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)

2015 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Wanzhong *(Chairman)*
Mr. Zong Hao *(Chief Executive Officer)*
Mr. Xu Zhuliang
Mr. Benjamin Clark Danielson

Independent Non-Executive Directors

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

AUDIT COMMITTEE

Mr. Chiu Sui Keung *(Chairman)*
Mr. Lu Binghui
Mr. Lee Ping

REMUNERATION COMMITTEE

Mr. Chiu Sui Keung *(Chairman)*
Mr. Xu Zhuliang
Mr. Lu Binghui

NOMINATION COMMITTEE

Mr. Zhang Wanzhong *(Chairman)*
Mr. Chiu Sui Keung
Mr. Lu Binghui

AUTHORISED REPRESENTATIVES

Mr. Zhang Wanzhong
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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99 Queen's Road Central
Hong Kong

SHARE REGISTRAR

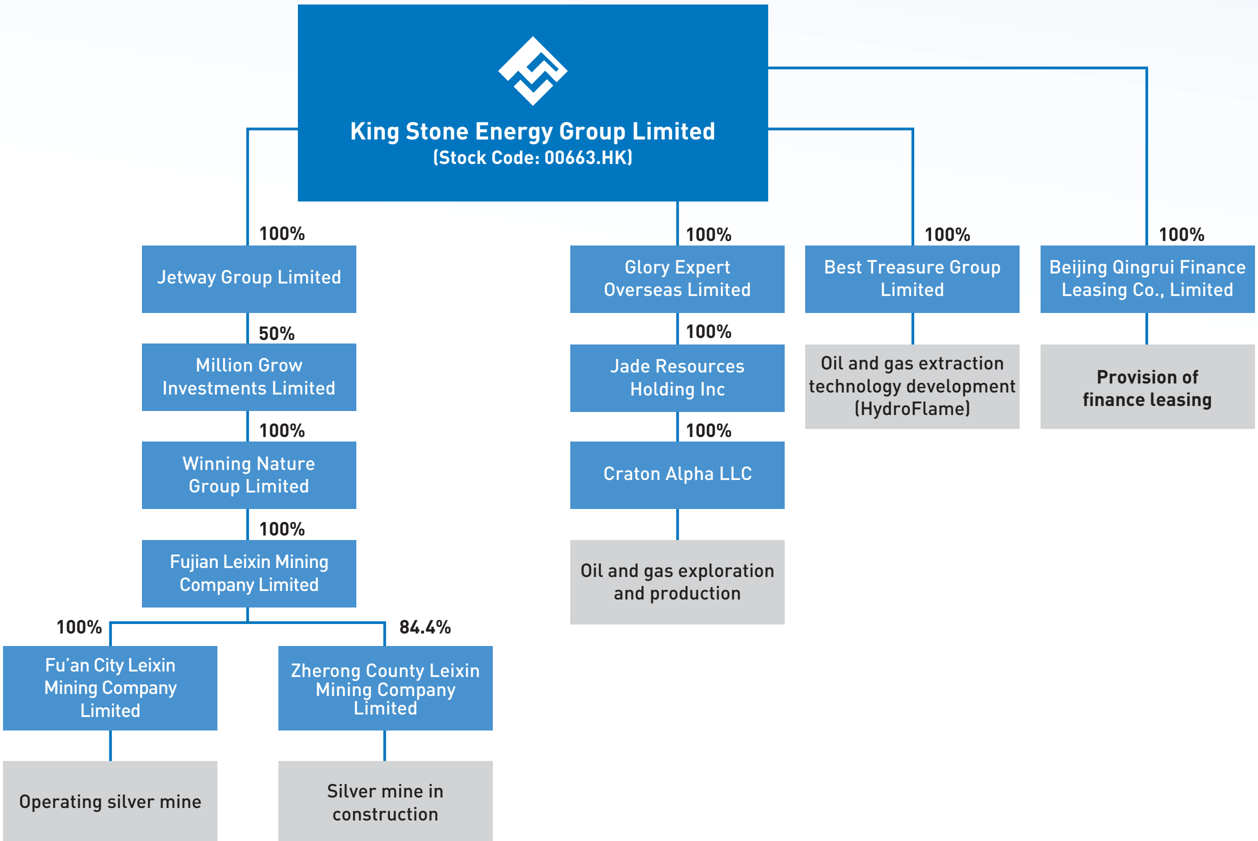
Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

COMPANY WEBSITE

http://www.663hk.com

STOCK CODE

00663


King Stone Energy Group Limited
(Stock Code: 00663.HK)
100%
Jetway Group Limited
50%
Million Grow Investments Limited
100%
Winning Nature Group Limited
100%
Fujian Leixin Mining Company Limited
100%
Fu'an City Leixin Mining Company Limited
Operating silver mine
84.4%
Zherong County Leixin Mining Company Limited
Silver mine in construction
100%
Glory Expert Overseas Limited
100%
Jade Resources Holding Inc
100%
Craton Alpha LLC
Oil and gas exploration and production
100%
Best Treasure Group Limited
Oil and gas extraction technology development (HydroFlame)
100%
Beijing Qingrui Finance Leasing Co., Limited
Provision of finance leasing

CAPITAL EXPENDITURE

The capital expenditure for development and mining production activities was approximately HK$91.4 million (2014: HK$96.6 million) during the year.

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	2015-2016
Designed capacity	660,000 tons per annum
Status	Under construction

	The West Mine	The East Mine
As at 30 November 2013		
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
Actual output in 2013 (million tons)	–	–
Actual output in 2014 (million tons)	0.01	–
Actual output in 2015 (million tons)	0.06	–
	0.07	–
As at 31 December 2015		
Inferred resources (million tons)	1.64	1.73
Indicated resources (million tons)	0.80	6.35
Probable ore reserves (million tons)	0.75	5.95

Note: The above information are extracted from technical report issued by SRK Consulting China Limited dated 10 March 2014 after deduction of actual output up to 31 December 2015 based on Leixin's record.

CRATON OIL AND GAS FIELDS

	Natural gas (million cubic feet)	Natural gas liquid (NGL) (thousand bbl)	Oil (thousand bbl)
As at 1 January 2015			
Proved reserves	16,986.89	449.67	191.67
Probable reserves	19,621.22	519.40	225.02
Possible reserves	31,342.41	829.67	359.46
	67,950.52	1,798.74	776.15
Actual output in 2015	688.36	23.62	8.52
As at 31 December 2015			
Proved reserves	16,298.53	426.05	183.15
Probable reserves	19,621.22	519.40	225.02
Possible reserves	31,342.41	829.67	359.46
	67,262.16	1,775.12	767.63

Note: The above information are extracted from reserve report issued by Cawley Gillespie & Associates Inc. on 3 March 2015 after deduction of actual output up to 31 December 2015 based on Craton's record.

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 2015.

In 2015, as global commodity markets continued to be weakening and coal, oil and gas prices were at low level, the performance of the Group's energy sector business was inevitably affected; Meanwhile, countries around the world focused on emission reduction, energy saving, clean energy and other issues, which also brought indications for the Group to adjust its own energy operations and prepare future investment strategy. In June 2015, the Group announced the completion of the disposal of the coal business, which has incurred losses over the past few years. With the continuing uncertain market prospect, the disposal of such business not only significantly improved the financial condition of the Group, but also released more manpower as well as financial resources for the investment on other energy and new investment projects of the Group, improving return on investment.

In response to the changing market environment, the management of the Group reviewed resource investment and operating performance of each business segment from time to time. Oil and gas prices in 2015 hit its record low in recent years, the Group therefore strategically deferred the investment and exploration in natural gas projects in the United States. However, the Group took the opportunity at the same time to lease more mining areas with lower cost in order to consolidate its own resource reserves. The potential of the project can be rapidly unleashed when the market prices rebound.

The Company announced placings in August and November last year respectively to raise fund, in which the placing in August last year was completed during the year, successfully raising approximately HK$179 million. The second placing is expected to be completed before the end of April this year. The two placings will raise a total of approximately HK$595 million, which will be utilized for the Group's liquidity and the proposed investment on stone paper project. In recent years, China has paid more attention on environmental protection, and has enhanced control efforts on carbon dioxide emission, water and soil resources contamination, deforestation, etc. The disposal of the coal business and the investment on stone paper business are the investment strategies of the Group regarding to the prevailing circumstances. Traditional wood pulp paper requires extensive deforestation and papermaking process also causes water pollution. The stone paper technology that the Group intends to invest not only can solve the abovementioned environmental problems, but also can seize the traditional paper pulp market with more competitive cost-effectiveness, quality and durability, particularly in textbook paper, package paper and other markets with higher paper quality demand. It is expected that stone paper will have a revolutionary market opportunity.

There are still many uncertainties for global economy in 2016. Along with every risk comes opportunity, I believe that with time-proven experience in investment and management of the Group's management team, we can release the high potential of various investment projects during the low level economic cycle, creating satisfactory returns to the shareholders. Finally, on behalf of the Board of King Stone Energy, I give my sincerest thanks to our employees, customers and shareholders, and look forward to prospecting together.

Zhang Wanzhong
Chairman

31 March 2016

BUSINESS REVIEW

The Group is principally engaged in exploring and drilling natural gas and oil in the United States, mining of silver minerals and provision of finance leasing in the PRC. During the year of 2015, global economic environment was challenging, and prices of commodities including oil and metal have remained gloomy. Performance of the Group's natural resources investments was unavoidably affected. As such, the Group has adjusted its investment plan by deferring exploration of new wells in the United States as well as scaling down mining of silver metal in the PRC. On the other hand, the Group has devoted considerable human resources to seek other investment opportunities such as an eco-friendly stone paper project in order to further strengthen its asset portfolio.

Energy Investments

The Group is currently operating an upstream oil and gas exploration and production project in East Texas, the United States. Up to 31 December 2015, the Company has invested over US$16 million in the project and has secured leases over 7,500 acres. According to a report issued by an independent technical expert, as of 1 January 2015, the aggregate of the total proved, probable, and possible ("3P") net reserves for natural gas amounted to approximately 67.95 billion cubic feet, the aggregate of the total 3P reserves of natural gas liquids amounted to approximately 1.80 million Bbls, and the aggregate of the total 3P reserves of oil amounted to approximately 776 thousand Bbls. There are two wells currently in production. The Company will continue to secure leases in the region and to drill further new wells when oil prices rebound.

The Group also invested in HydroFlame, which is a new heavy oil extraction technology that burns a fuel directly inside a rotating stream of water. The HydroFlame technology has yet to be commercialized, but has several new engineering process applications including hot water heaters, compact steam generators, produced water treatment processes and efficient power generation systems. HydroFlame has obtained patent rights in the United States, Canada, Mexico, Brazil and India in relation to its advance technology. During the year of 2015, the Company worked towards securing its legal interests and patent rights of the technology. Further patent applications may be made in China and other countries. In view of the further delay of commercialisation of the Hydroflame technology and the significant decrease in oil and gas prices, impairment of approximately HK$52.7 million on the patent has been made during the year.

Silver Mining

The Group operates two quality silver mines namely the West Mine and the East Mine via its subsidiary, Fujian Leixin Mining Company Limited, in Fujian Province, the PRC. The West Mine has a valid mining permit with approved production capacity of 100,000 ton per annum ("tpa") and a processing plant with daily ore processing capacity of 300 tons per day is already in place. According to the JORC Standard, the indicated and inferred mineral resources of the West Mine are approximately 0.87 million tons ("Mt") and 1.71 Mt respectively and its probable reserve is approximately 0.82 Mt with ore grade of silver averaging 211.4 g/t. During the year of 2015, approximately 57,103 tons of ores were processed at the West Mine.

The East Mine is an advanced development project with a valid exploration permit. 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. During the year of 2015, the Group continued to conduct more in-depth exploration work with increased drilling coverage and density in the East Mine. Application of the mining permit is currently under processing.

Coal Mining

Reference is made to the announcements of the Company dated 2 April 2015 and 26 June 2015, and the circular of the Company dated 15 May 2015, that the Company as the vendor and Jumbo Talent Group Limited as the purchaser entered into the disposal agreement in relation to, among other matters, the disposal of the entire interests in the coal mining business of the Group in Inner Mongolia, the PRC at a total cash consideration of HK$1 (the "Disposal"). The performance of the coal mining business of the Group has been unsatisfactory and the Group recorded a significant drop in the revenue and incurred significant losses in its coal mining business in prior years, which was mainly contributed by the decrease in the total coal production and the decrease in the selling price of coal due to market factors. Given the slow recovery in the coal mining industry and the loss-making performance of its coal mining business, the Company considers that the Disposal on one hand provides an immediate exit to the Group to discard the financial burden from its coal mining business and improve the financial conditions of the Group, and on the other hand enables the Group to reallocate its resources and restructure its asset portfolio and focus on the development of its remaining businesses, which is in the interests of the Company and the shareholders as a whole.

The Disposal was completed on 26 June 2015 and since then the Company has ceased to consolidate the results, assets and liabilities of its coal mining business into the consolidated financial statements. As a result of the Disposal, an one-off gain of approximately HK$2,445.8 million was recognized in the year of 2015.

Provision of Finance Leasing

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

FINANCIAL REVIEW

Revenue and cost of inventories sold

The Group recorded total revenue of approximately HK$45.4 million (2014: HK$39.8 million) during the year, representing an increase of 14% compared with last year. The increase in revenue from silver mining and selling business and oil and gas extraction and production business was offset by decrease in revenue from coal mining business which has been disposed by the Group in June 2015.

Revenue from silver and coal mining during the year was approximately HK$21.2 million (2014: HK$1.8 million) and HK$7.3 million (2014: HK$28 million) respectively. Silver and gold concentrates extracted from silver mining and coal ores sales volume was approximately 1,429 tons (2014: 126 tons) and approximately 93,800 tons (2014: 270,000 tons) respectively, and the average selling prices of silver and gold concentrates and coal ores during the year were approximately RMB10,638 per ton (2014: RMB11,534 per ton) and RMB62 per ton (2014: RMB81 per ton) respectively.

