 18,116,000 outstanding share options lapsed (2012: Nil) during the year upon the expiry of the respective exercise periods. Accordingly, the outstanding share option reserve of HK$47,289,000 was transferred to accumulated losses (2012: Nil).

The exercise prices and exercise periods of the share options outstanding as at 31 December 2012 are as follows:

Number of options*	Exercise price* HK$ per share	Exercise period From	To
616,000	2.50	29 September 2008	28 September 2013
8,000,000	4.96	12 May 2011	11 May 2013
8,000,000	4.96	12 May 2012	11 May 2013
1,500,000	4.96	26 August 2011	25 August 2013
1,500,000	4.96	26 August 2012	25 August 2013
2,500,000	4.96	10 November 2011	9 November 2013
2,500,000	4.96	10 November 2012	9 November 2013
24,616,000			

* The number of the share options and the exercise price were subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital and had been adjusted for the twenty-to-one share consolidation which took place on 24 June 2011.

The fair value of the share options granted under the Scheme was determined as at the date of grant and has been recognised in profit or loss over the vesting period. During the year ended 31 December 2012, equity-settled share option expense of HK$8,029,000 was recognised in profit or loss in respect of the share options granted under the Scheme.

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31. SHARE OPTION SCHEME (Continued)

There were no additional grant of share options during the years ended 31 December 2013 and 2012 and there were no share options outstanding as at 31 December 2013.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The Group's exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(b) Company

	Notes	Share premium account HK$'000 (note (i))	Capital redemption reserve HK$'000 (note (ii))	Equity component of convertible notes HK$'000 (note 28)	Share option reserve HK$'000 (note(iii))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012		1,166,813	523	538,884	55,565	(87,798)	1,673,987
Loss for the year and total comprehensive loss for the year	12	—	—	—	—	(1,252,510)	(1,252,510)
Equity-settled share option arrangement	31	—	—	—	8,029	—	8,029
At 31 December 2012 and 1 January 2013		1,166,813	523	538,884	63,594	(1,340,308)	429,506
Loss for the year and total comprehensive loss for the year	12	—	—	—	—	(897,106)	(897,106)
Issue of shares	30(a)	544,444	—	—	—	—	544,444
Share issue expenses	30(a)	(1,323)	—	—	—	—	(1,323)
Conversion of the 2013 CN	30(b)	14,538	—	(3,093)	—	—	11,445
Early redemption of convertible notes	28(b)	—	—	(465,832)	—	465,832	—
Acquisition of subsidiaries	33(d)	—	—	3,093	—	—	3,093
Forfeiture of share options	31(a)	—	—	—	(16,305)	16,305	—
Lapse of share options	31(b)	—	—	—	(47,289)	47,289	—
At 31 December 2013		1,724,472	523	73,052	—	(1,707,988)	90,059

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32. RESERVES (Continued)

(b) Company (Continued)

Notes:

(i) The share premium account represents the excess of the issued price net of any share issue expenses over the par value of the shares issued.

(ii) The capital redemption reserve represents an amount equivalent to the par value of the shares repurchased by the Company which were cancelled and transferred from the issued capital account pursuant to Section 49H of the Hong Kong Companies Ordinance.

(iii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3.3 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to accumulated losses should the related share options expire or be forfeited.

During the year, no new share option was granted to any parties under the Scheme. Certain of the share options granted to the directors of the Company who resigned during the year were forfeited in accordance with the terms stated in the Scheme and all the remaining share options granted under the Scheme lapsed without being exercised and were transferred to accumulated losses during the year.

33. 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 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 the 2013 CN by the Company.

Million Grow is an investment holding company and its subsidiaries possess a mining rights of a silver mine and exploration right 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 a consideration of 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 remains unexercised as at 31 December 2013.

Million Grow is a subsidiary of the Company as, in the opinion of the directors of the Company, 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.

