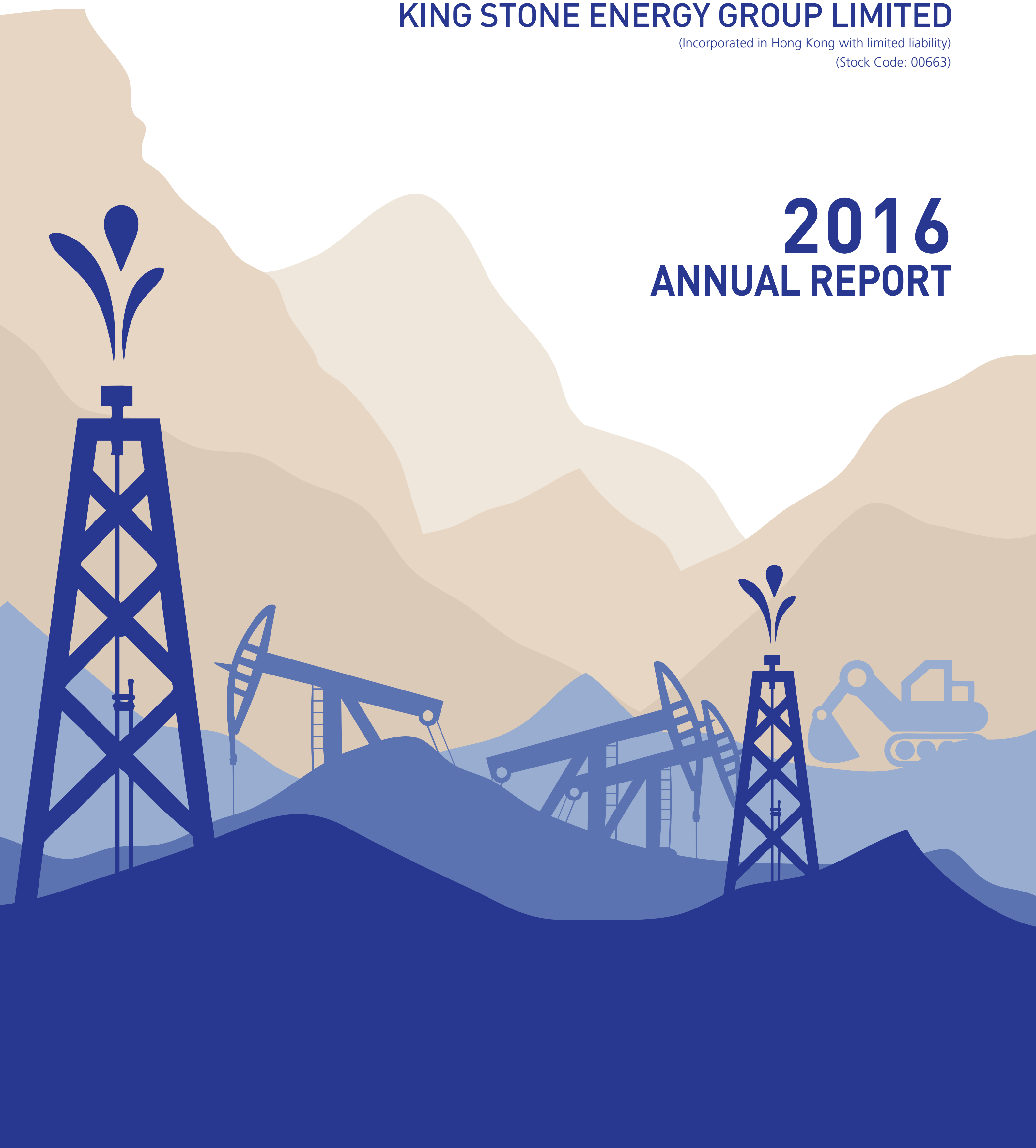
金山能源集團有限公司

KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

2016
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

AUDITOR

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

Unit 7603, 76/F, The Center
99 Queen's Road Central
Hong Kong

SHARE REGISTRAR

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

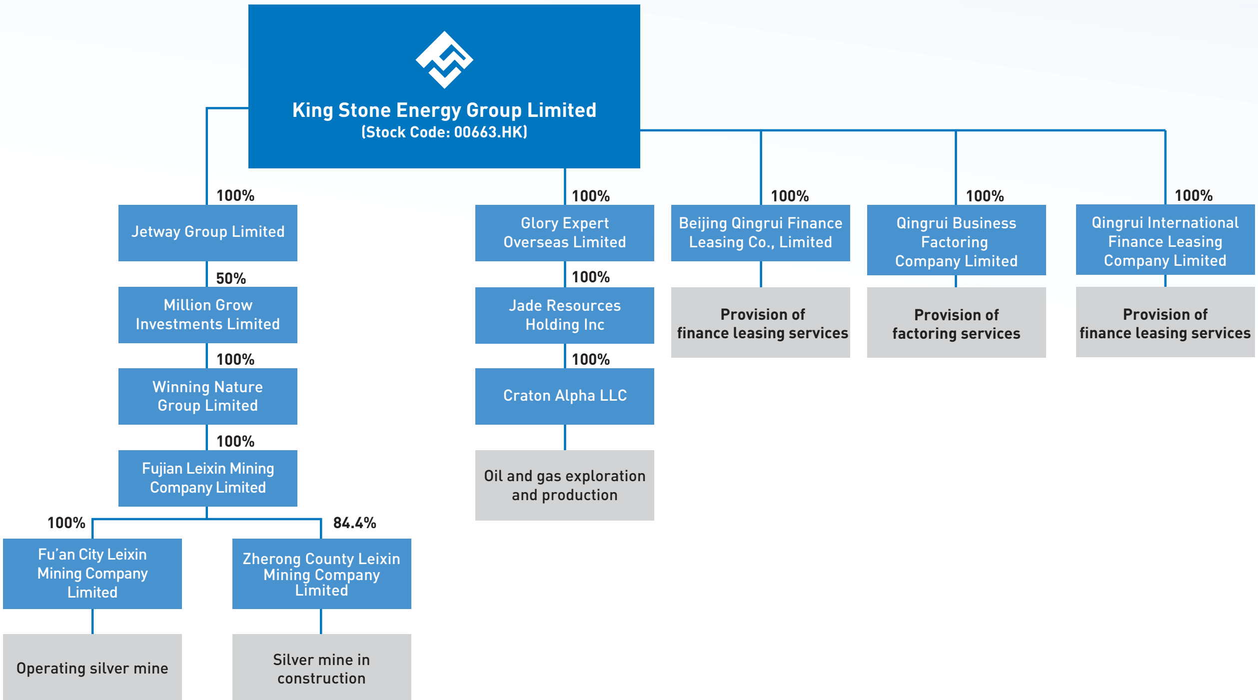
COMPANY WEBSITE

http://www.663hk.com

STOCK CODE

00663

GROUP STRUCTURE



CAPITAL EXPENDITURE

The capital expenditure for development and mining production activities was approximately HK$2.2 million (2015: HK$91.4 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 Group is in progress to renew the exploration permit.