For the oil and gas extraction and production business which commenced operation of the first well in July 2014 and the second well in March 2015, the Group, net to its ownership interests, has produced approximately 8,518 Bbl (2014: 2,200 Bbl) of oil, and approximately 688 million cubic feet (2014: 240 million cubic feet) of natural gas (which includes approximately 23,622 Bbl (2014: 8,400 Bbl) of natural gas liquids). The net average selling prices of oil, natural gas and natural gas liquids during the year were approximately US$46.63 per Bbl (2014: US$76.28 per Bbl), approximately US$2.04 per thousand cubic feet (2014: US$3.42 per thousand cubic feet) and approximately US$11.51 per Bbl (2014: US$21.84 per Bbl) respectively. All of which in aggregate generated revenue of approximately HK$16.1 million (2014: HK$9.2 million) during the year.

The Group also recorded revenue of approximately HK$0.8 million from provision of finance leasing business during the year (2014: HK$0.8 million).

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. Cost of inventories sold for silver mining, coal mining and oil and gas extraction and production was approximately HK$37.9 million (2014: HK$3.8 million), HK$32.8 million (2014: HK$161.9 million) and HK$14.3 million (2014: HK$7.1 million), respectively during the year. There was no cost of provision of finance leasing recognised during the year (2014: nil).

For the year ended 31 December 2015, silver mining and coal mining recorded gross loss margins of 79% (2014: 109%) and 351% (2014: 479%), respectively. Oil and gas extraction and production business recorded a profit margin of 11% (2014: 22%) during the year.

Other income and gains

Other income and gains were approximately HK$2,480.6 million during the year (2014: HK$5.9 million). The significant increase was mainly attributable to gain on the Disposal of approximately HK$2,445.8 million (2014: nil), gain on disposal of available-for-sale equity investments of approximately HK$13.6 million (2014: nil) and trading income of approximately HK$13.9 million (2014: nil).

Selling and distribution expenses and administrative expenses

Selling and distribution costs and administrative expenses were HK$2 million (2014: HK$5.5 million) and HK$86.6 million (2014: HK$109.2 million) respectively during the year. Administrative expenses mainly comprised staff cost for administrative functions, legal and professional fee incurred for operation, depreciation and other administrative expenses. The decrease in administrative expenses was mainly due to only administrative expenses for the coal mining business for half year were recognized upon the Disposal during the year while the administrative expenses for the coal mining business for full year were recognized in 2014.

Other expenses

Other expenses mainly comprised impairments of property, plant and equipment, mining and exploration rights, intangible assets, and available-for-sale equity investments in aggregate of approximately HK$457.1 million (2014: HK$1,290.6 million) during the year. In 2014, the Group also recorded one-off costs associated with drilling prior to moving the drilling rig for oil and gas exploration and production ("E&P") of the first well of approximately HK$20.5 million, impairment of goodwill of approximately HK$14.2 million and impairments of trade and other receivables of approximately HK$16.1 million.

In view of indications of impairment including: (1) decline of silver and oil and gas prices during the year; and (2) updated forecast of silver and oil and gas production according to the actual output during the year, the directors of the Company had estimated the recoverable amounts (considered to be the same as the fair value less cost of disposal ("FVLCD")) of the mining assets (the "Mining Assets") of the silver mining business (the "Silver Mining Assets"), and the value in use ("VIU") of the extracting assets (the "Extracting Assets") of the oil and gas E&P business (the "Oil&Gas Extracting Assets") of the Group for impairment testing.

In this connection, the Company had assessed the FVLCD/VIU of the cash-generating units ("CGUs") and the management had derived the FVLCD/VIU of the Mining/Extracting Assets from the FVLCD/VIU of the relevant CGUs. In assessing the FVLCD/VIU of each of the CGUs, the future cash flows of each of the silver mining and oil and gas E&P businesses which cover the periods to utilise the remaining reserves of the mines and oil and gas fields, are discounted to the related present values using a post-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of silver, oil and gas, production cost and other expenses, capital expenditure, production plan and discount rate, respectively, which reflected the current conditions of the market and the Group and estimated trend in the future.

When evaluating the appropriate discount rate for each of 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 beta of the CGUs and firm specific risk factors. The discount rates of 13% (2014: 13%) and 10% (2014: no impairment test was conducted) used in assessing the FVLCD/VIU of the CGUs of the Silver Mining Assets and Oil&Gas Extracting Assets, was arrived by weighted average of cost of equity and cost of debt after tax of the respective CGUs.

There was no material change in the valuation methodology adopted by the Group during the year. Further details of changes in key assumptions and parameters used in assessing the FVLCD/VIU of the CGUs of the Mining/Extracting Assets as compared to that in previous year has been disclosed in note 13 to the consolidated financial statements.

Based on the FVLCD assessment of the CGUs of the Silver Mining Assets, the directors of the Company are of the opinion that an impairment loss of the Silver Mining Assets totaling HK$344.6 million (2014: HK$62.8 million) was resulted during the year, in which HK$50.8 million was allocated to property, plant and equipment and HK$293.8 million was allocated to mining and exploration rights of the Group's silver mining business, based on their relative carrying amounts amongst the Silver Mining Assets. The above impairment provisions aggregating to HK$344.6 million were recognised during the year.

In addition, based on the VIU assessment of the CGUs of the Oil&Gas Extracting Assets, the directors of the Company are of the opinion that an impairment loss of the Oil & Gas Extracting Assets totalling HK$50.4 million (2014: nil) was resulted during the year, in which HK$47.9 million was allocated to property, plant and equipment and HK$2.5 million was allocated to intangible assets of the Group's oil and gas E&P business, based on their relative carrying amounts amongst the Oil & Gas Extracting Assets. The above impairment provisions aggregating to HK$50.4 million were recognised during the year.

At as 31 December 2015, considering further delay of commercialization of the technology and the costs of further research and development of the Hydroflame patents would outweigh the cost under the current market situation, full impairment of the remaining book value of the patents of HK$52.7 million (2014:nil) was made during the year.

Finance costs

Finance costs were approximately HK$59.5 million (2014: HK$112.1 million) during the year, which represented mainly interest expenses for bank and other borrowings incurred for the coal mining business amounting to approximately HK$37.9 million (2014: HK$103.5 million) and interest expenses for an other payable, which has been discharged upon the Disposal, amounting to HK$16.7 million (2014: nil). In 2014, imputed interest expenses for convertible notes (which were fully redeemed in January 2014) of approximately HK$0.2 million and losses on early redemption of convertible notes of approximately HK$3.0 million were recognised.

Share of loss of a joint venture

Share of loss of a joint venture represented share of loss from the fund management company set up with CITIC Trust Co. Ltd. in 2011. Such fund management company has been disposed upon the Disposal during the year.

Income tax credit

Income tax credit was approximately HK$89.8 million (2014: HK$43.1 million) during the year. It represented write-back of deferred taxation mainly arising from impairment of Silver Mining Assets during the year. Income tax was approximately HK$10.1 million during the year. It mainly represented tax on profits of the silver mining business arising from waived amount payable due to the Disposal. No provision for profit tax in Hong Kong and the United States has been made during the current and prior years.

FUND RAISING EXERCISES

Other than the proposed placing of new shares and the proposed rights issue announced by the Company dated 26 June 2015 but were terminated on 8 July 2015 (details have been set out in the announcements of the Company dated 26 June 2015 and 8 July 2015), the Company has conducted the following equity fund raising activities during the year:

On 4 August 2015, the Company and a third party placing agent entered into a placing agreement, whereby the Company has conditionally agreed to place, through the placing agent, on a best effort basis, of up to 668,000,000 placing shares to not less than six independent placees at the placing price of HK$0.275 per placing Share (representing a discount of about 14.06% to the closing price of HK$0.32 per share on 3 August 2015). The placing was completed on 24 August 2015 raising net proceeds of HK$179 million (representing a net placing price of approximately HK$0.268 per placing share) to finance part of a possible investment project in relation to stone paper business in the PRC. Details of the above were disclosed in the announcements of the Company dated 4 August 2015 and 24 August 2015.

On 6 November 2015, the Company entered into another placing agreement (the "2015 Nov Placing Agreement") pursuant to which the placing agent, which is also an independent third party, agreed to place up to 2,500,000,000 placing shares at a price of HK$0.168 each on a best effort basis. The 2015 Nov Placing Agreement has been approved by the independent shareholders on 23 December 2015. However, given the stock market volatility afterwards, on 25 January 2016, the Company entered into the supplemental agreement to revise the terms of the 2015 Nov Placing Agreement pursuant to which the placing agent agreed to place up to 3,000,000,000 placing shares at a price of HK$0.139 each on a best effort basis. The net proceeds from the placing are estimated to be approximately HK$415.5 million (representing a net placing price of approximately HK$0.138 per placing share) which will be used as to 75% for the capital contribution to the joint venture to be set up for the stone paper business and as to the remaining 25% for general working capital of the Group. Details of the above were disclosed in the announcements of the Company dated 6 November 2015 and 25 January 2016 and the circulars of the Company dated 7 December 2015 and 3 March 2016. The 2015 Nov Placing Agreement is not yet completed as at the date of this report.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly financed its day to day operations by internally generated cash flow, equity fund raising as stated above and other financing activities during the year.

As at 31 December 2015, the current ratio of the Group, measured as total current assets to total current liabilities, was 3.16:1 (2014: 0.09:1).

As at 31 December 2015, the cash and cash equivalents of the Group were approximately HK$203.3 million (2014: HK$156.1 million). The Group recorded a net cash outflow from its operating activities of approximately HK$64.8 million (2014: HK$220.5 million) during the year.

As at 31 December 2015, there was no outstanding interest-bearing bank loan (2014: HK$1,614.1 million).

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

GEARING RATIO

The gearing ratio of the Group, measured as total debt (which represented trade and bills payables, other payables and accruals and interest-bearing borrowings) in a ratio to the total assets, was 0.12 as at 31 December 2015 (2014: 1.42).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Save for the Disposal as mentioned above, the Group had no material significant investments, acquisition and disposal during the year.

CAPITAL COMMITMENTS, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2015, the Group had contracted capital commitments not provided for in the consolidated financial statements of HK$1.9 million in respect of acquisition of a 30% equity interest in Liaoyuan under the Disposal (2014: HK$29.5 million in respect of acquisition of items of property, plant and equipment).

As at 31 December 2015, time deposits of approximately HK$0.4 million (2014: HK$4.0 million) were pledged for conducting mining businesses as required by relevant government authorities.

Save as disclosed above, the Group had no other pledge of assets as at 31 December 2015. As at 31 December 2014, bank and other borrowings of approximately HK$1,614.1 million and other payables of approximately HK$275 million were secured by certain of the Group's coal mining rights, property, plant and equipment and prepayments, deposits and other receivables and guarantees given by certain parties and equity interests of subsidiaries. As at 31 December 2014, certain assets of a subsidiary of the coal mining business together with other parties of approximately RMB310.4 million (equivalent to HK$388 million) were freezed pending trial.

As at 31 December 2015, the Group did not have any material contingent liabilities (2014: nil).

LITIGATION

On 8 January 2015, the Company issued a writ of summons against Linkwealth Pacific Limited ("Linkwealth") demanding for the repayment of a loan in the principal amount of HK$30 million owed by Linkwealth and accrued interest and penalty of approximately HK$10.5 million. A default judgment was granted in favour of the Company on 19 May 2015.

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2015, the Group had 123 employees. The total staff costs (including directors' remuneration) for the year were approximately HK$44.3 million (2014: HK$52.4 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 2015.

FUTURE OUTLOOK

The global economy is expected to remain shaky in the year of 2016, with risk underlying currency and interest rate increasingly concerned. Management team of the Company will cautiously monitor the risk factors and look to transform risk to opportunities. Since the beginning of 2015, the Company has moved proactively to restructure its assets portfolio and strengthen its financial position. After successfully offloading its coal mining business in late June 2015, the liquidity position of the Group has been significantly improved. On the other hand, energy business in the United States and silver mining business in the PRC are developing into a mature stage which has laid down a solid foundation base for the Group's future earnings' growth.

In August 2015, the Company completed the placing of 668,000,000 new shares to several investors and successfully raised net proceeds of approximately HK$179 million. The Company intends to apply the net proceeds to finance part of a possible investment project in relation to the eco-friendly stone paper business in the PRC. To fulfill the capital requirement of the stone paper business and general working requirement of the Group, the Company further proposed to raise proceeds of approximately HK$415.5 million through placing of 3,000,000,000 new shares to several investors including the controlling shareholder of the Company who is optimistic about the prospects of the stone paper business and is willing to support the Company by further investment in the Company. The Company is also pursuing other business opportunities including but not limited to finance leasing business and commodity trading to fully utilize the capital and broaden revenue base of the Group. It is believed that the prospects of the Group's exiting businesses, together with the potential stone paper business to be pursued, will gradually improve the Group's profitability and hence enhance shareholders' values in the near future.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Wanzhong, aged 53, 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 the executive director, president and compliance officer of Jade Bird Universal. He is also a director of Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited, 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. and vice president and supervisor of Beijing Beida Jade Bird Limited. 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 46, 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. Xu Zhuliang, aged 46, 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 and is a member of the remuneration committee of the Company.

Mr. Benjamin Clark Danielson, aged 45, obtained a Bachelor of Science degree from the United States Military Academy at West Point and a Master of Business Administration degree from the University of Texas at Austin. Mr. Danielson has significant experience in sourcing, evaluating and executing investments for private equity funds, as well as managing and monitoring the activities of portfolio companies. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Sui Keung, aged 49, 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 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. Lu Binghui, aged 40, 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, nomination committee and remuneration committee of the Company.

Mr. Lee Ping, aged 55, 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 and is a member of the audit committee of the Company.

Mr. Liu Shengming, aged 61, 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 37, is the company secretary of the Company. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and has over 15 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 Professional Accountancy from The Chinese University of Hong Kong, a Master Degree in Investment Management from The Hong Kong University of Science and Technology and a Master Degree in International Economic Law from The Chinese University of Hong Kong. He joined the Group in April 2010.

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 consolidated financial statements 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.