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33. BUSINESS COMBINATION (Continued)

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

	Notes	HK$'000
Property, plant and equipment	14	74,910
Prepaid land premiums	15	1,256
Mining and exploration rights	16, (a)	686,812
Inventories		5,434
Prepayments, deposits and other receivables	(b)	4,755
Cash and bank balances		901
Other payables and accruals		(46,887)
Other interest-bearing borrowings		(126)
Deferred tax liabilities	29	(160,792)
Non-controlling interests		(309,437)
		256,826
Goodwill	17, (c)	15,660
		272,486
Satisfied by:		
Cash		256,058
Issuance of the 2013 CN	28(a), (d)	16,428
		272,486

An analysis of the net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries for the years ended 31 December 2013 and 2012 are as follows:

	2013 HK$'000	2012 HK$'000
Cash consideration settlement	(256,058)	(307,350)
Cash and bank balances acquired	901	—
Net outflow of cash and cash equivalents in respect of the acquisition	(255,157)	(307,350)

The cash consideration settlement of HK$307,350,000 during the year ended 31 December 2012 represented the Group's subsequent payment of remaining balance of purchase consideration in respect of the acquisition of Liaoyuan in 2011.

NOTES TO FINANCIAL STATEMENTS

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33. BUSINESS COMBINATION (Continued)

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 (including ore reserve, ore grade and volume of ore metal) in the JORC Code Report, expected production plan assessed by the management and current and forecasted metal price during the tenure of the respective licences.

(b) The fair value (and gross contractual amounts) of the other receivables amounted to HK$2,527,000 and none of such other receivables have been impaired as the directors of the Company expected that the full amounts can be collected.

(c) The goodwill arises principally because of the requirement to recognise deferred tax liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in business combination at amounts that do not reflect fair values. The goodwill is allocated to the silver mining operation segment at the date of acquisition and is not expected to be deductible for tax purposes.

(d) 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$13,335,000 at the issue date. The aggregate fair value of the convertible notes at the issue date was HK$16,428,000.

(e) Since the acquisition, the 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 consolidate revenue and consolidate 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.

34. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities (2012: Nil).

35. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises and staff quarters under operating lease arrangements. Leases are negotiated for terms ranging from one to three years.

At 31 December 2013, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Within one year	2,936	593	2,936	593
In the second to fifth years, inclusive	1,575	105	1,575	105
	4,511	698	4,511	698

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36. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group and the Company had the following capital commitments as at the end of the reporting period:

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Contracted, but not provided for:				
In respect of capital contribution to a subsidiary	–	–	78,000	–
In respect to acquisition of items of property, plant and equipment	56,361	32,520	–	178
	56,361	32,520	78,000	178

37. RELATED PARTY DISCLOSURES

(a) Except for those transactions detailed elsewhere in these financial statements, the Group had no material transactions with related parties during the year (2012: Nil).

(b) Compensation of key management personnel of the Group:

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2013 HK$'000	2012 HK$'000
Short-term employee benefits	9,573	8,508
Post-employment benefits	33	56
Equity-settled share option expense	–	6,071
Total compensation paid to key management personnel	9,606	14,635

38. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2013 and 2012 were loans and receivables and financial liabilities stated at amortised cost, respectively.

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39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) The fair values of financial assets and liabilities which are due to be received or settled within one year approximate to their carrying amounts largely due to the short term maturities of these instruments.

(b) The fair values of the interest-bearing borrowings due over one year have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of the liability component of the convertible notes are estimated using an equivalent market interest rate for a similar convertible notes. The fair values of these financial liabilities approximate to their carrying amounts as they are charged at floating rates or carried at amortised cost using an effective interest rate approximate to the market rate.

Since the carrying amounts of the Group's financial instruments approximate to their fair values, no separate disclosure of the fair values of the Group's financial instruments is made in the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise other receivables and payables, interest-bearing borrowings and convertible notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are (a) interest rate risk, (b) foreign currency risk, (c) credit risk and (d) liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

The Group's and Company's exposure to the risk of changes in market interest rates relates primarily to the Group's and Company's cash at banks and the Group's interest-bearing borrowings with floating interest rates. Nevertheless, as there is no significant fluctuation in market interest rates, in the opinion of the directors, the Group had no significant interest rate risk for the year ended 31 December 2013.

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's financial position and performance can be affected significantly by movements in the RMB/HK$ exchange rate.