	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)	–
Actual output in 2016 (million tons)	(0.01)	–
	(0.08)	–
As at 31 December 2016		
Inferred resources (million tons)	1.63	1.73
Indicated resources (million tons)	0.79	6.35
Probable ore reserves (million tons)	0.74	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 2016 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
Adjustments based on acreage held			
Proved reserves	(2,401.85)	(63.58)	(27.54)
Probable reserves	(7,063.89)	(186.99)	(81.01)
Possible reserves	(15,639.40)	(413.99)	(179.37)
	(25,105.14)	(664.56)	(287.92)
Proved reserves	14,585.04	386.09	164.13
Probable reserves	12,557.33	332.41	144.01
Possible reserves	15,703.01	415.68	180.09
	42,845.38	1,134.18	488.23
Actual output in 2015	(688.36)	(23.62)	(8.52)
Actual output in 2016	(389.71)	(14.08)	(4.49)
	(1,078.07)	(37.70)	(13.01)
As at 31 December 2016			
Proved reserves	13,506.97	348.39	151.12
Probable reserves	12,557.33	332.41	144.01
Possible reserves	15,703.01	415.68	180.09
	41,767.31	1,096.48	475.22

Note: The above information are extracted from reserve report issued by Cawley Gillespie & Associates Inc. on 3 March 2015 after adjustments based on acreage held and deduction of actual output up to 31 December 2016 based on Craton's record.

Dear shareholders,

On behalf of the board of directors (the "Board") of King Stone Energy Group Limited (the "Company", together with its subsidiaries, the "Group"), I am delighted to present the annual results for the year ended 31 December 2016.

In 2016, the volatility of energy prices continued to affect the oil and gas segment of the Group. The United States, Russia, Saudi Arabia and other major oil production countries wrestled with each other in respect of oil production issue, which continued to suppress the performance of oil price; the rise of shale gas also imposed pressure on traditional oil and natural gas demand and price. The average selling price of the Group's oil and gas projects in Texas, the United States, declined last year; the unstable prices also created uncertainties to the Group's further new well drilling plans, resulting in delay of expansion plans and decline in production. However, the management of the Group believes that the global energy macro-demand will gradually increase in 2017. The Group will closely monitor the trend of energy prices, formulate medium and long term plans for drilling and production, and strengthen the energy performance of the Group's energy segment.

The Group completed a new share placing in May last year and successfully raised over HK$400 million to further enhance the liquidity of the Group. The proceeds from the raising were partly utilized to develop new business factoring and finance leasing businesses, which have successfully explored new income streams for the Group; others will be used for new acquisitions as planned, including the proposed investment on eco-friendly stone paper project, and the seeking of quality energy projects around the world.

Looking forward to 2017, countries all over the world will have plenty of opportunities under the leadership of new leaders. We shall continue to lead the management team under such circumstances, review the business strategy of the Group in a timely manner, and create satisfactory returns to the shareholders. Finally, on behalf of the Board, I give my sincerest thanks to our employees, customers and shareholders for their continuous support and trust to the Group.

Zhang Wanzhong
Chairman

31 March 2017

BUSINESS REVIEW

The Group is principally engaged in exploring and drilling natural gas and oil in the United States of America (the "US"), mining of silver minerals and provision of asset financing service in the People's Republic of China (the "PRC"). During the year of 2016, in response to the continuous below-par price and demand of our products, the Group strategically deferred and reduced its mining and exploration activities in the PRC and the US. On the other hand, the Group successfully expanded its business into provision of asset financing in the PRC so as to enhance its returns on capital.

Energy Investments

The Group is currently operating an upstream oil and gas exploration and production project in East Texas, the US. There are 2 wells currently in production. The Company has been actively monitoring the trend of oil price and is formulating its exploration and production plan in order to optimize returns from its investments.

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 ("Fujian Leixin"), 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. 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, the Group strategically deferred its production given silver price was still below the breakeven level at the West Mine. The Group is reviewing its production plan and cost measures at the West Mine and is meanwhile working on renewing the exploration permit of the East Mine. It is believed that once silver price shows persistent upward trend, the Group can promptly respond by immediately resuming its production at the West Mine, and proceeding to apply for a mining permit of the East Mine.

Asset Financing

The Group carried out asset financing business through its wholly owned subsidiaries established in the PRC namely Qingrui International Finance Leasing Company Limited ("Qingrui Leasing") and Qingrui Business Factoring Company Limited ("Qingrui Factoring") to respectively provide finance leasing and business factoring services to various customers during the year.

As at 31 December 2016, Qingrui Leasing had a finance lease receivable of RMB38,800,000 (equivalent to HK$43,309,000) provided to a lessee which is principally engaged in coal mining business in connection with the finance lease of certain plant and equipment. The lease receivable bears interest at a floating rate of three-year lending rate promulgated by the People's Bank of China plus 20% margin and is repayable in July 2019. Management fee is calculated at 1% of the principal amount per annum.

As at 31 December 2016, Qingrui Factoring had factoring receivables with an aggregate amount of RMB131,000,000 (equivalent to HK$146,222,000) from two companies based in the PRC, which bear interest at a floating rate of three-year lending rate promulgated by the People's Bank of China plus 20% margin, due in 2019 and each is secured by a receivable owed by a debtor to customer. Management fee is calculated at 1% of the principal amount per annum.

FINANCIAL REVIEW

Revenue and cost of sales

The Group recorded total revenue of approximately HK$17.6 million (2015: HK$38.1 million) during the year, representing a decrease of 54% compared with last year. The decrease in revenue from silver mining business and oil and gas extraction and production business was offset by increase in revenue from asset financing business during the year.

Revenue from silver during the year was approximately HK$3.7 million (2015: HK$21.2 million). Silver and gold concentrates extracted from silver mining sold during the year was approximately 245 tons (2015: 1,429 tons) and the average selling prices of silver and gold concentrates during the year were approximately RMB12,930 per ton (2015: RMB10,638 per ton).

For the oil and gas extraction and production business, the Group, net to its ownership interests, has produced approximately 4,489 Bbl (2015: 8,518 Bbl) of oil, and approximately 390 million cubic feet (2015: 688 million cubic feet) of natural gas (which includes approximately 14,082 Bbl (2015: 23,622 Bbl) of natural gas liquids). The net average selling prices of oil, natural gas and natural gas liquids during the year were approximately US$36.78 per Bbl (2015: US$46.63 per Bbl), approximately US$1.64 per thousand cubic feet (2015: US$2.04 per thousand cubic feet) and approximately US$12.12 per Bbl (2015: US$11.51 per Bbl) respectively. All of which in aggregate generated revenue of approximately HK$7.5 million (2015: HK$16.1 million) during the year.

The Group also recorded revenue of approximately HK$6.4 million from provision of asset financing business during the year (2015: HK$0.8 million).

Cost of sales 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 and oil and gas extraction and production was approximately HK$7.9 million (2015: HK$37.9 million) and HK$5.7 million (2015: HK$14.3 million), respectively during the year. There was no cost of provision of asset financing recognised during the year (2015: Nil).

For the year ended 31 December 2016, silver mining recorded gross loss margins of 112% (2015: 79%), respectively. Oil and gas extraction and production business recorded a profit margin of 24% (2015: 11%) during the year.