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	Remuneration Committee meeting	Nomination Committee meeting	Audit Committee meeting	General meeting
Executive Directors:						
Mr. Zhang Wanzhong (Chairman)		4/10	N/A	1/1	N/A	0/2*
Mr. Xu Zhendong	(resigned on 5 May 2015)	2/3	N/A	N/A	N/A	0/0
Mr. Zong Hao		10/10	N/A	N/A	N/A	2/2
Mr. Xu Zhuliang		8/10	1/1	N/A	N/A	2/2
Mr. Benjamin Clark Danielson		2/10	N/A	N/A	N/A	2/2
Mr. Zhang Yongli	(passed away on 24 January 2015)	0/1	0/0	N/A	N/A	0/0
Independent non-executive Directors:						
Mr. Chiu Sui Keung		6/10	1/1	1/1	2/2	2/2
Mr. Lu Binghui		3/10	1/1	1/1	2/2	1/2
Mr. Lee Ping		5/10	N/A	N/A	2/2	0/2
Mr. Liu Shengming		2/10	N/A	N/A	N/A	0/2

* Under provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting. However, the chairman of the Board was unable to attend the annual general meeting held on 11 June 2015 due to his personal engagement.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2015 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. Zhang Wanzhong 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 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. As at the date of this report, the Audit Committee consisted of Mr. Chiu Sui Keung as chairman and Mr. Lu Binghui and Mr. Lee Ping as members. All of them are independent non-executive Directors.

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 2014 and interim results for the six months ended 30 June 2015 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 held one meeting to review the existing remuneration policy and structure of the Company during the year. As at the date of this report, the Remuneration Committee comprised two independent non-executive Directors, Mr. Chiu Sui Keung (Chairman) and Mr. Lu Binghui, and one executive Director, Mr. Xu Zhuliang.

NOMINATION COMMITTEE

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, 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, 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 held one meeting to review the board composition during the year. As at the date of this report, the Nomination Committee comprised one executive Director, Mr. Zhang Wanzhong (Chairman), and two independent non-executive Directors, Mr. Chiu Sui Keung and Mr. Lu Binghui.

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 2015, 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.

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 for the year ended 31 December 2015.

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		2,800
Non-audit services	– agreed-upon procedures on interim report	650
	agreed-upon procedures on circular in respect of disposal of subsidiaries	250
	agreed-upon procedures on circular in respect of proposed rights issue	250
		3,950

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditors' Report on pages 32 to 33.

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 behaviour 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 2015, the Company's internal control system is effective and adequate. 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, the Directors including Mr. Zong Hao, Mr. Zhang Wanzhong, Mr. Xu Zhuliang, Mr. Benjamin Clark Danielson, Mr. Chiu Sui Keung, Mr. Lu Binghui, Mr. Lee Ping and Mr. Liu Shengming, 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.

COMPANY SECRETARY

During the year ended 31 December 2015, Mr. Lee Tao Wai, the Company Secretary, has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Lee are set out in the section headed "Biographical details of Directors and Senior Management" in this annual report.

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 representing at least 5% of the total voting rights at general meeting may requisition to convene an extraordinary general meeting. 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 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.

If within 21 days from the date of the deposit of the requisition 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 general 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 reimbursed to the requisitionists by the Company.

The following shareholders namely: (a) any members representing not less than 2.5% of the total voting rights of the Company; or (b) not less than 50 members entitling to vote at annual general meeting 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 with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition 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 or if later, the time at which notice is given of that meeting.

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 2015.

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 for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. Save as disposal of subsidiaries which engage in coal mining business during the year as set out in note 32 to the financial statements, there were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

Details of business review, financial performance and future development of the Group's business are set out in the "Management Discussion and Analysis" from pages 7 to 13. Important event affecting the Group since 31 December 2015 is disclosed in note 40 to the consolidated financial statements.

Principal Risks and Uncertainties

There are various risks and uncertainties including business risks, operational risks and financial risks that may have different levels of impact on the Group's financial performance, operations, business as well as future prospects.

For risks and uncertainties relating to the business and operation, the business and results of operations are susceptible to volatility in commodity prices including silver and oil and gas prices and economic cyclicality. In addition, as some of the existing mining projects are located in the People's Republic of China (the "PRC"), the Group's business, financial condition, results of operations and prospects are greatly affected by political, economic and legal developments and changes to government policies in the PRC. If any stricter regulations regarding the Group's operation or the mining industry are enacted in the future, business and operation of the Group may also be significantly impacted and there are uncertainties to renew the mining and exploration permits or obtain relevant approvals from the government. There are also uncertainties to acquire new mining projects.

Details of the financial risks are set out in note 38 to the consolidated financial statements.

Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities in which it operates.

The Group's operations are subject to a variety of the PRC and the United States of America ("USA") environmental laws and regulations, as well as local environmental regulations promulgated by local authorities on environmental protection. The government has taken an increasingly stringent stance on the adoption and enforcement of rigorous environmental laws and regulations, which could have a material adverse effect on financial condition and results of operations and could incur additional costs.

The Group was in compliance with all relevant laws and regulations regarding environmental protection in all material respects and was not subject to any environmental claims, lawsuits, penalties or administrative sanctions during the year. The Group is also committed to allocate operating and financial resources to ensure environment protection compliance as required by applicable laws and regulations.

Compliance with the Relevant Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with the applicable rules and regulations. The Group's operations are mainly carried out in the PRC, USA and Hong Kong while the shares of Company are listed on the Hong Kong Stock Exchange Limited. Hence, the Group shall comply with relevant laws and regulations in the PRC, USA and Hong Kong and the respective places of incorporation of the Company and its subsidiaries. In addition, the Company is required to comply with the Rules Governing the Listing of Securities on the Stock Exchange and other relevant regulations.

The Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year. There was no material breach of or non-compliance with the applicable laws and regulations by the Group for the year ended 31 December 2015.

Relationship with Employees, Customers and Suppliers and other Stakeholders

The Group understands the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. During the year, save as disclosed in section headed "Litigation" under "Management Discussion and Analysis", there were no material and significant dispute between the Group and its key stakeholders that have a significant impact on the Group.

The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2015 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 109.

The directors do not recommend the payment of a dividend.

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 110. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND CONVERTIBLE NOTES

Details of movements in the Company's share capital and convertible notes during the year are set out in notes 29 and 27 to the financial statements, respectively.

Shares were issued upon completion of placing during the year. Details about the issue of shares are also set out in note 29 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, its holding company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2015.

DISTRIBUTABLE RESERVES

At 31 December 2015, the Company had no retained profits calculated in accordance with the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622), available for distribution. However, the Company's share capital included an amount previously included in the Company's share premium account and transferred to share capital upon the new Hong Kong Companies Ordinance becoming effective in 2014, 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 91.1% of the total sales for the year and sales to the largest customer included therein amounted to 46.7% of the total sales. Purchases from the Group's five largest suppliers accounted for less than 89.7% of the total purchases for the year.

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

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Zhang Wanzhong *(Chairman)*
Mr. Xu Zhendong (resigned on 5 May 2015)
Mr. Zong Hao *(Chief Executive Officer)*
Mr. Xu Zhuliang
Mr. Benjamin Clark Danielson
Mr. Zhang Yongli (passed away on 24 January 2015)

Independent non-executive Directors:

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

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. Chiu Sui Keung, Mr. Lee Ping and Mr. Lu Binghui will retire and, being eligible, will offer themselves for re-election 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, Liu Shengming, Lee Ping and Lu Binghui, are still considered to be independent.

A full list of the names of the directors of the Group's subsidiaries can be found in the Company's website at www.663hk.com.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 16 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 are 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 17 to 23 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, its holding company, or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Director or his associate has engaged in any business which competes or is likely to compete directly or indirectly with that of the Group during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has maintained appropriate Directors' liability insurance coverage for the Directors during the year.

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

As at 31 December 2015, none of the Directors and the chief executive of the Company and their respective associates had or was deemed to have any interests in the long or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which (i) were required to be notified to the Company and the Stock Exchange pursuant to Division 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 provisions 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company.

EQUITY LINKED AGREEMENTS

Save for the placing agreements as disclosed in the section headed "Fund raising exercises" under "Management Discussion and Analysis", details of the equity-linked agreements entered into during the year or subsisting at the end of the year are also set out below:

Warrants

Pursuant to the completion of a subscription agreement entered into between the Company and Belton Light Limited, 330,000,000 warrants were issued to Belton Light Limited. Each warrant entitles the holder thereof to subscribe for one ordinary share of the Company at a subscription price of HK$0.35 per share, payable in cash and subject to adjustment, within 24 months from the date of issue on 19 December 2014. As a result of the placing during the year as disclosed in note 29 to the financial statements, the subscription price was adjusted from HK$0.35 per share to HK$0.339 per share from the date of completion of the placing. The proceeds received from exercise of all outstanding warrants by the holder will be HK$111,870,000. No warrant was exercised for the years ended 31 December 2015 and 2014.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") which was effective from 30 May 2012 and remains valid for a period of 10 years from 30 May 2012. The Scheme is operated 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 the circular of the Company dated 26 April 2012 and note 33 to the financial statements. No share options were granted to any persons during the years ended 31 December 2015 and 2014. There were no outstanding share options as at 31 December 2015 and 2014.

Save as disclosed above, 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, its holding 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, its holding 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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 2015, 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 shares/underlying shares	Approximate percentage of the Company's share capital
Belton Light Limited (note 1)	Beneficial owner	2,215,555,000 (L)	55.25%
Wang Da Yong (note 2)	Beneficial owner/Interest in controlled corporations/ Interest of spouse	220,719,500 (L)	5.50%

Remarks: (L) : Long position

Notes:

1. Belton Light Limited, which is wholly-owned by Jade Bird Energy Fund II, L.P, holds 1,885,555,000 shares and 330,000,000 warrants which each entitling the holder to subscribe for one ordinary share at a subscription price of HK$0.339 per share, subject to adjustment and payable in cash, within 24 months from the date of issue on 19 December 2014.

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 (a former Director who retired on 6 June 2014), respectively.

   (b) 1,047,500 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) 100,935,000 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.

Save as disclosed above, as at 31 December 2015, the Directors and the chief executive of the Company were not aware of any other person 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.

CONNECTED TRANSACTION

On 6 November 2015, the Company entered into a placing agreement (the "2015 Nov Placing Agreement") pursuant to which the placing agent, which is an independent third party, agreed to place up to 2,500,000,000 placing shares to not less than six placees (including Belton Light Limited) at a price of HK$0.168 each on a best effort basis to raise proceeds of about HK$418.5 million for the potential stone paper business and general working capital of the Group. The 2015 Nov Placing Agreement has been approved by the independent shareholders on 23 December 2015. On 25 January 2016, the Company entered into the supplemental agreement to revise the terms of the 2015 Nov Placing Agreement pursuant to which the placing agent agreed to place up to 3,000,000,000 placing shares at a price of HK$0.139 each on a best effort basis. The 2015 Nov Placing Agreement (as supplemented) is not yet completed as at the date of this report.

As Belton Light Limited (which has indicated that it will participate in the placing under the 2015 Nov Placing Agreement (as supplemented)) is a substantial shareholder interested in approximately 47% of the issued share capital of the Company as at the date of the 2015 Nov Placing Agreement (as supplemented), it is a connected person of the Company and thus the 2015 Nov Placing Agreement (as supplemented) constitutes a non-exempted connected transaction on the part of the Company under the Listing Rules.

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 share capital was held by the public as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 40 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

Zong Hao
Executive Director

Hong Kong
31 March 2016

Ernst & Young
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To the members 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 set out on pages 34 to 109, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of 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 405 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.

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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	Notes	**2015 HK$'000**	2014 HK$'000
REVENUE	5, 6	**45,360**	39,838
Cost of inventories sold		**(85,032)**	(172,865)
Gross loss		**(39,672)**	(133,027)
Other income and gains	6	**2,480,556**	5,871
Selling and distribution expenses		**(2,025)**	(5,488)
Administrative expenses		**(86,566)**	(109,163)
Other expenses		**(462,051)**	(1,489,902)
Finance costs	7	**(59,536)**	(112,098)
Share of loss of a joint venture		**(1,193)**	(2,563)
PROFIT/(LOSS) BEFORE TAX	8	**1,829,513**	(1,846,370)
Income tax credit	11	**79,716**	43,111
PROFIT/(LOSS) FOR THE YEAR		**1,909,229**	(1,803,259)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale equity investments:			
Changes in fair value	19	**17,172**	7,850
Reclassification adjustments for gains included in the consolidated statement of profit or loss – gain on disposal	19	**(13,553)**	–
		3,619	7,850
Exchange differences on translation of foreign operations		**(23,448)**	(5,144)
Reclassification of translation reserve to profit or loss on disposal of subsidiaries		**(240,404)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**(260,233)**	2,706
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**1,648,996**	(1,800,553)

	Notes	2015 HK$'000	2014 HK$'000
Profit/(Loss) for the year attributable to:			
Owners of the Company		**2,020,128**	(1,723,508)
Non-controlling interests		**(110,899)**	(79,751)
		1,909,229	(1,803,259)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**1,785,032**	(1,714,126)
Non-controlling interests		**(136,036)**	(86,427)
		1,648,996	(1,800,553)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	12	**HK$0.56**	HK$(0.57)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**86,534**	911,765
Prepaid land premiums	14	**1,015**	14,882
Mining and exploration rights	15	**303,719**	919,299
Other intangible assets	17	**10,842**	72,932
Investment in a joint venture	18	**–**	10,357
Available-for-sale equity investments	19	**19,899**	23,775
Prepayments and deposits	22	**5,201**	63,565
Total non-current assets		**427,210**	2,016,575
CURRENT ASSETS			
Inventories	20	**3,520**	11,234
Trade and bills receivables	21	**3,739**	15,443
Prepayments, deposits and other receivables	22	**98,672**	112,050
Pledged deposits	23	**374**	3,951
Cash and cash equivalents	23	**203,322**	156,072
Total current assets		**309,627**	298,750
CURRENT LIABILITIES			
Trade and bills payables	24	**5,487**	13,255
Other payables and accruals	25	**82,620**	1,651,461
Interest-bearing borrowings, secured	26	**–**	1,581,118
Income tax payable		**10,009**	224,703
Total current liabilities		**98,116**	3,470,537
NET CURRENT ASSETS/(LIABILITIES)		**211,511**	(3,171,787)
TOTAL ASSETS LESS CURRENT LIABILITIES		**638,721**	(1,155,212)
NON-CURRENT LIABILITIES			
Other payables	25	**472**	18,959
Interest-bearing borrowings, secured	26	**–**	32,976
Deferred tax liabilities	28	**50,341**	146,571
Total non-current liabilities		**50,813**	198,506
Net assets/(liabilities)		**587,908**	(1,353,718)