The Group has minimal transactional currency exposure which arises from sales or purchases by operating units in currencies other than the unit's functional currency.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and receivable balances are monitored on an ongoing basis.

At 31 December 2013 and 2012, trade and bills receivables from external customers which individually contributed to over 10% of the Group's total revenue for the years ended 31 December 2013 and 2012 were:

	2013 HK$'000	2012 HK$'000
Number of individual external customers which contributed to over 10% of the Group's total revenue for the year	2	3
Trade and bills receivables (before impairment) from the above customers	13,587	10,890
Percentage of total trade and bills receivables (before impairment) as at the end of the reporting period	26%	19%

Save as aforesaid, at the end of the reporting period, in the opinion of the directors, there was no significant concentration of credit risk of trade and bills receivables.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, and prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(d) Liquidity risk

At 31 December 2013, the Group had net current liabilities of HK$2,304,657,000. However, the directors of the Company considered that the Group is able to meet with its liabilities as when they fall due in the foreseeable future. Further details are set out in note 2 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities, as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Within one year or on demand HK$'000	One to five years HK$'000	Total HK$'000
Group			
At 31 December 2013			
Trade and bills payables	11,760	—	11,760
Other payables and accruals	1,367,407	10,080	1,377,487
Interest-bearing borrowings	1,198,271	594,319	1,792,590
Convertible notes	—	39,205	39,205
	2,577,438	643,604	3,221,042
At 31 December 2012			
Trade and bills payables	93,016	—	93,016
Other payables and accruals	696,437	—	696,437
Interest-bearing borrowings	1,099,420	424,535	1,523,955
Convertible notes	—	289,205	289,205
	1,888,873	713,740	2,602,613

NOTES TO FINANCIAL STATEMENTS

31 December 2013

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk (Continued)

	Within one year or on demand HK$'000	One to five years HK$'000	Total HK$'000
Company			
At 31 December 2013			
Other payables and accruals	205,007	—	205,007
Convertible notes	—	39,205	39,205
	205,007	39,205	244,212
At 31 December 2012			
Amount due to a subsidiary	420	—	420
Other payables and accruals	12,740	—	12,740
Convertible notes	—	289,205	289,205
	13,160	289,205	302,365

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Capital management (Continued)

The Group monitors capital using the gearing ratio, which is net debt divided by capital. Net debt includes trade and bills payables, other payables and accruals, interest-bearing borrowings, less cash and cash equivalents. Capital includes the liability component of convertible notes and equity attributable to owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2013 HK$'000	2012 HK$'000
Trade and bills payables	11,760	93,016
Other payables and accruals	1,377,487	696,437
Interest-bearing borrowings	1,663,106	1,396,024
Less: Cash and cash equivalents	(292,595)	(15,913)
Net debt	2,759,758	2,169,564
Convertible notes	35,953	242,556
Equity attributable to owners of the Company	122,289	752,933
Capital	158,242	995,489
Gearing ratio	17.44	2.18

41. 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.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2014.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
REVENUE	150,306	571,129	995,100	1,007,740	88,710
PROFIT/(LOSS) BEFORE TAX	(1,563,817)	(2,276,920)	105,830	(785,589)	(1,078,819)
Tax credit/(charge)	95,778	521,878	(40,396)	(100,405)	159
PROFIT/(LOSS) FOR THE YEAR	(1,468,039)	(1,755,042)	65,434	(885,994)	(1,078,660)
Attributable to:					
Owners of the Company	(1,373,711)	(1,655,263)	55,339	(905,164)	(1,078,519)
Non-controlling interests	(94,328)	(99,779)	10,095	19,170	(141)
	(1,468,039)	(1,755,042)	65,434	(885,994)	(1,078,660)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
TOTAL ASSETS	3,877,272	3,556,761	6,059,103	5,160,468	3,751,078
TOTAL LIABILITIES	(3,512,937)	(2,781,782)	(3,561,577)	(3,131,734)	(4,248,245)
NON-CONTROLLING INTERESTS	(242,046)	(22,046)	(120,528)	(103,801)	(80,384)
	122,289	752,933	2,376,998	1,924,933	(577,551)

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