Other income and gains, net

Other income and gains, net were approximately HK$43.3 million during the year (2015: HK$30 million). It mainly represented net trading income from short-term sales of nickel of approximately HK$37.4 million (2015: HK$13.9 million). In 2015, a gain on disposal of available-for-sale investments of approximately HK$13.6 million was recognised. There was no such gain during the year.

Selling and distribution expenses and administrative expenses

Selling and distribution costs and administrative expenses were approximately HK$0.03 million (2015: HK$0.9 million) and HK$61.2 million (2015: HK$69.4 million) respectively during the year. Administrative expenses mainly comprised staff cost for administrative functions, legal and professional fee incurred for operation, depreciation and other administrative expenses. The decrease in administrative expenses was mainly due to amortisation of Hydroflame patent (which was fully impaired in 2015) of HK$ 4.2 million in 2015 and there was no such amortisation during the year.

Other expenses, net

Other expenses, net mainly comprised impairments of property, plant and equipment, mining and exploration rights, intangible assets and loan receivable in aggregate of approximately HK$81.8 million (2015: HK$452.6 million) during the year. Exchange differences of approximately HK$30.2 million mainly arising from trade balances between group companies was recognised during the year (2015: Nil). There was no impairment of available-for-sale investments recognised during the year (2015: HK$4.5 million).

In view of indications of impairment including decrease in silver price and oil and gas price and 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 (which is the value in use ("VIU") of the mining assets (the "Mining Assets") of the silver mining segment (the "Silver Mining Assets"), and the VIU of the extracting assets (the "Extracting Assets") of the oil and gas segment (the "Oil & Gas Assets") of the Group for impairment testing.

In this connection, the Company had assessed the VIU of the cash-generating units ("CGUs") and the management had derived the VIU of the Mining/Extracting Assets from the VIU of the relevant CGUs. In assessing the VIU of each of the CGUs, the future cash flows of each of the silver mining and oil and gas segments 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 pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of silver and 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 pre-tax discount rates ranging from 11% to 16% (2015: 17% to 21%) and 16% (2015: 13%) used in assessing the VIU of the CGUs of the Silver Mining Assets and Oil & Gas Assets, was arrived by weighted average of cost of equity and cost of debt before tax of the respective CGUs.

There was no material change in the valuation methodology adopted by the Group during the year. Further details of the impairment testing were disclosed in note 16 to the consolidated financial statements.

Based on the VIU 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$67.5 million (2015: HK$344.6 million) was resulted during the year, in which HK$20.3 million (2015: HK$50.9 million) was allocated to property, plant and equipment and HK$47.2 million (2015: HK$293.8 million) was allocated to intangible assets of the Group's silver mining segment, based on their relative carrying amounts amongst the Silver Mining Assets.

In addition, based on the VIU assessment of the CGUs of the Oil & Gas Assets, the directors of the Company are of the opinion that an impairment loss of the Oil & Gas Assets totalling HK$11.9 million (2015: HK$55.2 million) was resulted during the year, in which HK$3.6 million (2015: HK$47.9 million) was allocated to property, plant and equipment and HK$8.3 million (2015: HK$7.3 million) was allocated to intangible assets of the Group's oil and gas segment, based on their relative carrying amounts amongst the Oil & Gas Assets.

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 was made at as 31 December 2015. There was no such impairment recognised during the year.

Finance costs

Finance costs were approximately HK$50.2 million (2015: HK$28.1 million) during the year, which represented mainly interest and other borrowing costs and overdue penalty incurred for other loans obtained for the silver mining business.

Income tax

Income tax credit was approximately HK$9.8 million (2015: HK$79.7 million) during the year. It mainly represented write back of deferred tax liabilities mainly arising from impairment of Silver Mining Assets of approximately HK$16.7 million (2015: HK$89.8 million). Income tax was approximately HK$6.9 million (2015: HK$10.1 million) during the year. It mainly represented tax on profits of the interest income from asset financing business and underprovision for taxation for Fujian Leixin in the PRC. No provision for profit tax in Hong Kong and the US has been made during the current and prior years.

Discontinued operation

Following the disposal of coal mining business in June 2015, there was no revenue (2015: HK$7.3 million), the related production cost (2015: HK$32.8 million) and the gain on disposal from such business recognised during the year. Taking into account the gain on disposal of HK$2,445.8 million, net profit from a discontinued operation of approximately HK$2,372.2 million was recognised in 2015.

Loss/profit for the year attributable to shareholders of the Company

Loss for the year attributable to shareholders of the Company was approximately HK$111.4 million (2015: profit of HK$2,020.1 million). The turnaround for the year was mainly due to the profit from a discontinued operation of approximately HK$2,372.2 million recognised in 2015.

FUND RAISING EXERCISES

The Company has conducted the following equity fund raising activity during the year:

On 6 November 2015, the Company entered into a placing agreement (the "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 Placing Agreement has been approved by the independent shareholders at the extraordinary general meeting on 23 December 2015. However, given the stock market volatility afterwards, on 25 January 2016, the Company entered into the supplemental agreement with the placing agent to revise the terms of the 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 approximately HK$415.5 million (representing a net placing price of approximately HK$0.138 per placing share) which would 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. The placing was completed on 4 May 2016 ("the 2016 Placing").

The net proceeds of approximately HK$594.5 million were raised from both the placing completed in August 2015 ("the 2015 Placing") and the 2016 Placing.

Based on negotiation with the prospective business partner for the stone paper business in October 2016, the total investment size of the stone paper business has been reduced to RMB426 million (equivalent to approximately HK$497 million) and the Group would have a 60% equity stake in the joint venture as may be formed. In this connection, the capital commitment on the part of the Group was estimated to be about RMB256 million (equivalent to approximately HK$299 million) only. Accordingly, the net proceeds from the 2015 Placing of approximately HK$179 million will still be applied for financing the stone paper business, and the net proceeds from the 2016 Placing of approximately HK$415.5 million will be used as to: (i) HK$120 million for the stone paper business; (ii) HK$192 million for the asset financing business of the Group; and (iii) HK$103.5 million for general working capital of the Group.

Before the proceeds from the 2015 Placing and the 2016 Placing are to be so applied for the Stone Paper Business, such proceeds have been kept by the Company for its general working capital use. HK$192 million has been used for the asset financing business of the Group (including the business of finance lease and factoring services. As the stone paper business is yet to commence, no proceeds has been used for the stone paper business as at date of this annual report.

Details of the above were disclosed in the announcements of the Company dated 6 November 2015, 25 January 2016, 29 July 2016 and 8 October 2016 and the circulars of the Company dated 7 December 2015 and 3 March 2016.

LIQUIDITY AND FINANCIAL REVIEW

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

As at 31 December 2016, the current ratio of the Group, measured as total current assets to total current liabilities, was 3.39:1 (2015: 3.16:1).

As at 31 December 2016, the cash and cash equivalents of the Group were approximately HK$301.7 million (2015: HK$203.3 million). The Group recorded a net cash outflow from its operating activities of approximately HK$393.9 million (2015: HK$64.8 million) during the year.