	Notes	2015 HK$'000	2014 HK$'000
EQUITY/(DEFICITS)			
Equity attributable to owners of the Company			
Share capital	29	**2,287,807**	2,108,700
Other reserves	30	**(1,833,005)**	(3,618,037)
		454,802	(1,509,337)
Non-controlling interests		**133,106**	155,619
Total equity/(deficits)		**587,908**	(1,353,718)

Director
Zhang Wanzhong

Director
Zong Hao

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Attributable to owners of the Company									
	Notes	Share capital HK$'000 (Note 29)	Share premium account HK$'000 (Note 29)	Capital redemption reserve HK$'000 (Note 29)	Equity component of convertible notes HK$'000 (Note 27(a))	Exchange Fluctuation reserve HK$'000 (Note 30)	Available for-sale investment reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015		2,108,700	-	-	-	223,677*	7,850*	(3,849,564)*	(1,509,337)	155,619	(1,353,718)
Profit/(Loss) for the year		-	-	-	-	-	-	2,020,128	2,020,128	(110,899)	1,909,229
Other comprehensive income/(loss):											
– Exchange differences on translation of foreign operations during the year		-	-	-	-	(11,812)	-	-	(11,812)	(11,636)	(23,448)
– Fair value change of available-for-sale equity investments		-	-	-	-	-	3,619	-	3,619	-	3,619
– Reclassification of translation reserve to profit or loss on disposal of subsidiaries	32	-	-	-	-	(226,903)	-	-	(226,903)	(13,501)	(240,404)
Total comprehensive income/(loss) for the year		-	-	-	-	(238,715)	3,619	2,020,128	1,785,032	(136,036)	1,648,996
Disposal of subsidiaries	32	-	-	-	-	-	-	-	-	113,523	113,523
Issue of new shares	29(c)	179,107	-	-	-	-	-	-	179,107	-	179,107
At 31 December 2015		2,287,807	-	-	-	(15,038)*	11,469*	(1,829,436)*	454,802	133,106	587,908

* These reserve accounts comprise the consolidated negative other reserves of HK$1,833,005,000 (2014: HK$3,618,037,000) in the consolidated statement of financial position.

		Attributable to owners of the Company									
	Notes	Share capital HK$'000 (Note 29)	Share premium account HK$'000 (Note 29)	Capital redemption reserve HK$'000 (Note 29)	Equity component of convertible notes HK$'000 (Note 27(a))	Exchange fluctuation reserve HK$'000 (Note 30)	Available for-sale investment reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2014		301,205	1,724,472	523	73,052	222,145	–	(2,199,108)	122,289	242,046	364,335
Loss for the year		–	–	–	–	–	–	(1,723,508)	(1,723,508)	(79,751)	(1,803,259)
Other comprehensive income/(loss):											
– Exchange differences on translation of foreign operations during the year		–	–	–	–	1,532	–	–	1,532	(6,676)	(5,144)
– Fair value change of available-for-sale equity investments		–	–	–	–	–	7,850	–	7,850	–	7,850
Total comprehensive income/(loss) for the year		–	–	–	–	1,532	7,850	(1,723,508)	(1,714,126)	(86,427)	(1,800,553)
Adoption of new HK Companies Ordinance	29(a)	1,724,995	(1,724,472)	(523)	–	–	–	–	–	–	–
Issue of new shares	29(b)	82,500	–	–	–	–	–	–	82,500	–	82,500
Early redemptions of convertible notes	27(a)	–	–	–	(73,052)	–	–	73,052	–	–	–
At 31 December 2014		2,108,700	–	–	–	223,677*	7,850*	(3,849,564)*	(1,509,337)	155,619	(1,353,718)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax		**1,829,513**	(1,846,370)
Adjustments for:			
Finance costs	7	**59,536**	112,098
Bank interest income	6	**(80)**	(1,262)
Other interest income	6	**(57)**	(695)
Gain on disposal of subsidiaries	8, 32	**(2,445,779)**	–
Depreciation	8, 13	**35,619**	97,934
Amortisation of prepaid land premiums	8, 14	**205**	644
Amortisation of mining rights	8, 15	**16,301**	6,151
Amortisation of intangible assets	8, 17	**4,660**	4,183
Impairment of items of property, plant and equipment	8, 13	**98,737**	417,581
Impairment of mining and exploration rights	8, 15	**293,795**	872,985
Impairment of intangible assets	8, 17	**60,025**	–
Impairment of available-for-sale equity investments	8, 19	**4,523**	–
Impairment of trade receivables	8, 21(b)	**–**	7,009
Impairment of goodwill	8, 16	**–**	14,155
Impairment of prepayments, deposits and other receivables	8, 22(b)	**–**	9,052
Write-down of obsolete inventories to net realisable value	8	**–**	3,410
Gain on available-for-sale equity investments	6,19	**(13,553)**	–
Dividend income from available-for sale equity investments	6	**(2,375)**	–
Share of loss of a joint venture		**1,193**	2,563
		(57,737)	(300,562)
Decrease in inventories		**970**	162
Decrease in trade and bills receivables		**1,879**	9,980
Increase in prepayments, deposits and other receivables		**(8,947)**	(13,333)
Increase in trade and bills payables		**4,654**	1,495
Increase/(decrease) in other payables and accruals		**(5,668)**	128,158
Cash used in operations		**(64,849)**	(174,100)
Interest paid		**–**	(46,400)
Net cash flows used in operating activities		**(64,849)**	(220,500)

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**137**	1,957
Purchases of items of property, plant and equipment		**(31,427)**	(78,890)
Proceeds from disposal of items of property, plant and equipment		**248**	1,205
Additions to mining and exploration rights	15	**(3,041)**	(3,074)
Disposal of subsidiaries	32	**(3,607)**	–
Acquisition of an intangible asset		**(2,605)**	(27,607)
Acquisition of available-for-sale equity investments		**–**	(4,496)
Cash dividend income from available-for-sale equity investments		**1,354**	–
Disposal of available-for-sale equity investments		**17,488**	–
Decrease in prepayments for non-current assets		**–**	41,109
Increase in loan receivables		**(51,939)**	–
Net cash flows used in investing activities		**(73,392)**	(69,796)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares	29	**183,700**	82,500
Share issue expenses	29	**(4,593)**	–
Early redemption of convertible bonds	27	**–**	(39,205)
New bank and other loans		**–**	85,784
Repayment of bank and other loans		**–**	(90,587)
Increase in other borrowings included in other payables		**3,580**	122,284
Net cash flows from financing activities		**182,687**	160,776
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**44,446**	(129,520)
Cash and cash equivalents at beginning of year		**156,072**	292,595
Effect of foreign exchange rate changes, net		**2,804**	(7,003)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**203,322**	156,072
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than pledged time deposits	23	**203,322**	156,072
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	23	**203,322**	156,072

1. CORPORATE AND GROUP 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 principally involved in the mining and selling of coal and silver, oil and gas extraction and production and provision of finance leasing.

On 26 June 2015, the Company has disposed of Magic Field International Limited and its subsidiaries (collectively the "Disposal Group") engaged in coal mining business as set out in note 32.

In the opinion of the directors, the holding company of the Company is Belton Light Limited, which was incorporated in the British Virgin Islands and wholly-owned by Jade Bird Energy Fund II, L.P, which is the ultimate holding company of the Company.

Information about subsidiaries

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

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Jetway Group Limited ("Jetway")#	British Virgin Island	US$1	100	Investment holding
Million Grow Investment Limited ("Million Grow")**	British Virgin Island	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#	British Virgin Island	US$1	100	Oil extraction technology development
HFT Resources Inc.	USA	US$1	100	Oil extraction technology development
Jade Resources Holdings Inc.	USA	US$1	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Craton Alpha LLC	USA	US$10,000,000	100	Oil and gas extraction and production
北京青瑞融資租賃有限公司 (Beijing Qingrui Finance Leasing Company Ltd., "Qingrui")*#	PRC/Mainland China	US$10,000,000	100	Provision of finance leasing
King Stone Energy (Singapore) CO. PTE. Ltd#	Singapore	SG$1	100	Trading
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 Puhau Deqin")*^	The PRC/Mainland China	RMB150,000,000	99	Investment holding
Eerduosi Hengtai Coal Co., Ltd. ("Hengtai")*^	The PRC/Mainland China	RMB180,000,000	94	Mining and selling of coal
Mongolia Liaoyuan Mining Co., Ltd. ("Liaoyuan")*^	The PRC/Mainland China	RMB5,000,000	94	Mining and selling of coal

^ Disposed of during the year

\# Directly held by the Company

* Registered as limited liability companies under PRC law

** Million Grow is accounted for as a subsidiary by virtue of the Group having contractual rights to appoint a majority of the board of directors of Million Grow and to initiate board meetings in Million Grow, which controlled the business activities of Million Grow, including the relevant activities which most affected the return. The Group has appointed the majority of the directors in the board of Million Grow after the acquisition of Million Grow by the Group.

Δ Subsidiaries of Million Grow

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.

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the available-for-sale equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. BASIS OF PREPARATION AND CONSOLIDATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015. 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 financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for the subsidiaries. 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 revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments:* Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets:* Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- HKAS 24 *Related Party Disclosures:* Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations:* Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 *Fair Value Measurement:* Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

- HKAS 40 *Investment Property:* Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group does not have investment properties.

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

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*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to HKFRS 10,HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs*[1]

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

(b) The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

(c) The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

(d) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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

(e) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

(f) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 impairment losses.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in a joint venture (Continued)

The Group's share of the post-acquisition results and other comprehensive income of a joint venture is included in profit or loss, 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 assets transferred. Goodwill arising from the acquisition of a joint venture is included as part of the Group's investment in a joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, 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 significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of joint venture is included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investment in a joint venture is treated as non-current asset and is stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are 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, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control 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 of 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 a 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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 March. 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.

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, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), 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 the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period as to whether there is an 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 an asset other than goodwill 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

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 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);
- (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 of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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 (or valuation) less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase 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 the statement of 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 term
Leasehold improvements	Over the shorter of the lease terms and five years
Plant and machinery	6.7% to 33%
Furniture and fixtures	10% to 33%
Motor vehicles	20% to 25%

In addition, certain plant and machinery used in the coal mines, silver mines and oil and gas wells are depreciated on the unit of production method based on the actual production volume and over the total estimated proven and probable reserves of the coal mine, silver mine and oil and gas wells, respectively.

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 the statement of 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 under construction, which is stated at cost less any impairment losses, and is 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.

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 net of any incentives received from the lessor are charged to the statement of 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 term of 50 years.

Mining and exploration rights

Mining and exploration rights are stated at cost less accumulated amortisation and any accumulated impairment losses, and are amortised on the units of production method based on the actual production volume and over the total estimated proven and probable reserves of the relevant 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 impairment losses and are amortised on the straight-line basis over their estimated useful lives of 20 years.

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 financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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, except in the case of financial assets recorded at fair value through profit or loss.

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

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

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 the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Available-for-sale financial investments (Continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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 the 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 asset 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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.

Financial assets carried at amortised cost

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 yet 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 the statement of 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 and all collateral has been realised or has been transferred to the Group.

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 the statement of profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, accruals and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and borrowings

After initial recognition, interest-bearing 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 the statement of 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 the statement of profit or loss.

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 the statement of profit or loss.

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 first-in, first-out 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the statement of 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 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.

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 joint ventures, 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:

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

* 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 joint ventures, 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.

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;

(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; and

(c) dividend income, when the shareholders' right to receive payment has been established.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and 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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits – Pension schemes (Continued)

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 other 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).

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currency of certain subsidiaries 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 arising 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 and overseas 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 revenues, 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:

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 mining and extracting assets are set out in note 13 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

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

The Group considers that it controls Million Grow Investments Limited ("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. Additional depreciation is made if the estimated useful lives and/or the residual 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 amount of property, plant and equipment in the consolidated statement of financial position of the Group at 31 December 2015 was HK$86,534,000 (2014: HK$911,765,000) (note 13).

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 value in use and fair value less cost of disposal. 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 or fair value less cost of disposal 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 2015 were HK$86,534,000 (2014: HK$911,765,000) (note 13) and HK$303,719,000 (2014: HK$919,299,000) (note 15), respectively.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Mine reserves

Engineering estimates of the Group's mine reserves 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 taking into account in the impairment assessment of mining and exploration rights. 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 2015 were HK$86,534,000 (2014: HK$911,765,000) (note 13) and HK$303,719,000 (2014: HK$919,299,000) (note 15), respectively.

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

The patents for heavy oil extraction technology represented an other intangible asset not yet put into use, hence regular impairment test thereon is performed pursuant to which a formal estimate of recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value in use, and any carrying value of such intangible asset which cannot be recoverable shall be impaired.

Estimating the fair value less cost of disposal or 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 Group assesses whether there are any indicators of impairment for its remaining other intangible assets, which are mainly exploration and evaluation phase intangible assets of the Group's oil and gas business at the end of each reporting period. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, and any carrying value of such other intangible assets which may not be recoverable shall be impaired. The net carrying amount of the other intangible assets in the consolidated statement of financial position of the Group at 31 December 2015 was HK$10,842,000 (2014: HK$72,932,000) (note 17).

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and 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 2015 was HK$3,520,000 (2014: HK$11,234,000) (note 20).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Impairment of trade and bills receivables, 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, prepayments, deposits and other receivables in the consolidated statement of financial position of the Group at 31 December 2015 were HK$3,739,000 and HK$103,872,000, respectively (2014: HK$15,443,000 and HK$175,615,000, respectively) (notes 21 and 22).

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 statements of financial position of the Group by adjusting the rehabilitation liability. At 31 December 2015, the directors of the Company estimated that no provision for rehabilitation was required (2014: Nil).

Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available. The net carrying amount of the exploration and evaluation assets in the consolidated statement of financial position of the Group at 31 December 2015 was HK$8,815,000 (2014: HK$16,021,000) (note 17(b)).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Current tax

The Group is subject to income taxes in Hong Kong, the United States of America (the "USA"), Singapore and Mainland China. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgment 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 2015 was HK$10,009,000 (2014: HK$224,703,000).

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their operations and products and has four reportable operating segments as follows:

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), 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, gain on disposal of subsidiaries and corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude available-for-sale equity investments, pledged deposits, cash and cash equivalents, an investment in a joint venture and corporate and other unallocated assets as these assets are managed on a group basis.

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

5. OPERATING SEGMENT INFORMATION (Continued)

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

The following tables present the revenue, profit/(loss), total assets, total liabilities and other information regarding the Group's operating segments for the years ended 31 December 2015 and 2014.

	Coal		Silver		Oil and gas		Others		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Segment revenue – Sales to external customers	7,269	27,979	21,195	1,830	16,079	9,207	817	822	45,360	39,838
Segment results	(96,933)	(1,614,908)	(341,885)	(118,886)	(123,710)	(42,280)	(4,714)	(723)	(567,242)	(1,776,797)
Reconciliation:										
Share of profit of a joint venture									(1,193)	(2,563)
Gain on disposal of subsidiaries									2,445,779	–
Corporate and other unallocated expenses									(47,831)	(67,010)
Profit/(loss) before tax									1,829,513	(1,846,370)
Segment assets	–	1,173,768	358,834	748,330	52,788	147,495	59,719	17,465	471,341	2,087,058
Reconciliation:										
Investment in a joint venture									–	10,357
Available-for-sale equity investments									19,899	23,775
Pledged deposits									374	3,951
Cash and cash equivalents									203,322	156,072
Corporate and other unallocated assets									41,901	34,112
Total assets									736,837	2,315,325
Segment liabilities	–	(3,159,513)	(71,597)	(251,031)	(13,220)	(30,473)	(823)	(104)	(85,640)	(3,441,121)
Reconciliation:										
Corporate and other unallocated liabilities									(63,289)	(227,922)
Total liabilities									(148,929)	(3,669,043)

5. OPERATING SEGMENT INFORMATION (Continued)

	Coal		Silver		Oil and gas		Others		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	HK'000	HK'000	**HK'000**	HK'000	**HK'000**	HK'000	**HK'000**	HK'000	**HK'000**	HK'000
Other segment information:										
Depreciation	**19,044**	85,310	**5,636**	4,593	**10,190**	7,140	**749**	891	**35,619**	97,934
Amortisation of prepaid land premiums	**137**	574	**68**	70	**–**	–	**–**	–	**205**	664
Amortisation of mining rights	**1,706**	6,106	**14,595**	45	**–**	–	**–**	–	**16,301**	6,151
Amortisation of intangible assets	**–**	–	**–**	–	**4,647**	4,180	**13**	3	**4,660**	4,183
Write-down of obsolete inventories to net realisable value	**–**	3,410	**–**	–	**–**	–	**–**	–	**–**	3,410
Impairment of property, plant and equipment	**–**	415,950	**50,851**	1,631	**47,886**	–	**–**	–	**98,737**	417,581
Impairment of trade receivables	**–**	7,009	**–**	–	**–**	–	**–**	–	**–**	7,009
Impairment of mining and exploration rights	**–**	825,966	**293,795**	47,019	**–**	–	**–**	–	**293,795**	872,985
Impairment of goodwill	**–**	–	**–**	14,155	**–**	–	**–**	–	**–**	14,155
Impairment of prepayment, deposits and other receivables	**–**	9,052	**–**	–	**–**	–	**–**	–	**–**	9,052
Impairment of intangible assets	**–**	–	**–**	–	**60,025**	–	**–**	–	**60,025**	–
Impairment of available-for-sale equity investment	**–**	–	**–**	–	**–**	–	**4,523**	–	**4,523**	–
Other non-cash expenses	**–**	–	**–**	–	**–**	–	**1,732**	3,253	**1,732**	3,253
Capital expenditure	**24,989**	44,361	**8,062**	10,723	**22,989**	42,664	**895**	2,048	**56,935**	99,796

5. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2015 HK$'000	2014 HK$'000
In the PRC	**29,281**	30,631
In the USA	**16,079**	9,207
	45,360	39,838

(b) Non-current assets

As at 31 December 2015, approximately 89% (31 December 2014: over 90%) of the non-current assets of the Group was located in the PRC.

	2015 HK$'000	2014 HK$'000
In the PRC	**378,906**	1,871,070
In the USA	**48,285**	145,476
Others	**19**	29
	427,210	2,016,575

Information about major customers

During the year, there were two external customers (2014: one external customer) from which the revenues have individually amounted to over 10% of the Group's total revenue arising from the Group's principal activities. The revenue generated from sales to each of these customers are set out below:

	2015 HK$'000	2014 HK$'000
Customer A	**21,195**	*
Customer B	**13,363**	7,891
	34,558	7,891

* Less than 10% of the Group's total revenue arising from the Group's principal activities

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, mainly represents the invoiced value of coal, silver ore (include by-products) and oil and gas sold to customers, net of sales tax, value added tax, severance taxes, and allowances for returns and trade discounts.

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

	Notes	2015 HK$'000	2014 HK$'000
Other income			
Bank interest income		80	1,262
Other interest income		57	695
Dividend income from available-for-sale equity investments		2,375	–
Trading income, net		13,927	–
Others		4,785	1,914
		21,224	3,871
Gains			
Gain on disposal of subsidiaries	32	2,445,779	–
Gain on disposal of available-for-sale equity investments	8, 19	13,553	–
Gain on disposal of items of property, plant and equipment		–	1,989
Others		–	11
		2,459,332	2,000
Other income and gains		2,480,556	5,871

7. FINANCE COSTS

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

	Notes	2015 HK$'000	2014 HK$'000
Interest on bank and other loans wholly repayable within five years		59,536	108,846
Losses on early redemptions of convertible notes	27(a)	–	3,027
Imputed interest on convertible notes	27	–	225
		59,536	112,098

8. PROFIT/(LOSS) BEFORE TAX

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

	Notes	**2015 HK$'000**	2014 HK$'000
Depreciation	13	**(35,619)**	(97,934)
Amortisation of prepaid land premiums	14	**(205)**	(644)
Amortisation of intangible assets	17	**(4,660)**	(4,183)
Amortisation of mining rights	15	**(16,301)**	(6,151)
Employee benefit expense (including directors' remuneration):			
Wages, salaries and other benefits		**(40,381)**	(47,507)
Pension scheme contributions (defined contribution scheme)		**(3,881)**	(4,915)
		(44,262)	(52,422)
Auditors' remuneration		**(2,800)**	(3,300)
Write-down of obsolete inventories to net realisable value		**–**	(3,410)
Impairment of items of property, plant and equipment#	13	**(98,737)**	(417,581)
Impairment of mining and exploration rights#	15	**(293,795)**	(872,985)
Impairment of goodwill#	16	**–**	(14,155)
Impairment of trade receivables#	21(b)	**–**	(7,009)
Impairment of prepayments, deposits and other receivables#	22(b)	**–**	(9,052)
Impairment of intangible assets#	17	**(60,025)**	–
Impairment of available-for-sale equity investments#	19(a),(b)	**(4,523)**	–
Gain on disposal of subsidiaries*	32	**2,445,779**	–
Gain on disposal of available-for-sale equity investments*	6, 19	**13,553**	–
Operating lease rentals in respect of buildings		**(4,424)**	(6,188)

These items are included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income during the year.

* These items are included in "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income during the year.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance, and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Group	
	2015	2014
	HK$'000	HK$'000
Fees	**720**	848
Other emoluments:		
Salaries, allowances and benefits in kind	**6,930**	9,639
Pension scheme contributions	**–**	6
	6,930	9,645
	7,650	10,493

9. DIRECTORS' REMUNERATION (Continued)

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2015				
Executive directors:				
Xu Zhendong (resigned on 5 May 2015)	–	787	–	787
Zong Hao (chief executive)	–	2,462	–	2,462
Zhang Wanzhong	–	300	–	300
Xu Zhuliang	–	1,800	–	1,800
Benjamin Clark Danielson	–	1,500	–	1,500
Zhang Yongli (re-designated from non-executive director on 6 June 2014 and deceased on 24 January 2015)	–	81	–	81
	–	6,930	–	6,930
Independent non-executive directors:				
Chiu Sui Keung	180	–	–	180
Liu Shengming	180	–	–	180
Lee Ping	180	–	–	180
Lu Binghui	180	–	–	180
Li Peiming (resigned on 22 April 2014)	–	–	–	–
	720	–	–	720
Total	720	6,930	–	7,650

9. DIRECTORS' REMUNERATION (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 2014				
Executive directors:				
Xu Zhendong (resigned on 5 May 2015)	–	1,854	–	1,854
Zong Hao (chief executive)	–	2,643	–	2,643
Zhang Wanzhong	–	300	–	300
Xu Zhuliang	–	1,800	–	1,800
Benjamin Clark Danielson	–	1,695	–	1,695
Zhang Yongli (re-designated from non-executive director on 6 June 2014 and deceased on 24 January 2015)	–	832	–	832
Tian Wenwei (retired on 6 June 2014)	–	515	6	521
	–	9,639	6	9,645
Independent non-executive directors:				
Chiu Sui Keung	180	–	–	180
Liu Shengming	252	–	–	252
Lee Ping	180	–	–	180
Lu Binghui	180	–	–	180
Li Peiming (resigned on 22 April 2014)	56	–	–	56
	848	–	–	848
Total	848	9,639	6	10,493

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2014: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2014: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2014: one) non-director, highest paid employees for the year are as follows:

	2015 HK$'000	2014 HK$'000
Salaries, allowances and benefits in kind	**2,625**	1,076
Pension scheme contributions	**18**	17
	2,643	1,093

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

	Number of employees 2015	 2014
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	2	1

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 (2014: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Note	2015 HK$'000	2014 HK$'000
Current – Mainland China		**8,011**	–
– Overseas		**2,062**	–
		10,073	–
Deferred – Mainland China	28	**(89,789)**	(43,111)
		(79,716)	(43,111)

11. INCOME TAX (Continued)

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:

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Year ended 31 December 2015								
Profit/(loss) before tax	194,845		1,749,115		(114,447)		1,829,513	
Tax at the statutory tax rates	32,150	(16.5)	437,279	(25.0)	(30,959)	(27.1)	438,470	(24.0)
Loss attributable to a joint venture	–	–	298	–	–	–	298	–
Income not subject to tax	(36,338)	18.6	(537,641)	30.7	–	–	(573,979)	31.4
Expenses not deductible for tax	405	(0.2)	1,831	(0.1)	1,595	1.4	3,831	(0.2)
Tax losses not recognised	3,783	(1.9)	32,280	(1.8)	31,426	27.5	67,489	(3.7)
Tax loss utilised	–	–	(15,825)	0.9	–	–	(15,825)	0.9
Tax credit at the Group's effective rate	–	–	(81,778)	4.7	2,062	1.8	(79,716)	4.4
Year ended 31 December 2014								
Loss before tax	(70,544)		(1,732,363)		(43,463)		(1,846,370)	
Tax at the statutory tax rates	(11,640)	(16.5)	(433,091)	(25.0)	(14,343)	(33.0)	(459,074)	(24.8)
Loss attributable to a joint venture	–	–	641	–	–	–	641	–
Expenses not deductible for tax	11,640	16.5	15,603	0.9	14,343	33.0	41,586	2.3
Tax losses not recognised	–	–	373,736	21.6	–	–	373,736	20.2
Tax credit at the Group's effective rate	–	–	(43,111)	(2.5)	–	–	(43,111)	(2.3)

The share of tax attributable to the joint venture included in "Share of loss of a joint venture" in the consolidated statement of profit or loss and other comprehensive income is nil (2014: HK$388,000) (note 18).

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

The calculation of the basic earnings/(loss) per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$2,020,128,000 (2014: Loss of HK$1,723,508,000) and the weighted average number of ordinary shares of 3,578,143,239 (2014: 3,022,904,883) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2015 and 2014 respectively for dilutions as the warrants of the Company outstanding during such years have an anti-dilutive effect on the basic earnings/(loss) per share amounts for these years.

13. PROPERTY, PLANT AND EQUIPMENT

	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 2015								
At 1 January 2015:								
Cost		61,489	1,036	2,562,367	22,817	9,791	485,691	3,143,191
Accumulated depreciation and impairment		(46,952)	(725)	(2,013,714)	(18,725)	(6,628)	(144,682)	(2,231,426)
Net carrying amount		14,537	311	548,653	4,092	3,163	341,009	911,765
At 1 January 2015, net of accumulated depreciation and impairment		14,537	311	548,653	4,092	3,163	341,009	911,765
Additions		615	–	84,136	528	736	7,234	93,249
Disposal of subsidiaries	32	(12,228)	–	(495,559)	(3,389)	(1,046)	(267,691)	(779,913)
Impairment	5, 8	–	–	(80,659)	–	–	(18,078)	(98,737)
Depreciation provided during the year	8	(1,008)	(311)	(33,034)	(549)	(717)	–	(35,619)
Transfers		–	–	45,223	–	–	(45,223)	–
Exchange realignment		(86)	–	(2,175)	(11)	(26)	(1,913)	(4,211)
At 31 December 2015, net of accumulated depreciation and impairment		1,830	–	66,585	671	2,110	15,338	86,534
At 31 December 2015:								
Cost		3,239	1,036	173,723	1,840	4,030	34,975	218,843
Accumulated depreciation and impairment		(1,409)	(1,036)	(107,138)	(1,169)	(1,920)	(19,637)	(132,309)
Net carrying amount		1,830	–	66,585	671	2,110	15,338	86,534

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 2014								
At 1 January 2014:								
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
At 1 January 2014, net of accumulated depreciation and impairment		25,677	725	869,495	6,400	4,491	455,200	1,361,988
Additions		–	–	56,310	1,490	1,746	40,250	99,796
Disposals		–	–	–	–	(1,205)	–	(1,205)
Impairment	5, 8	(9,055)	–	(278,296)	(2,283)	(570)	(127,377)	(417,581)
Depreciation provided during the year	8	(1,461)	(414)	(93,484)	(1,358)	(1,217)	–	(97,934)
Transfers		–	–	15,649	–	–	(15,649)	–
Exchange realignment		(624)	–	(21,021)	(157)	(82)	(11,415)	(33,299)
At 31 December 2014, net of accumulated depreciation and impairment		14,537	311	548,653	4,092	3,163	341,009	911,765
At 31 December 2014:								
Cost		61,489	1,036	2,562,367	22,817	9,791	485,691	3,143,191
Accumulated depreciation and impairment		(46,952)	(725)	(2,013,714)	(18,725)	(6,628)	(144,682)	(2,231,426)
Net carrying amount		14,537	311	548,653	4,092	3,163	341,009	911,765

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Silver Mining Assets

The directors of the Company had estimated the recoverable amounts (considered to be the same as the fair value less cost of disposal ("FVLCD")) of the non-current mining assets (the "Mining Assets") of the silver mining business (the "Silver Mining Assets") of the Group for the purpose of impairment testing.