As at 31 December 2016, there were other loans of approximately HK$108.7 million (2015: HK$64.9 million). Comprising loan principal of approximately HK$44.6 million (2015: HK$47.7 million) and overdue interest/penalty of approximately HK$64.1 million (2015: HK$17.2 million). All other loans were denominated in Renminbi. Other loans of approximately HK$32.9 million (2015: HK$35.2 million) and HK$11.7 million (2015: HK$12.5 million) were interest-free and with fixed interest rate of 15% per annum respectively. Other loans of approximately HK$32.9 million (2015: HK$35.2 million) and HK$11.7 million (2015: HK$12.5 million) were subject to an overdue penalty of 0.05% – 0.5% per day on loan principal and 1% on the overdue balance respectively. As at 31 December 2016, all other loans (2015: one loan) were overdue.

In July 2016, the liquidator of one of the creditors of other loans commenced legal proceedings against a subsidiary of the Group demanding for the repayment of a loan due on 1 January 2016 with a principal amount of HK$28,463,000 (RMB25,500,000) owed by the Group and accrued interest and penalty of approximately HK$13,681,000 (RMB12,257,000). The litigation was subsequent withdrawn by the liquidator in October 2016.

The Group is in process of negotiation with the relevant creditors for the deferral of repayment of these overdue other loans as at the date of this annual report, and the directors of the Company expect that the relevant creditors will not demand for immediate repayment in the foreseeable future. In addition, adequate accrued interest and penalties have been provided by the Group as at 31 December 2016 and 2015.

The Group conducted its continuing operational business transactions mainly in Renminbi, Hong Kong dollars and US 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 payables, other payables and accruals and other loans) in a ratio to the total equity attributable to shareholders of the Company, was 0.18 as at 31 December 2016 (2015: 0.19).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material significant investments, acquisition and disposal of subsidiaries or associated companies during the year.

CAPITAL COMMITMENTS, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2016, the Group had contracted capital commitments not provided for in the consolidated financial statements of approximately HK$1.7 million (2015: HK$1.9 million) in respect of acquisition of a 30% equity interest in a former subsidiary of the Company.

As at 31 December 2016, time deposits of approximately HK$0.4 million (2015: HK$0.4 million) were pledged for conducting silver mining businesses as required by relevant government authorities. Save as disclosed above, the Group had no other pledge of assets as at 31 December 2016.

As at 31 December 2016, the Group did not have any material contingent liabilities (2015: Nil).

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2016, the Group had 42 (2015:123) employees. The total staff costs (including directors' remuneration) for the year were approximately HK$34.7 million (2015: HK$44.3 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 2016.

FUTURE OUTLOOK

Looking ahead into the year of 2017, the Company remains cautious but positive with the outlook of commodity market. The Company is looking for an appropriate window to re-launch its silver mining and exploration activity at Fujian Leixin, and is prepared to increase its natural gas drilling activities in the US. The Company, equipped with adequate cash resources from the 2016 Placing, is currently evaluating variety of new investment projects, including energy investments in other regions and the eco-friendly stone paper business. With the solid investment experience in the energy sector, the management team of the Company is actively studying couples of oil and gas investment projects in North America and the Republic of Mongolia. In connection with the eco-friendly stone paper business, the Company is currently awaiting certain key technology test results to be provided from the business partner and formulating the business plan. Further announcement will be made when any of the above investment opportunities materialize.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Wanzhong, aged 54, 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 and president of Beijing Beida Jade Bird Universal Sci-Tech Company Limited ("Jade Bird Universal"), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 8095). He is 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 47, obtained a degree of the Master of Laws from Buffalo Law School, the State University of New York in 1997. Mr. Zong has been an independent director of Suzhou Electrical Apparatus Science Academy Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300215) from 2009 to 2015 and is currently an independent non-executive director of Sincere Watch (Hong Kong) Limited, a company listed on the Stock Exchange (stock code: 444) since December 2016. 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 47, 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 46, 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 50, has over 16 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 Elife Holdings 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 41, 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 56, 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 21 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 62, 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 21 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 38, is the company secretary of the Company. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and has over 16 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 provision A.4.1 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 (note)
Executive Directors:					
Mr. Zhang Wanzhong (Chairman)	0/5	N/A	1/1	N/A	2/2
Mr. Zong Hao	5/5	N/A	N/A	N/A	2/2
Mr. Xu Zhuliang	4/5	1/1	N/A	N/A	0/2
Mr. Benjamin Clark Danielson	3/5	N/A	N/A	N/A	1/2
Independent non-executive Directors:					
Mr. Chiu Sui Keung	2/5	1/1	1/1	2/2	1/2
Mr. Lu Binghui	4/5	1/1	1/1	2/2	0/2
Mr. Lee Ping	2/5	N/A	N/A	0/2	1/2
Mr. Liu Shengming	4/5	N/A	N/A	N/A	0/2

Note: Being extraordinary general meeting held on 8 April 2016 and annual general meeting held on 7 June 2016. Those Directors could not attend the general meeting(s) due to other business engagement.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2016 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 2015 and interim results for the six months ended 30 June 2016 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 8 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 2016, 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 2016.

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

Auditor's Responsibilities and Remuneration

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

	HK$'000
Audit services	2,000
Non-audit services – agreed-upon procedures on interim report	500
	2,500

The statement of the auditor of the Company regarding its reporting responsibilities is set out in the Independent Auditor's Report on pages 33 to 39.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems of the Company and reviewing their effectiveness. The Board oversees the overall risk management of the Group and endeavors to identify, control impact of the identified risks and facilitate implementation of coordinated mitigating measures.

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control and risk management 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 risk management and internal control systems of the Company aim 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 systems are 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.

The processes used to identify, evaluate and manage significant risks by the Group are summarized as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and

- Considers the impact and consequence on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and

- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;

- Revises the risk management strategies and internal control processes in case of any significant change of situation; and

- Reports the results of risk monitoring to the management and the Board regularly.

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness during the year.

The Company has engaged APAC Compliance Consultancy and Internal Control Services Limited as its risk management and internal control review adviser ("the Adviser") to conduct the annual review of the risk management and internal control systems for the year ended 31 December 2016. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board. The Adviser has reported findings and areas for improvement to the Audit Committee and management of the Company. The Board and Audit Committee are of the view that there are no material internal control defeats noted. All recommendations from the Adviser will be properly followed up by the Group to ensure that they are implemented within a reasonable period of time.

The Company has a policy to assess the likely impact of any unexpected and significant event that may impact the price of the Shares or their trading volume and to decide whether the relevant information is considered as inside information that needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

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 2016, the Company's internal control and risk management systems are 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 2016, 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 2016.

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 2016.

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. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

During the year of 2016, in response to the continuous below-par price and demand of our products, the Group strategically deferred and reduced its mining and exploration activities in the People's Republic of China (the "PRC") and the United states of America ("USA"). On the other hand, the Group successfully expanded its business into provision of asset financing in the PRC so as to enhance its returns on capital. 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.

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 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 36 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 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 (the "Listing Rules") 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. Except for failure to disclose transactions for a factoring agreement and a loan agreement in a timely manner under the Listing Rules 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 2016.

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 for a legal proceeding in respect of repayment of other loans which has been discontinued during the year as disclosed in section headed "Liquidity and Financial Review" 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 DIVIDENDS

The Group's loss for the year ended 31 December 2016 and the Group's financial position at that date are set out in the financial statements on pages 40 to 111.