In this connection, the Company had engaged APAC Assets Valuation and Consulting Limited, an independent professional valuer, to assess the FVLCD of the cash-generating units ("CGUs") of Silver Mining Assets and the management had derived the FVLCD of such assets from the FVLCD of the relevant CGUs. In assessing the FVLCD of each of the CGUs, the future post tax cash flows of the silver mining business which cover the periods to utilise the remaining reserves of the mine, are discounted to the related present values using a post-tax discount rate that reflects current assessments of the time value of money and the risks specific to such business. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of silver, production cost and other expenses, capital expenditure, production plan and discount rate, respectively, which reflected the current conditions of the market and estimated trend in the future.

When evaluating the appropriate discount rate for each of 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 beta of the CGUs and firm specific risk factors. The discount rate of 13% (2014: 13%) used in assessing the FVLCD of all the CGUs of the Silver Mining Assets was arrived by weighted average of cost of equity and cost of debt after tax of the respective CGUs. The pre-tax discount rates for the assessment of FVLCD of above CGUs are 21% and 17%, respectively. The fair value measurement used significant unobservable inputs (level 3 of fair value hierarchy).

The key assumptions which were used in assessing the FVLCD of the CGUs of the Silver Mining Assets included but not limited to the following parameters:

(i) In respect of the revenue from the silver mining operating segment, the budgeted revenue is based on (a) the total reserve ore grade and volume of ore metal as assessed and estimated by management with reference to an independent technical report prepared based on the JORC Code standard; (b) the total projected annual productions as assessed and estimated by the management; and (c) the projected market prices of silver. The silver selling price of RMB3.18 per gram at 31 December 2015 was used as projection basis for future years, and the growth rates applied to the silver selling price in the cash flow projections for 2016, 2017, 2018 and 2019 are 8.7%, 8.1%, 4.6% and 3.8%, respectively.

(ii) The budgeted operating cost for the first forecast year of production is based on information included in the technical report prepared under the JORC Code standard, and the expected PRC inflation rate of 3% per annum in subsequent years.

(iii) Forecast gross margin, which represented sales net of tax and levies minus production cost and before depreciation and amortisation, in the first subsequent year after 31 December 2015 was RMB2.0/g (31 December 2014: RMB2.5/g). The decrease is mainly because of the decrease in forecast silver prices and the estimated lower ore grade content with reference to 2015 annual production record.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Silver Mining Assets (Continued)

(iv) Production for the east silver mine is forecasted to commence in 2019 (31 December 2014: 2018).

(v) The cash flow projections are based on the financial budgets covering a 4 year period up to 31 December 2019. The growth rate applied to the silver selling price in the cash flow projections after 2019 is based on the expected PRC inflation rate of 3% per annum (2014: 3% after 2018).

Based on the FVLCD assessment of the CGUs of the Silver Mining Assets which is determined to be HK$350,801,000, the directors of the Company are of the opinion that an impairment loss of the Silver Mining Assets totalling HK$344,646,000 (2014: HK$62,805,000, included HK$14,155,000 first allocated to goodwill) was resulted during the year, in which HK$50,851,000 (2014: HK$1,631,000) was allocated to property, plant and equipment and HK$293,795,000 (2014: HK$47,019,000) was allocated to mining and exploration rights of the Group's silver mining business, based on their relative carrying amounts amongst the Silver Mining Assets. The above impairment provisions aggregating to HK$344,646,000 (2014: HK$62,805,000) were recognised as "Other expenses" in the consolidated statement of profit or loss and other comprehensive income during the year.

(b) Oil and Gas Extracting Assets

In view of indications of impairment arising from significant decline of oil and gas price during the year, the directors of the Company had estimated the recoverable amounts (considered to be the same as the value in use ("VIU") of the non-current extracting assets of the Group's oil and gas developed wells (the "Oil&Gas Extracting Assets") for impairment testing purposes.

In this connection, the Company had assessed the VIU of the CGUs and derived the VIU of the Oil&Gas Extracting Assets from the VIU of the relevant CGUs of Oil & Gas Extracting Assets. In assessing the VIU of each of the CGUs, the future cash flows of the relevant oil and gas businesses which cover the periods to utilise the remaining reserves of the developed wells of oil and gas fields are discounted to the related present values using a post-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of oil and gas, production cost and other expenses, capital expenditure, production plan and discount rate, respectively, which reflected the current conditions of the market and estimated trend in the future.

When evaluating the appropriate discount rate for each of the CGUs, 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 beta of the CGUs and firm specific risk factors. The discount rate of 10% used in assessing the VIU of the CGUs of the Oil&Gas Extracting Asset was arrived by weighted average of cost of equity and cost of debt after tax of the respective CGUs. The pre-tax discount rate is 13%.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Oil and Gas Extracting Assets (Continued)

The key assumptions which were used in assessing the VIU of the CGUs of the Oil&Gas Extracting Assets included but not limited to the following parameters:

(i) In respect of the revenue from the Oil&Gas Extracting Assets, the budgeted revenue is based on (a) the total projected annual productions as assessed and estimated by the management; and (b) the projected market prices of oil, gas and natural gas liquid for 2016 to 2019 with reference to certain published forecast prices considered appropriate by the management. Forecast selling prices of oil, gas and natural gas liquid for the first year subsequent to 2015 are US$39.05/BBL, US$2.44/MCF and US$11.08/BBL, respectively.

(ii) The budgeted operating expense for the first forecast year of production is projected based on the historical expenses and output volume as assessed by the management, and the expected United States inflation rate of 2% per annum in subsequent years.

(iii) Forecast gross margins of oil, gas and natural gas liquid, which represented sales net of tax minus production cost and before depreciation and amortisation, in the first subsequent year after 31 December 2015 were US$23.64/BBL to US$24.15/BBL, US$1.24/MCF to US$1.27MCF and US$6.71/BBL to US$6.86/BBL, respectively.

(iv) The growth rate applied to the oil and gas selling prices in the cash flow projections after 2019 is based on the expected United States inflation rate of 2% per annum.

Based on the VIU assessment of the CGUs of the Oil&Gas Extracting Assets which was determined to be HK$38,131,000, the directors of the Company are of the opinion that an impairment loss of the Oil&Gas Extracting Assets totalling HK$50,406,000 was resulted during the year, in which HK$47,886,000 was allocated to property, plant and equipment, and HK$2,520,000 was allocated to other intangible assets. The above impairment provisions aggregating to HK$50,406,000 were recognised as "Other expenses" in the consolidated statement of profit or loss and other comprehensive income during the year.

(c) Coal Mining Assets

In preparation of the Company's comparative consolidated financial statements for the year ended 31 December 2014, in view of indications of impairment including: (1) decline of coal prices and sales volumes during the year; and (2) a coal mine exchange with the local government not having been formally approved by the local government, the directors of the Company had estimated the recoverable amounts (considered to be the same as FVLCD) of the non-current mining assets of the coal mining business of the Group (the "Coal Mining Assets") for purposes of impairment testing.

In such connection, the Company had then engaged APAC Assets Valuation and Consulting Limited, an independent professional valuer, to assess the FVLCD of the CGUs and the management had derived the FVLCD of the Coal Mining Assets from the FVLCD of the relevant CGUs. In assessing the FVLCD of each of the CGUs, the Coal future cash flows of each of the coal mining businesses which cover the periods to utilise the remaining reserves of the mines are discounted to the related present values using a post-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of coal, production cost and other expenses, capital expenditure, production plan and discount rate, respectively, which reflected the current conditions of the market and the Group and estimated trend in the future.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Coal Mining Assets (Continued)

When evaluating the appropriate discount rate for each of the CGUs, 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 beta of the CGUs and firm specific risk factors. The discount rate of 10.5% used in assessing the FVLCD of the CGUs of the Coal Mining Assets was arrived by weighted average of cost of equity and cost of debt after tax of the respective CGUs. The pre-tax discount rates for the assessment of FVLCD of above CGUs are 13.5% and 13.8% respectively. The fair value measurement used significant unobservable inputs (level 3 of fair value hierarchy).

The key assumptions which were used in assessing the FVLCD of the CGUs of the Coal Mining Assets at 31 December 2014 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 2014 was decreased to between RMB19/ton to RMB48/ton, because coal prices further decreased since 31 December 2013 and the subcontractor fee for the subcontracting of a coal mine to a third party was lower than the gross margin earned by the output of such coal mine during the year ended 31 December 2014.

(ii) Forecast sales volume in the first subsequent year after 31 December 2014 was 1.5 million tons ("Mt"). The decrease in forecast sales volume assumption was made with reference to decrease in sales volume during the year ended 31 December 2014 and continued downturn of the coal market.

(iii) At 31 December 2013, production of the Group's new No. 2 coal mine is forecasted to commence in the second quarter of 2016. Due to significant delay and uncertainty on the timing of the completion of the relevant coal mine exchange, the relevant mining rights of the No. 2 coal mine were fully impaired at 31 December 2014.

(iv) At 31 December 2014, forecast total capital expenditure including relocation compensation was approximately RMB61 million. The significant decrease of capital expenditure was mainly due to separate valuation of No. 2 coal mine not being required as a result of the full impairment of No.2 coal mine, such that significant forecast capital expenditure to develop it into commercial run is not required.

Based on the FVLCD assessment of the CGUs of the Coal Mining Assets to be HK$723,308,000 as at 31 December 2014, the directors of the Company were of the opinion that an additional impairment loss of the Coal Mining Assets totalling HK$1,241,916,000 was resulted for the year 2014 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$415,950,000 and impairment provision of mining right of HK$825,966,000 were recognised as "Other expenses" in the consolidated statement of profit or loss and other comprehensive income during 2014.

As disclosed in note 32 to the financial statements, the coal mining business of the Group was fully disposed of during the year ended 31 December 2015, hence the Coal Mining Assets were fully derecognised since the date of such disposal in June 2015.

14. PREPAID LAND PREMIUMS

	Notes	2015 HK$'000	2014 HK$'000
Carrying amount at 1 January		**14,882**	15,848
Amortisation provided during the year	8	**(205)**	(644)
Disposal of subsidiaries	32	**(13,757)**	–
Exchange realignment		**95**	(322)
Carrying amount at 31 December		**1,015**	14,882

15. MINING AND EXPLORATION RIGHTS

	Notes	Coal		Silver		Total	
		2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
At 1 January:							
Cost		**3,309,524**	3,393,251	**684,417**	698,657	**3,993,941**	4,091,908
Accumulated amortisation and impairment		**(3,027,430)**	(2,250,945)	**(47,212)**	(41)	**(3,074,642)**	(2,250,986)
Net carrying amount		**282,094**	1,142,306	**637,205**	698,616	**919,299**	1,840,922
Cost at 1 January, net of accumulated amortisation and impairment		**282,094**	1,142,306	**637,205**	698,616	**919,299**	1,840,922
Additions		**–**	–	**3,041**	3,074	**3,041**	3,074
Amortisation provided during the year	8	**(1,706)**	(6,106)	**(14,595)**	(45)	**(16,301)**	(6,151)
Impairment provided during the year	8	**–**	(825,966)	**(293,795)**	(47,019)	**(293,795)**	(872,985)
Disposal of subsidiaries	32	**(280,383)**	–	**–**	–	**(280,383)**	–
Exchange realignment		**(5)**	(28,140)	**(28,137)**	(17,421)	**(28,142)**	(45,561)
At 31 December		**–**	282,094	**303,719**	637,205	**303,719**	919,299
At 31 December:							
Cost		**–**	3,309,524	**656,728**	684,417	**656,728**	3,993,941
Accumulated amortisation and impairment		**–**	(3,027,430)	**(353,009)**	(47,212)	**(353,009)**	(3,074,642)
Net carrying amount		**–**	282,094	**303,719**	637,205	**303,719**	919,299

15. MINING AND EXPLORATION RIGHTS (Continued)

Note:

The movements in the provision for impairment of the Group's mining and exploration rights are as follows:

	2015 HK$'000	2014 HK$'000
At 1 January	**2,611,732**	1,782,734
Impairment losses recognised (note 8)	**293,795**	872,985
Disposal of subsidiaries	**(2,564,713)**	–
Exchange realignment	**(2,104)**	(43,987)
At 31 December	**338,710**	2,611,732

16. GOODWILL

	Note	**2015 HK$'000**	2014 HK$'000
Cost and net carrying amount:			
At 1 January		**–**	15,852
Provision of impairment	8	**–**	(14,155)
Exchange realignment		**–**	(1,697)
At 31 December		**–**	–

17. OTHER INTANGIBLE ASSETS

	Notes	2015 HK$'000	2014 HK$'000
At 1 January:			
Cost	(a), (b)	**77,115**	61,094
Accumulated amortisation		**(4,183)**	–
Net carrying amount		**72,932**	61,094
Additions		**2,605**	16,021
Amortisation during the year	8	**(4,660)**	(4,183)
Impairment charged for the year	8, (c)	**(60,025)**	–
Exchange realignment		**(10)**	–
Net currying amount		**10,842**	72,932
At 31 December:			
Cost		**79,710**	77,115
Accumulated amortisation and impairment		**(68,868)**	(4,183)
Net carrying amount		**10,842**	72,932

Notes:

(a) During the year ended 31 December 2013, pursuant to the relevant asset purchase agreement, the Company acquired all the rights, titles and interests from the vendor (the "Patents Vendor") of certain oil and gas patents (the "Patents") at a consideration of US$7,875,000 (equivalent to approximately 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.