The directors do not recommend the payment of any dividend for the year ended 31 December 2016.

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

Shares were issued upon completion of placing during the year. Details about the issue of shares are also set out in note 27 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.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company had no retained profits calculated in accordance with the provisions of Part 6 of the Hong Kong Companies Ordinance, available for distribution. However, the Company's share capital included an amount of HK$1,724,472,000, which was 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, 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 95.7% of the total sales for the year and sales to the largest customer included therein amounted to 35.7% of the total sales. Purchases from the Group's five largest suppliers accounted for less than 39.8% of the total purchases for the year.

None of the Directors or any of their respective close associates (within the meaning of the Listing Rules) 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. Zong Hao
Mr. Xu Zhuliang
Mr. Benjamin Clark Danielson

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. Zhang Wanzhong, Mr. Zong Hao and Mr. Liu Shengming will retire and, being eligible, 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 of the Company.

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 24 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 or fellow 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 2016, 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 27 to the financial statements, the subscription price was adjusted from HK$0.35 per share to HK$0.32 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$105,600,000. No warrant was exercised during the years ended 31 December 2016 and 2015 and the warrants were expired during the year.

Share Option Scheme

The Company has adopted 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 28 to the financial statements. No share options were granted to any persons during the years ended 31 December 2016 and 2015. There were no outstanding share options as at 31 December 2016 and 2015.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, 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 and fellow 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 2016, 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	3,435,555,000 (L)	49%
Goldsino Investments Limited (note 2)	Beneficial owner	1,081,500,000 (L)	15.43%

Remarks: (L) : Long position

Notes:

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

2. Goldsino Investments Limited is wholly-owned by Mr. Zhao Xu.

Save as disclosed above, as at 31 December 2016, 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.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the annual general meeting to be held on 2 June 2017, the register of members of the Company will be closed from Friday, 26 May 2017 to Friday, 2 June 2017, both days inclusive, during which period no transfer of the shares of the Company can be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 25 May 2017.

EVENT AFTER THE REPORTING PERIOD

There is no material event after the reporting period.

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.

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. The placing was completed on 4 May 2016.

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.

AUDITOR

Ernst & Young will retire and a resolution for their reappointment as auditor 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 2017

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話： +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the members of King Stone Energy Group Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of King Stone Energy Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 111, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS (Continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of silver mining assets and oil and gas assets	
The Group's silver mining segment operates two silver mines in Fujian Province, the People's Republic of China (the "PRC"), and its oil and gas segment explores and drills natural gas and oil in the United States of America. At 31 December 2016, the carrying amount of the associated property, plant and equipment, prepaid land premiums and intangible assets of the silver mining segment (collectively, the "silver mining assets"), net of accumulated depreciation/amortisation and impairment losses, amounted to HK$260 million in aggregate, and that of the associated property, plant and equipment and intangible assets of the oil and gas segment (collectively, the "oil and gas assets"), net of accumulated depreciation/amortisation and impairment losses, amounted to HK$34 million in aggregate. In accordance with Hong Kong Accounting Standard ("HKAS") 36 *Impairment of Assets* issued by the HKICPA, where an indication of impairment on these assets exists, the Group will estimate the recoverable amounts of the relevant assets, which are the higher of the value in use and the fair value less costs of disposal. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. Since the Group's silver mining segment and oil and gas segment have been loss-making for some time, the Group considered that impairment indications existed for the silver mining assets and the oil and gas assets. In this regard, the recoverable amounts of these assets were estimated by using the discounted cash flow method for the purpose of the impairment assessment.	In respect of the estimation of the recoverable amounts of the silver mining assets and the oil and gas assets prepared by the independent professional valuer and the Group, respectively, we involved our valuation specialists to assist us in evaluating the calculation of the recoverable amounts and the discount rates and other assumptions (i.e., the forward prices of silver and oil and gas, growth rate) used by the independent professional valuer and the Group. In addition we discussed with management of the Company and, where applicable, the independent professional valuer engaged by the Group about the parameters and assumptions (as detailed in note 16 to the financial statements) used in the cash flow forecast estimation and obtain corroborative evidence to evaluate their reasonableness. As part of our audit procedures, we considered the competence, capabilities and objectivity of the independent professional valuer engaged by the Group for the valuation of the silver mining assets. Finally, we assessed the adequacy of the related disclosures in the notes to the financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of silver mining assets and oil and gas assets (Continued) The recoverable amount of the silver mining assets was estimated by an independent professional valuer and that of the oil and gas assets was estimated by the Group using the value in use approach. The estimations of the recoverable amounts were based on, inter alia, future cash flows of the relevant cash-generating units, which can be subjective in nature and involve various management assumptions regarding the production plan, sales volume and selling price estimation. Further details of the determination of recoverable amounts of the silver mining assets and the oil and gas assets and the key assumptions used are disclosed in note 16 to the financial statements. Given the complexity and judgemental nature of the impairment test, we considered this a key audit matter. Related disclosures are included in notes 3 and 16 to the financial statements.	

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability assessment of lease, factoring and trade receivables and other receivables	
At 31 December 2016, the Group had an aggregate lease, factoring and trade receivables of HK$193 million, which arose from the provision of asset financing services in the PRC during the year, and other receivables of HK$161 million, which arose from trading of a commodity. These receivables represented 36% of the total assets of the Group as at 31 December 2016. The lease and factoring receivables are secured by certain plant and equipment and receivables of the customers. In accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, the Group regularly assesses the recoverability of the receivables based on financial condition of the customers, repayment history, disputes involved or any other information concerning the creditworthiness of the customers. When there is a deterioration in the creditability of a customer, the Group will assess the recoverability of the receivables and, where necessary, make provision accordingly. Given the materiality of these receivables and judgemental nature of the recoverability assessment, we considered this a key audit matter. Related disclosures are included in notes 3, 19 and 21 to the financial statements.	As part of our audit procedures, we have reviewed (i) individual credit assessments (including fair value of the assets pledged for the receivables) performed by the Group and latest financial conditions of the relevant customers; (ii) management judgements adopted in the impairment assessment; (iii) the timeliness of subsequent repayments from the customers after the end of the reporting period; and/or (iv) repayment history of the customers. Finally, we assessed the adequacy of the related disclosures in the notes to the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is CHENG, Man.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**17,642**	38,091
Cost of sales		**(13,591)**	(52,241)
Gross profit/(loss)		**4,051**	(14,150)
Other income and gains, net	5	**43,263**	29,992
Selling and distribution expenses		**(25)**	(958)
Administrative expenses		**(61,242)**	(69,430)
Other expenses, net		**(114,502)**	(460,051)
Finance costs	6	**(50,227)**	(28,080)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	7	**(178,682)**	(542,677)
Income tax	10	**9,842**	79,716
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(168,840)**	(462,961)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	11(a)	**–**	2,372,190
PROFIT/(LOSS) FOR THE YEAR		**(168,840)**	1,909,229
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value	17(a)	**(10,434)**	17,172
Reclassification adjustments upon disposal included in profit or loss	5	**–**	(13,553)
		(10,434)	3,619
Exchange differences:			
Translation of foreign operations		**(25,641)**	(23,448)
Reclassification adjustments upon disposal of subsidiaries included in profit or loss		**–**	(240,404)
		(25,641)	(263,852)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX		**(36,075)**	(260,233)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(204,915)**	1,648,996