(b) The balance at 1 January 2015 and the addition of intangible assets during the year ended 31 December 2015 included capitalised lease payments to various landlords and brokers of the oil fields respectively of HK$16,021,000 and HK$2,605,000 (Addition in 2014: HK$16,021,000) for the Group's oil and gas business. During the years ended 31 December 2014 and 2015, the Group commenced the "exploration and evaluation phase", and the balances of lease payments at 31 December 2015 and 2014 of HK$8,815,000 and HK$16,021,000 respectively are considered as "acquisition costs" which are qualified to be capitalised as exploration and evaluation assets (intangible assets) under HKFRS 6.

17. OTHER INTANGIBLE ASSETS (Continued)

Notes: (Continued)

(c) Impairment for the year comprised:

	Notes	**2015 HK$'000**	2014 HK$'000
Impairment of the Patents	(i)	**52,734**	–
Impairment of capitalised lease payment of undeveloped wells	(ii)	**4,771**	–
Impairment of capitalised lease payment of developed wells	13(b)	**2,520**	–
		60,025	–

(i) In view of the further delay of commercialisation of the Patents and the significant decrease in oil and gas prices during the year, the directors of the Company consider that there is uncertainty in the successful commercialisation and the recovery of the net carrying amount of the Patents. Therefore, the directors of the Company consider it prudent to make a full impairment of HK$52,734,000 (2014: nil) against the net carrying amount of the Patents as at 31 December 2015.

(ii) In view of significant decrease in oil and gas prices during the year and the expectation of oil and gas price levels in 2016, the directors of the Company consider that the cost of development of those undeveloped oil and gas wells with lease period ending on or before 31 December 2016 will outweigh the benefits and returns of such oil and gas wells. Hence the directors of the Company have made an impairment of HK$4,771,000 to fully write down the relevant capitalised lease payments which will expire in 2016.

18. INVESTMENT IN A JOINT VENTURE

	2015	2014
Share of net assets	**–**	10,357

Particulars of the joint venture as at 31 December 2014 were 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

Following the disposal of the Disposal Group during the year ended 31 December 2015, the joint venture owned by the Disposal Group was also disposed of by the Group.

19. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Notes	2015 HK$'000	2014 HK$'000
Equity investments listed in Hong Kong, at fair value		**19,981**	19,278
Impairment	(a)	**(82)**	–
		19,899	19,278
Unlisted equity investments, at fair value		**4,296**	4,497
Exchange realignment		**145**	–
Impairment	(b)	**(4,441)**	–
		–	4,497
		19,899	23,775

During the year, the gross gain in respect of the Group's available-for-sale equity investments recognised in other comprehensive income amounted to HK$17,172,000 (2014: HK$7,850,000), of which HK$13,553,000 (2014: Nil) was reclassified from other comprehensive income to the statement of profit or loss for the year.

Notes:

(a) The movement in the provision for impairment of equity investments listed in HK is as follows:

	2015 HK$'000	2014 HK$'000
At 1 January	**–**	–
Impairment losses recognised (note 8)	**82**	–
At 31 December	**82**	–

At 31 December 2015, the Company remeasured the fair value of the listed equity investments and recognised an impairment loss amounting to HK$82,000 (2014: Nil) (note 8).

19. AVAILABLE-FOR-SALE EQUITY INVESTMENTS (Continued)

Notes: (Continued)

(b) The movement in the provision for impairment of unlisted equity investments is as follows:

	2015 HK$'000	2014 HK$'000
At 1 January	–	–
Impairment losses recognised (note 8)	4,441	–
Exchange realignment	(145)	–
At 31 December	4,296	–

During the year, the impairment loss of the unlisted equity investments recognised in profit or loss amounted to HK$4,441,000 (2014: Nil) (note 8). The full provision for impairment of the unlisted equity investments was made because of the investee's financial difficulties and the investment cost may not be recovered.

20. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	499	7,342
Finished goods	3,021	3,646
Sub-materials and parts	–	246
31 December 2015	3,520	11,234

21. TRADE AND BILLS RECEIVABLES

	Notes	2015 HK$'000	2014 HK$'000
Trade and bills receivables	(a)	**3,739**	43,197
Impairment of trade receivables	(b)	**–**	(27,754)
	(c)	**3,739**	15,443

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:

	2015 HK$'000	2014 HK$'000
At 1 January	**27,754**	21,270
Impairment losses recognised (note 8)	**-**	7,009
Disposal of subsidiaries	**(27,463)**	-
Exchange realignment	**(291)**	(525)
At 31 December	**-**	27,754

At 31 December 2015, the provision for impairment of trade receivables was nil (2014: HK$27,754,000).

(c) An aging 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:

	2015 HK$'000	2014 HK$'000
Less than six months	**3,739**	5,657
Six months to one year	**–**	2,140
Over one year	**–**	35,400
	3,739	43,197
Provision for impairment (note (b))	**–**	(27,754)
	3,739	15,443

21. TRADE AND BILLS RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

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

	2015 HK$'000	2014 HK$'000
Neither past due nor impaired	**1,414**	1,204
Past due for less than six months	**2,325**	4,335
Past due for over six months	**–**	1,874
	3,739	7,413

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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2015 HK$'000	2014 HK$'000
Prepayments, deposits and other receivables	(a)	**133,873**	322,502
Impairment	(b)	**(30,000)**	(146,887)
		103,873	175,615
Portion classified as current assets		**(98,672)**	(112,050)
Non-current portion		**5,201**	63,565

Notes:

(a) The balance at 31 December 2014 included a receivable of HK$35,000,000 which was unsecured, interest free and overdue. In March 2015, the debtor confirmed to settle the balance within 2015. In March 2016, such receivable was fully settled.

The balance at 31 December 2015 included a loan receivable of HK$50,234,000 (31 December 2014: nil) which was unsecured, bore interest at the rate of 5% per annum and is repayable in June 2016.

The balance at 31 December 2015 included a loan receivable of HK$30,000,000 (31 December 2014: HK$30,000,000) which was overdue since 2012, and full impairment against such receivable was made since 31 December 2013 and carried forward to 31 December 2015.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

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

	2015 HK$'000	2014 HK$'000
At 1 January	**146,887**	138,958
Impairment loss recognised (note 8)	**–**	9,052
Disposal of subsidiaries	**(116,912)**	–
Exchange realignment	**25**	(1,123)
At 31 December	**30,000**	146,887

During the year, the impairment loss recognised in profit or loss was nil (2014: HK$9,052,000) (note 8).

23. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2015 HK$'000	2014 HK$'000
Cash and bank balances other than time deposits	**203,696**	160,023
Less: Time deposits pledged for general bank facilities	**(374)**	(3,951)
Cash and cash equivalents	**203,322**	156,072

Notes:

(a) At 31 December 2015, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$138,566,000 (2014: HK$12,468,000). 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.

24. 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 aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2015 HK$'000	2014 HK$'000
Less than six months	**4,581**	5,443
Six months to one year	**625**	901
Over one year	**281**	6,911
	5,487	13,255

25. OTHER PAYABLES AND ACCRUALS

	Notes	2015 HK$'000	2014 HK$'000
Accruals		**2,253**	395,880
Receipts in advance		**–**	43,644
Interest payable		**5,021**	138,853
Value-added tax and other tax payables		**766**	360,933
Loans payable to third parties	(a)	**47,728**	587,399
Deferred consideration of an intangible asset	(b)	**8,218**	24,037
Other payables		**19,106**	119,674
		83,092	1,670,420
Portion classified as current liabilities		**(82,620)**	(1,651,461)
Non-current portion		**472**	18,959

25. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(a) As at 31 December 2015, included in loans payable were (i) a loan of HK$6,563,000 (31 December 2014: HK$6,870,000), which was unsecured, bore interests at a rate of 15% per annum and was repayable on 1 January 2016 (31 December 2014: overdue), (ii) a loan of HK$5,966,000 (31 December 2014: HK$6,246,000) which was unsecured and bore interests at a rate of 15% per annum, had been overdue, and (iii) loans aggregating to HK$35,199,000 (31 December 2014: HK$33,101,000), which were unsecured, interest free and repayable in January 2016.

The Group is in process of negotiation with the relevant creditors for the deferral of repayment of those overdue loan payables as at the date of approval of these financial statements, which aggregated to HK$47,728,000, and the Directors expect that the relevant creditors will not demand for immediate repayment in the foreseeable future.

At 31 December 2014, loans payable also included a loan of HK$74,946,000 (attributable to the Disposal Group), which was secured by certain equity interests in the Group's then subsidiaries engaged in coal mining business, bore interest at a rate of 8% per annum, and another loan of HK$200 million which bore interest at a rate of 8% per annum. Such loans aggregated to HK$274,946,000 was overdue as at 31 December 2014. Following the disposal of the Disposal Group in June 2015, the Disposal Group's loan payable of HK$74,946,000 were derecognised from the Group's consolidated financial statements in 2015, and the loan payable of HK$200 million was assumed by the purchaser of the Disposal Group and hence derecognized from the Group's consolidated financial statements in 2015.

Except for those loans payable mentioned above, the loans payable as at 31 December 2014 were unsecured, interest free and had no fixed terms of repayment.

(b) The balance represented the unpaid amount arising from the acquisition of an intangible asset from the Patent Vendor in 2013.

26. INTEREST-BEARING BORROWINGS, SECURED

		2015			2014		
	Note	**Effective interest rate(%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current							
Bank loans				**–**	6.4–8.8	overdue/2015	1,324,922
Current portion of other loans				**–**	6.4–42	overdue/2015	256,196
				–			1,581,118
Non-current							
Other loans				**–**	6.2–8.2	2016	32,976
				–			32,976
				–			1,614,094
Repayable:							
Bank loans:							
On demand				**–**			668,545
Within one year				**–**			656,377
In the second year				**–**			–
				–			1,324,922

26. INTEREST-BEARING BORROWINGS, SECURED (Continued)

	Note	2015 Effective interest rate(%)	2015 Maturity	2015 HK$'000	2014 Effective interest rate (%)	2014 Maturity	2014 HK$'000
Other loans:							
On demand				–			169,713
Within one year				–			86,483
In the second year				–			32,976
In the third to fifth years, inclusive				–			–
				–			289,172
				–			1,614,094

The interest-bearing borrowing as at 31 December 2015 was nil (2014: HK$1,614,094,000).

27. CONVERTIBLE NOTES

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

	Notes	2015 Principal amount HK$'000	2015 Carrying amount HK$'000	2014 Principal amount HK$'000	2014 Carrying amount HK$'000
At 1 January		–	–	39,205	35,953
Redemption of convertible notes	(a)	–	–	(39,205)	(36,178)
Imputed interest expense	7	–	–	–	225
At 31 December		–	–	–	–

(a) 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"). During 2014, the Company exercised its rights under the terms of the 2009 CN to early redeem the outstanding 2009 CN in the principal amount of HK$39,205,000 at par value. Accordingly, the relevant portion of the equity component of the 2009 CN of HK$73,052,000 was transferred to accumulated losses in 2014 and a loss on early redemption of convertible notes, being the difference between the cash proceeds of HK$39,205,000 paid and the carrying amount of the relevant liability component of the convertible notes redeemed of HK$36,178,000, amounting to HK$3,027,000 (note 7) was recognised as "Finance costs" in profit or loss during 2014.

28. DEFERRED TAX LIABILITIES

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

	Note	Loss available for offsetting future taxable profit HK$'000	Accruals of salary and welfare HK$'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 2014		(11,790)	(2,803)	(257,778)	466,612	194,241
Deferred tax charged/(credited) to profit or loss during the year	11	11,587	2,754	(18,142)	(39,310)	(43,111)
Exchange realignment		203	49	6,495	(11,306)	(4,559)
At 31 December 2014 and 1 January 2015		–	–	(269,425)	415,996	146,571
Disposal of subsidiaries		–	–	257,263	(257,263)	–
Deferred tax charged/(credited) to profit or loss during the year	11	–	–	(89,789)	–	(89,789)
Exchange realignment		–	–	663	(7,104)	(6,441)
At 31 December 2015		–	–	(101,288)	151,629	50,341

Notes:

(a) At 31 December 2015, unused tax losses and deductible temporary differences of approximately HK$428,028,000 (2014: HK$1,328,616,000) and HK$107,911,000 (2014:HK$1,141,676,000) 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 losses 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 may be applied if there is tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. 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 2015, no deferred tax has been recognised for withholding taxes as there was no unremitted earnings that were subject to withholding taxes of the Group's subsidiaries established in Mainland China (2014: Nil).

29. SHARE CAPITAL

Shares

	2015 HK$'000	2014 HK$'000
Issued and fully paid:		
4,010,055,568 (2014: 3,342,055,568) ordinary shares	**2,287,807**	2,108,700

A summary of the transactions during the years ended 31 December 2015 and 2014 with reference to the movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Total HK$'000
At 1 January 2014		3,012,055,568	301,205	1,724,472	523	2,026,200
Transition to no-par value regime on 3 March 2014	(a)	–	1,724,995	(1,724,472)	(523)	–
Issue of shares	(b)	330,000,000	82,500	–	–	82,500
At 31 December 2014 and 1 January 2015		**3,342,055,568**	**2,108,700**	**–**	**–**	**2,108,700**
Issue of shares	(c)	**668,000,000**	**183,700**	**–**	**–**	**183,700**
Share issue expenses		**–**	**(4,593)**	**–**	**–**	**(4,593)**
At 31 December 2015	40	**4,010,055,568**	**2,287,807**	**–**	**–**	**2,287,807**

Notes:

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

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

(c) On 4 August 2015, the Company and a third party placing agent (the "Placing Agent") entered into a placing agreement, whereby the Company has conditionally agreed to place (the "Placing"), through the Placing Agent, on a best effort basis, of up to 668,000,000 placing shares to not less than six placees at the placing price of HK$0.275 per placing share. On 24 August 2015, the Placing was completed and the Company's issued shares increased from 3,342,055,568 shares to 4,010,055,568 shares. The net proceeds from the Placing, after deducting relevant expenses incurred in relation to the Placing, of approximately HK$179 million would be used to finance part of a possible investment project in relation to stone paper business.