	Note	2016 HK$'000	2015 HK$'000
Profit/(loss) for the year attributable to:			
Shareholders of the Company		**(111,384)**	2,020,128
Non-controlling interests		**(57,456)**	(110,899)
		(168,840)	1,909,229
Total comprehensive income/(loss) for the year attributable to:			
Shareholders of the Company		**(138,745)**	1,785,032
Non-controlling interests		**(66,170)**	(136,036)
		(204,915)	1,648,996
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	12		
Basic and diluted:			
For profit/(loss) for the year		**(HK$0.019)**	HK$0.56
For loss for the year from continuing operations		**(HK$0.019)**	(HK$0.09)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**55,165**	86,534
Prepaid land premiums	14	**888**	1,015
Intangible assets	15	**239,869**	314,561
Available-for-sale investments	17	**9,465**	19,899
Lease, factoring and trade receivables	19	**176,670**	3,169
Prepayments, deposits and other receivables	21	**2,593**	2,032
Total non-current assets		**484,650**	427,210
CURRENT ASSETS			
Inventories	18	**1,118**	3,520
Lease, factoring and trade receivables	19	**16,472**	6,430
Loan receivables	20	**–**	52,560
Prepayments, deposits and other receivables	21	**169,182**	43,421
Restricted cash	22	**351**	374
Cash and cash equivalents	22	**301,665**	203,322
Total current assets		**488,788**	309,627
CURRENT LIABILITIES			
Trade payables	23	**2,751**	5,487
Other payables and accruals	24	**17,079**	17,717
Other loans	25	**108,692**	64,903
Income tax payables		**15,746**	10,009
Total current liabilities		**144,268**	98,116
NET CURRENT ASSETS		**344,520**	211,511
TOTAL ASSETS LESS CURRENT LIABILITIES		**829,170**	638,721
NON-CURRENT LIABILITIES			
Other payables and accruals	24	**512**	472
Deferred tax liabilities	26	**30,171**	50,341
Total non-current liabilities		**30,683**	50,813
Net assets		**798,487**	587,908

	Notes	2016 HK$'000	2015 HK$'000
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	27	**2,703,301**	2,287,807
Reserves	29	**(1,971,750)**	(1,833,005)
		731,551	454,802
Non-controlling interests		**66,936**	133,106
Total equity		**798,487**	587,908

Director
Zhang Wanzhong

Director
Zong Hao

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

	Notes	Attributable to shareholders of the Company						
		Share capital HK$'000	Exchange fluctuation reserve HK$'000	Available-for-sale investment revaluation reserve 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) for the year:								
Changes in fair value of available-for-sale investments		–	–	3,619	–	3,619	–	3,619
Exchange differences on translation of foreign operations		–	(11,812)	–	–	(11,812)	(11,636)	(23,448)
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of subsidiaries	31	–	(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
Placement of new shares, net of share issue expenses	27(a)	179,107	–	–	–	179,107	–	179,107
Disposal of subsidiaries	31	–	–	–	–	–	113,523	113,523
At 31 December 2015		2,287,807	(15,038)*	11,469*	(1,829,436)*	454,802	133,106	587,908

		Attributable to shareholders of the Company						
	Note	Share capital HK$'000	Exchange fluctuation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		2,287,807	(15,038)	11,469	(1,829,436)	454,802	133,106	587,908
Loss for the year		–	–	–	(111,384)	(111,384)	(57,456)	(168,840)
Other comprehensive loss for the year:								
Changes in fair value of available-for-sale investments		–	–	(10,434)	–	(10,434)	–	(10,434)
Exchange differences on translation of foreign operations		–	(16,927)	–	–	(16,927)	(8,714)	(25,641)
Total comprehensive loss for the year		–	(16,927)	(10,434)	(111,384)	(138,745)	(66,170)	(204,915)
Placement of new shares, net of share issue expenses	27(b)	415,494	–	–	–	415,494	–	415,494
At 31 December 2016		2,703,301	(31,965)*	1,035*	(1,940,820)*	731,551	66,936	798,487

* These reserve accounts comprise the consolidated negative reserves of HK$1,971,750,000 (2015: HK$1,833,005,000) in the consolidated statement of financial position as at 31 December 2016.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**(178,682)**	(542,677)
From a discontinued operation		**–**	2,372,190
Adjustments for:			
Finance costs		**50,227**	66,011
Bank interest income	5	**(140)**	(80)
Other interest income	5	**(4,084)**	(57)
Gain on disposal of subsidiaries	11(a)	**–**	(2,445,779)
Gain on disposal of items of property, plant and equipment	5	**(15)**	–
Gain on disposal of an available-for-sale investment	5	**–**	(13,553)
Dividend income from an available-for sale investment	5	**–**	(2,375)
Depreciation		**5,447**	35,619
Amortisation of prepaid land premiums		**64**	205
Amortisation of intangible assets		**813**	20,961
Impairment of items of property, plant and equipment		**23,874**	98,737
Impairment of intangible assets		**55,560**	353,820
Impairment of available-for-sale investments		**–**	4,523
Impairment of a loan receivable		**2,328**	–
Share of loss of a joint venture		**–**	1,193
		(44,608)	(51,262)
Decrease in inventories		**2,176**	970
Decrease/(increase) in lease, factoring and trade receivables		**(193,684)**	1,879
Increase in prepayments, deposits and other receivables		**(124,117)**	(8,947)
Increase/(decrease) in trade payables		**(2,241)**	4,654
Increase/(decrease) in other payables and accruals		**2,679**	(12,143)
Cash used in operations and net cash flows used in operating activities		**(359,795)**	(64,849)

	Notes	**2016 HK$'000**	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**4,224**	137
Dividend received from an available-for-sale investment		**–**	1,354
Purchases of items of property, plant and equipment		**(907)**	(31,427)
Proceeds from disposal of items of property, plant and equipment		**14**	248
Acquisition of and additions to intangible assets	15	**(1,284)**	(5,646)
Disposal of subsidiaries	31	**–**	(3,607)
Disposal of an available-for-sale investment		**–**	17,488
Decrease/(increase) in loan receivables		**46,992**	(51,939)
Net cash flows from/(used in) investing activities		**49,039**	(73,392)
CASH FLOWS FROM FINANCING ACTIVITIES			
Placement of new shares	27	**417,000**	183,700
Share issue expenses	27	**(1,506)**	(4,593)
Increase in other loans		**–**	3,580
Net cash flows from financing activities		**415,494**	182,687
NET INCREASE IN CASH AND CASH EQUIVALENTS		**104,738**	44,446
Cash and cash equivalents at beginning of year		**203,322**	156,072
Effect of foreign exchange rate changes, net		**(6,395)**	2,804
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	**301,665**	203,322

1. CORPORATE AND GROUP INFORMATION

King Stone Energy Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office 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 (i) mining and sale of silver in the mainland ("Mainland China") of the People's Republic of China (the "PRC"); (ii) oil and gas extraction, production and sale in the United States of America (the "USA"); and (iii) provision of asset financing services in Mainland China.

In the opinion of the directors, the immediate holding company of the Company is Belton Light Limited, which is incorporated in the British Virgin Islands, and, in the opinion of the directors, the ultimate holding company of the Company is Jade Bird Energy Fund II, L.P., which is an exempted limited partnership registered in the Cayman Islands.

Information about principal subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company 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
Million Grow Investments Limited ("Million Grow")	British Virgin Islands	US$57,404	50[@]	Investment holding
福建磊鑫礦業有限公司 (Fujian Leixin Mining Company Ltd., "Fujian Leixin")*[Δ]	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")*[Δ]	PRC/Mainland China	RMB10,000,000	50[@]	Mining and sale of silver
柘榮縣磊鑫礦業有限公司 (Tuorong County Leixin Mining Company Ltd.,"Tuorong Leixin")*[Δ]	PRC/Mainland China	RMB20,500,000	42[@]	Silver mine exploration
HFT Resources Inc.	USA	US$1	100	Oil extraction technology development and patent holding

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Company 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, production and sale
北京青瑞融資租賃有限公司 (Beijing Qingrui Finance Leasing Company Ltd.)&#	PRC/Mainland China	US$10,000,000	100	Provision of finance leasing service
青瑞國際融資租賃有限公司 (Qingrui International Finance Leasing Company Limited)&#	PRC/Mainland China	RMB40,000,000	100	Provision of finance leasing service
青瑞商業保理有限公司 (Qingrui Business Factoring Company Limited)&#	PRC/Mainland China	RMB90,000,000	100	Provision of factoring service
King Stone Energy (Singapore) Co. Pte. Ltd.#	Singapore	SG$1	100	Trading of nickel
Comfort Trade Limited#	British Virgin Islands/ Hong Kong	US$1	100	Trading of nickel

\# Directly held by the Company

* Registered as limited liability companies under the PRC law

& Registered as wholly-foreign-owned enterprises under the PRC law

@ Million Grow is accounted for as a subsidiary because the Group has contractual rights to appoint a majority of directors to control the board of directors of Million Grow, which has the power to direct the relevant activities of Million Grow that mostly affect returns. Accordingly, Million Grow's subsidiaries, namely Fujian Leixin, Fu'an Leixin and Tuorong Leixin, are also accounted for as subsidiaries of 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.

2.1 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 (the "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 listed available-for-sale investments and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollar ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. 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 shareholders of the Company 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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) 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 amendments have had no significant impact on the Group's financial statements.

(b) 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 applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation or amortisation of its non-current assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any changes to the plan of sale of its coal mining business during the prior year.

2.3 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:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
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*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Annual Improvements 2014-2016 Cycle	*Amendments to a number of HKFRSs*[5]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption
5 Effective for annual periods beginning on or after 1 January 2017 or 2018, with early application permitted

2.3 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) The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

(b) 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.

(c) 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 previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

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

(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 June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

(e) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

(f) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

(g) Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

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

(h) *Annual Improvements to HKFRSs 2014-2016 Cycle* issued in March 2017 sets out amendments to a number of HKFRSs. Details of the applicable amendments are as follows:

- HKFRS 12 *Disclosure of Interest in Other entities*: Clarified the scope of the standard by specifying that certain disclosure requirements is not required for a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

- HKAS 28 *Investments in Associates and Joint Ventures*: Clarified that, when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with HKFRS 9 *Financial Instruments*. An entity, shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.

2.4 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 a 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.

The Group's share of the post-acquisition results and other comprehensive income of a joint venture is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's investment in the joint venture, except where unrealised losses provide evidence of an impairment of the 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 a joint venture becomes an investment in an associate, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Group measures its available-for-sale investments and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

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

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

2.4 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 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 holding company 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 holding company, 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 holding company 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 a holding company of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any 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 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 of plant and machinery used in coal mines, silver mines and oil and gas fields is calculated on the unit of production basis whereby the annual depreciation amount is determined based on the actual production volume over the total estimated proven and probable reserves of the coal mines, silver mines and oil and gas fields, respectively.

Depreciation of other property, plant and equipment 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 other than those used in coal mines, silver mines and oil and gas fields	6.7% to 33%
Furniture and fixtures	10% to 33%
Motor vehicles	20% to 25%

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 depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents production facilities of the silver mining segment 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

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.

Mineral interests

Mineral interests are stated at cost less accumulated amortisation and any impairment losses. Amortisation of mineral interests is calculated on the unit-of-production method based on the actual production volume over the total estimated proven and probable reserves of the relevant mineral interests.

Exploration and evaluation assets

Exploration and evaluation assets include an exploration permit of a silver mine and capitalised lease payments to various landlords and brokers under mineral interest leasing arrangements for the exploration of oil and gas. The exploration and evaluation assets are stated at cost and subject to test for impairment annually.

Patents

Purchased patents are stated at cost less accumulated amortisation and any impairment losses. Amortisation of patents is calculated on the straight-line basis over their estimated useful lives of 20 years.

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 profit or loss on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term of 50 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables or available-for-sale investments, 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.

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 in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments. 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 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 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 profit or loss in other expenses. Dividends earned whilst holding the available-for-sale investments are reported as dividend income and are recognised in profit or loss as other income in accordance with the policy 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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 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 profit or loss.

Available-for-sale investments

For available-for-sale 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.

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 profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through 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 all classified, at initial recognition, as loans and borrowings. All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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 profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Derecognition of financial liabilities

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

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

Derivative financial instruments

The Group had a practice of selling a commodity within a short period after purchase and generated profit or incurred loss from these transactions. Since these contracts were not entered into for the purpose of the receipt or delivery of the commodity in accordance with the Group's expected purchase, sale or usage requirements and, accordingly, these contracts were accounted for as derivative financial instruments. Any gains or losses from the trading and the fair value movements of these contracts are recognised as "Other income, net' in 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 consolidated 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.

2.4 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 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, 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:

2.4 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, 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) from the rendering of intermediary service, when the service has been performed;

(c) management fee income, on a time proportion basis over the service period;

(d) 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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits – pension schemes

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

Subsidiaries of the Group in Mainland China contribute on a monthly basis to defined contribution 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 Group's 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, and are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollar, 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currencies of 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 rates prevailing at the end of the reporting period and their statements of profit or loss 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 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 overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. 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.

The major judgements, estimates and assumptions 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:

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 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (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 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 returns.

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 as at 31 December 2016 was HK$55,165,000 (2015: HK$86,534,000) (note 13).

Impairment of property, plant and equipment and intangible assets

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 values of property, plant and equipment, including mining structures, and intangible assets, including mineral interests and exploration and evaluation assets, are reviewed for impairment when events or changes in circumstances indicate that the carrying values 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 intangible assets carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$55,165,000 (2015: HK$86,534,000) (note 13) and HK$239,869,000 (2015: HK$314,561,000) (note 15), respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (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 taken into account in the impairment assessment of mineral interests and exploration and evaluation assets.

The Group assesses whether there are any indicators of impairment for its patents 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 intangible assets which may not be recoverable shall be impaired. There was no net carrying amount of the patents carried as "Intangible assets" in the consolidated statement of financial position of the Group at 31 December 2016 (2015: Nil) (note 15).