29. SHARE CAPITAL (Continued)

Warrants

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

As a result of the Placing mentioned above, the subscription price was adjusted from HK$0.35 per share to HK$0.339 per share from the date of completion of the Placing.

30. RESERVES

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 operations with presentation currency different from that of the Company.

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

For the years ended 31 December 2015 and 2014, Million Grow and its subsidiaries (collectively, the "Million Grow Group") were considered as subsidiaries that had material non-controlling interests and details of which are set out below:

	2015	2014
Percentage of equity interest held by non-controlling interests:	**50%**	50%

	2015 **HK$'000**	2014 HK$'000
Loss for the year allocated to non-controlling interests:	**(103,257)**	(48,652)
Accumulated balances of non-controlling interests at the reporting dates:	**134,928**	249,746

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

The following tables illustrate the summarised financial information of the Million Grow Group as at the end of and during the reporting period. The amounts disclosed are before any inter-company eliminations:

	2015	2014
	HK$'000	HK$'000
Revenue	**21,195**	1,830
Other revenue and gains	**75,049**	17
Total expenses	**(281,302)**	(120,716)
Loss for the year	**(185,058)**	(118,869)
Total comprehensive loss for the year	**(205,884)**	(121,929)
Current assets	**23,460**	15,799
Non-current assets	**353,827**	740,876
Current liabilities	**(79,608)**	(157,242)
Non-current liabilities	**(50,341)**	(146,571)
Net cash flows from/(used in) operating activities	**42**	(14,609)
Net cash flows from/(used in) investing activities	**(10,444)**	41,939
Net cash flows from/(used in) financing activities	**3,580**	(31,498)
Net decrease in cash and cash equivalents	**(6,822)**	(4,168)

32. DISPOSAL OF SUBSIDIARIES

Pursuant to a disposal agreement dated 2 April 2015 entered into between the Company and Jumbo Talent Group Limited (the "Purchaser"), an independent third party, and a supplemental agreement dated 26 June 2015 entered into among the Company, the Purchaser and Eerduosi Hengtai Coal Company Limited("Hengtai") (collectively the "Disposal Agreements"), it was agreed that:

(i) The Company agreed to transfer its entire equity interests in the Disposal Group, and certain loans receivables of HK$180 million (RMB145 million) from the Disposal Group (the "Sale Loans") to the Purchaser for the aggregate consideration of HK$1 in cash;

(ii) The Company would carry out a debt restructuring as part of the conditions precedent of the Disposal Agreements (the "Debt Restructuring"), pursuant to which Shanxi Hengchuang Industrial Co., Ltd had to waive a loan of HK$75 million (RMB60 million) owed by a subsidiary of the Company, and the Purchaser agreed to assume the liabilities of the Company of HK$200 million due to Molto Fortune Limited together with related interest and overdue charges;

(iii) The Disposal Group would undergo an equity interest restructuring (the "Equity Interest Restructuring") pursuant to which the Purchaser and Hengtai would complete the transfer of the 30% equity interest in Inner Mongolia Liaoyuan Coal Mining Company Limited ("Liaoyuan") to the Group at a consideration of HK$1.9 million (RMB1.5 million) and charge the coal mining right owned by Liaoyuan to the Group within 10 years after the completion of the Disposal Agreements (the "Deadline");

(iv) After the Equity Interest Restructuring, Hengtai would repurchase the Group's 30% equity interest in Liaoyuan at a consideration of HK$125 million (RMB100 million) by the Deadline; and

(v) If the Purchaser and Hengtai cannot complete the Equity Interest Restructuring and the charge of Liaoyuan's coal mining rights by the Deadline, the Purchaser or Hengtai would pay a sum of HK$125 million (RMB100 million) to the Company within 2 business days after the Deadline.

On 26 June 2015, all the conditions precedent of the Disposal Agreements had been fulfilled and the Disposal Group has been disposed of, although the Equity Interest Restructuring and the charge of Liaoyuan's coal mining right to the Group has not been completed as at that date and up to the date of approval of these financial statements.

32. DISPOSAL OF SUBSIDIARIES (Continued)

The assets and liabilities of the Disposal Group were as follows:

	Notes	26 Jun 2015 HK$'000
Net assets/(liabilities) disposed of:		
Property, plant and equipment	13	**779,913**
Prepaid land premiums	14	**13,757**
Mining rights	15	**280,383**
Investment in a joint venture		**9,166**
Prepayments and other receivables		**168,670**
Inventories		**6,558**
Trade receivables		**10,119**
Pledged deposits		**3,567**
Cash and cash equivalents		**3,607**
Trade payables		**(12,320)**
Other payables and accruals		**(1,612,252)**
Interest-bearing borrowings		**(1,630,199)**
Income tax payable		**(224,811)**
Non-controlling interests		**100,022**
		(2,103,820)
Satisfied by cash consideration		**–**
Excess of cash consideration over net liabilities disposed of		**2,103,820**
Reclassification of translation reserve to profit or loss on disposal of the Disposal Group		**226,903**
Liabilities assumed by the Purchaser, net of transfer of the Sale Loans		**116,303**
Professional expenses on disposal of the Disposal Group		**(1,247)**
Gain on disposal of the Disposal Group	6,8	**2,445,779**

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the Disposal Group is as follows:

	26 June 2015 HK$'000
Cash consideration	**–**
Cash and bank balances disposed of	**(3,607)**
Net outflow of cash and cash equivalents in respect of the disposal of the Disposal Group	**(3,607)**

33. SHARE OPTION SCHEME

The Company operated a share option scheme (the "Scheme") which was effective from 30 May 2012 and remains valid for a period of 10 years from 30 May 2012 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The maximum number of shares issuable under the share options to be granted under the Scheme is 298,428,416 shares, representing 7.44% of the number of shares in issue as at 31 December 2015. 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.

No share option under the Scheme was granted to any parties during the years ended 31 December 2015 and 2014, and no share options were outstanding as at 31 December 2015 and 2014.

34. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2015, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 **HK$'000**	2014 HK$'000
Within one year	**3,035**	2,468
In the second to fifth years, inclusive	**88**	–
	3,123	2,468

35. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments in respect of acquisition of a 30% equity interest in Liaoyuan under the Disposal Agreements (note 32) (2014: the acquisition of items of property, plant and equipment) at the end of the reporting period:

	2015 **HK$'000**	2014 HK$'000
Contracted, but not provided for	**1,900**	29,457

36. RELATED PARTY TRANSACTIONS

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

	2015 **HK$'000**	2014 HK$'000
Short-term employee benefits	**10,275**	11,563
Post-employment benefits	**18**	23
Total compensation paid to key management personnel	**10,293**	11,586

The above related party transactions did not constitute connected transactions within the meaning of the Listing Rules.

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

Except for the available-for-sale equity investments of the Group as at 31 December 2015, which are stated at fair value, all financial assets and liabilities of the Group and the Company as at 31 December 2015 and 2014 were loans and receivables and financial liabilities stated at amortised cost, respectively.

38. 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 are approximate to their carrying amounts largely due to the short term maturities of these instruments.

(b) The fair value of the listed equity investment is based on its quoted market price, while the fair value of the unlisted equity investment has been estimated to be approximate to carrying value.

(c) 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 on similar terms, credit risk and remaining maturities. The fair values of the liabilities 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 are approximate to their carrying amounts as they are charged at floating rate 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 their fair values, no separate disclosure of the fair values of the Group's financial instruments is made in the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise other receivables and payables and interest-bearing borrowings. 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 floating interest rate borrowings, in the opinion of the directors, the Group had no significant interest rate risk for the year ended 31 December 2015.

(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 and operations in Mainland China and the USA, the Group's financial position and performance can be affected significantly by movements in the RMB/HK$ and US$/HK$ exchange rates.

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.

(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 2015, trade and bills receivables from external customers which individually amounted to over 10% of the Group's total revenue for the years ended 31 December 2015 and 2014 were:

	2015 **HK$'000**	2014 HK$'000
Number of individual external customers from which the receivables amounted to over 10% of the Group's total revenue for the year	**2**	1
Trade and bills receivables (before impairment) from the above customers	**1,075**	1,117
Percentage of total trade and bills receivables (before impairment) as at the end of the reporting period	**29%**	3%

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

Save as aforesaid, at the end of each 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

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
At 31 December 2015			
Trade and bills payables	**5,487**	**–**	**5,487**
Other payables and accruals	**82,620**	**472**	**83,092**
	88,107	**472**	**88,579**
At 31 December 2014			
Trade and bills payables	13,255	–	13,255
Other payables and accruals	1,651,461	18,959	1,670,420
Interest-bearing borrowings	1,581,118	35,024	1,616,142
	3,245,834	53,983	3,299,817

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(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 2015 and 31 December 2014.

The Group monitors capital using the gearing ratio, which is total debt divided by the total assets. Total debt includes trade and bills payables, other payables and accruals, interest-bearing borrowings and liability component of convertible notes, if any. The gearing ratio as at the end of the reporting period was as follows:

	2015 **HK$'000**	2014 HK$'000
Trade and bills payables	**5,487**	13,255
Other payables and accruals	**83,092**	1,670,420
Interest-bearing borrowings, secured	**–**	1,614,094
Total debt	**88,579**	3,297,769
Non-current assets	**427,210**	2,016,575
Current assets	**309,627**	298,750
Total assets	**736,837**	2,315,325
Gearing ratio	**0.12**	1.42

40. EVENTS AFTER THE REPORTING PERIOD

On 6 November 2015, the Company entered into a placing agreement (the "2015 Nov Placing Agreement") pursuant to which the placing agent, which is an independent third party, agreed to place up to 2,500,000,000 placing shares at a price of HK$0.168 each on a best effort basis. The 2015 Nov Placing Agreement has been approved by the independent shareholders on 23 December 2015. However, given the stock market volatility afterwards, on 25 January 2016, the Company entered into the supplemental agreement to revise the terms of the 2015 Nov Placing Agreement pursuant to which the placing agent agreed to place up to 3,000,000,000 placing shares at a revised price of HK$0.139 each on a best effort basis. The net proceeds from the placing are estimated to be approximately HK$415.5 million (representing a net placing price of approximately HK$0.139 per placing share less expenses) which will be used as to 75% for the capital contribution to the joint venture to be set up for the stone paper business and as to 25% for general working capital of the Group. The placing has not yet completed as at the date of approval of these financial statements.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS			
Due from subsidiaries		**52,568**	–
Property, plant and equipment		**1,777**	1,816
Investments in subsidiaries		**133,488**	218,719
Available-for-sale equity investments		**19,899**	19,278
Total non-current assets		**207,732**	239,813
CURRENT ASSETS			
Due from subsidiaries		**159,544**	207,248
Prepayments, deposits and other receivables		**40,087**	36,741
Cash and cash equivalents		**56,797**	85,844
Total current assets		**256,428**	329,833
CURRENT LIABILITIES			
Other payables and accruals		**2,618**	227,811
Total current liabilities		**2,618**	227,811
NET CURRENT ASSETS		**253,810**	102,022
TOTAL ASSETS LESS CURRENT LIABILITIES		**461,542**	341,835
NON-CURRENT LIABILITY		**–**	–
Net assets		**461,542**	341,835
Share capital and other statutory capital reserves	29	**2,287,807**	2,108,700
Other reserves		**(1,826,265)**	(1,766,865)
Total equity		**461,542**	341,835

Director
Zhang Wanzhong

Director
Zong Hao

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: A summary of the Company's reserves is as follows:

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Equity component of convertible notes HK$'000	Share option reserve HK$'000	Available-for-sale investment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2014		1,724,472	523	73,052	–	–	(1,707,988)	90,059
Loss for the year		–	–	–	–	–	(139,779)	(139,779)
Other comprehensive income for the year								
– Fair value change of an available-for-sale equity investment		–	–	–	–	7,850	–	7,850
Total comprehensive income/(loss) for the year		–	–	–	–	7,850	(139,779)	(131,929)
Early redemption of the 2009 CN	27(a)	–	–	(73,052)	–	–	73,052	–
Adoption of new HK Companies Ordinance	29(a)	(1,724,472)	(523)	–	–	–	–	(1,724,995)
At 31 December 2014		–	–	–	–	7,850	(1,774,715)	(1,766,865)
Loss for the year		–	–	–	–	–	(63,019)	(63,019)
Other comprehensive income for the year								
– Fair value change of an available-for-sale equity investment		–	–	–	–	3,619	–	3,619
Total comprehensive income/(loss) for the year		–	–	–	–	3,619	(63,019)	(59,400)
At 31 December 2015		–	–	–	–	11,469	(1,837,734)	(1,826,265)

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2016.

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				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**45,360**	39,838	150,306	571,129	995,100
PROFIT/(LOSS) BEFORE TAX	**1,829,513**	(1,846,370)	(1,563,817)	(2,276,920)	105,830
PROFIT/(LOSS) FOR THE YEAR	**1,909,229**	(1,803,259)	(1,468,039)	(1,755,042)	65,434
Attributable to:					
Owners of the Company	**2,020,128**	(1,723,508)	(1,373,711)	(1,655,263)	55,339
Non-controlling interests	**(110,899)**	(79,751)	(94,328)	(99,779)	10,095
	1,909,229	(1,803,259)	(1,468,039)	(1,755,042)	65,434

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**736,837**	2,315,325	3,877,272	3,556,761	6,059,103
TOTAL LIABILITIES	**(148,929)**	(3,669,043)	(3,512,937)	(2,781,782)	(3,561,577)
NON-CONTROLLING INTERESTS	**(133,106)**	(155,619)	(242,046)	(22,046)	(120,528)
EQUITY/(DEFICITS) ATTRIBUTABLE TO OWNERS OF THE COMPANY	**454,802**	(1,509,337)	122,289	752,933	2,376,998