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 as at 31 December 2016 was HK$1,118,000 (2015: HK$3,520,000) (note 18).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment of lease, factoring and trade receivables, prepayments, deposits and other receivables

Impairment of receivables is made based on an assessment of the recoverability of the 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 lease, factoring and trade receivables, prepayments, deposits and other receivables in the consolidated statement of financial position as at 31 December 2016 were HK$193,142,000 and HK$171,775,000, respectively (2015: HK$9,599,000 and HK$45,453,000, respectively) (notes 19 and 21).

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 as at 31 December 2016 was HK$232,875,000 (2015: HK$255,754,000) (note 15).

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, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact on the income tax and deferred tax provision in the periods in which the determination is made.

The carrying amount of current tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2016 was HK$15,746,000 (2015: HK$10,009,000).

4. OPERATING SEGMENT INFORMATION

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

(a) the "Coal mining" segment engages in the mining and sale of coal in Mainland China (disposed of in 2015 and classified as a discontinued operation, details of which are set out in notes 11 and 31 to the financial statements);

(b) the "Silver mining" segment engages in the mining and sale of silver in Mainland China;

(c) the "Oil and gas" segment engages in oil and gas exploration, production and sale in the USA; and

(d) the "Asset financing" segment engages in the provision of finance leasing and factoring services in Mainland China.

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

Segment assets exclude available-for-sale investments, restricted cash, cash and cash equivalents and corporate and other unallocated assets as these assets are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION (Continued)

	Continuing operations								Discontinued operation			
	Silver mining		Oil and gas		Asset financing		Subtotal		Coal mining		Total	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Segment revenue	**3,704**	21,195	**7,577**	16,079	**6,361**	817	**17,642**	38,091	**-**	7,269	**17,642**	45,360
Segment results	**(126,718)**	(341,885)	**(24,484)**	(123,710)	**5,117**	(4,714)	**(146,085)**	(470,309)	**-**	(133,670)	**(146,085)**	(603,979)
Reconciliation:												
Share of loss of a joint venture											**-**	(1,193)
Gain on disposal of subsidiaries											**-**	2,445,779
Corporate and other unallocated income/ (expenses)											**(32,597)**	(11,094)
Profit/(loss) before tax											**(178,682)**	1,829,513
Income tax											**9,842**	79,716
Profit/(loss) for the year											**(168,840)**	1,909,229
Segment assets	**264,928**	358,834	**36,059**	52,788	**194,810**	59,719	**495,797**	471,341	**-**	-	**495,797**	471,341
Reconciliation:												
Available-for-sale investments											**9,465**	19,899
Restricted cash											**351**	374
Cash and cash equivalents											**301,665**	203,322
Corporate and other unallocated assets											**166,160**	41,901
Total assets											**973,438**	736,837
Segment liabilities	**(113,942)**	(71,597)	**(11,572)**	(13,220)	**(970)**	(823)	**(126,484)**	(85,640)	**-**	-	**(126,484)**	(85,640)
Reconciliation:												
Corporate and other unallocated liabilities											**(48,467)**	(63,289)
Total liabilities											**(174,951)**	(148,929)

4. OPERATING SEGMENT INFORMATION (Continued)

	Continuing operations								Discontinued operation			
	Silver mining		Oil and gas		Asset financing		Subtotal		Coal mining		Total	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Other segment information:												
Depreciation:												
Segment assets	**2,409**	5,636	**2,557**	10,190	**9**	2	**4,975**	15,828	**-**	19,044	**4,975**	34,872
Unallocated assets											**472**	747
											5,447	35,619
Amortisation of prepaid land premiums	**64**	68	**-**	-	**-**	-	**64**	68	**-**	137	**64**	205
Amortisation of intangible assets	**677**	14,595	**116**	4,647	**20**	13	**813**	19,255	**-**	1,706	**813**	20,961
Capital expenditure:*												
Segment assets	**1,735**	11,101	**447**	62,273	**9**	200	**2,191**	73,574	**-**	24,989	**2,191**	98,563
Unallocated assets											**-**	332
											2,191	98,895
Impairment of property, plant and equipment	**20,242**	50,851	**3,632**	47,886	**-**	-	**23,874**	98,737	**-**	-	**23,874**	98,737
Impairment of intangible assets	**47,232**	293,795	**8,328**	60,025	**-**	-	**55,560**	353,820	**-**	-	**55,560**	353,820
Impairment of available-for-sale investments – unallocated assets											**-**	4,523
Impairment of a loan receivable	**-**	-	**2,328**	-	**-**	-	**2,328**	-	**-**	-	**2,328**	-

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers of continuing operations

	2016 HK$'000	2015 HK$'000
Mainland China	**10,065**	22,012
USA	**7,577**	16,079
	17,642	38,091

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets of continuing operations

	2016 HK$'000	2015 HK$'000
Mainland China	**261,779**	353,806
USA	**34,130**	48,285
Others	**13**	19
	295,922	402,110

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instruments.

Information about major customers of continuing operations

During the year, there were three (2015: two) external customers which individually contributed over 10% of the Group's total revenue from continuing operations for the current year. The revenue generated from sales to each of these customers is summarised as follows:

	2016 HK$'000	2015 HK$'000
Customer A from the oil and gas segment	**6,295**	13,363
Customer B from the silver mining segment	**3,704**	21,195
Customer C from the asset financing segment	**3,960**	–

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents (i) the net invoiced value of goods sold, after allowances for returns and trade discounts; and (ii) interest income and management fee income generated from asset financing service, net of value-added tax and government surcharges.

An analysis of revenue, other income and gains, net from continuing operations is as follows:

	Notes	2016 HK$'000	2015 HK$'000
Revenue			
Sale of goods		**11,281**	37,274
Interest income of asset financing service		**5,204**	817
Management fee income of asset financing service		**1,157**	–
		17,642	38,091
Other income, net			
Bank interest income		**140**	80
Interest income on loan receivables		**4,084**	57
Dividend income from an available-for-sale investment		**–**	2,375
Trading income, net*	21(b)	**37,394**	13,927
Intermediary service income		**1,623**	–
Others		**7**	–
		43,248	16,439
Gains			
Gain on disposal of an available-for-sale investment	17(a), (b)	**–**	13,553
Gain on disposal of items of property, plant and equipment		**15**	–
		15	13,553
Other income and gains, net		**43,263**	29,992

* During the year, the Group entered into contracts to buy and sell a commodity with total purchase and sales amounts of HK$1,050,731,000 (2015: HK$288,070,000) and HK$1,088,125,000 (2015: HK$301,997,000), respectively. At 31 December 2016, the Group did not hold similar contracts for the purchase and sale of the commodity (2015: Nil). Details of receivables arising from the trading of the commodity are set out in note 21(b) to the financial statements.

6. FINANCE COSTS

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

	2016 HK$'000	2015 HK$'000
Interest and other borrowing costs on overdue other loans (note)	**6,256**	28,080
Penalty on overdue other loans	**43,971**	–
	50,227	28,080

Note: Comparative amount of other borrowing costs was reclassified from "Administrative expenses" to conform to the current year's presentation.

7. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		**8,848**	18,488
Depreciation[@]		**5,447**	16,575
Amortisation of prepaid land premiums		**64**	68
Amortisation of intangible assets*		**813**	19,255
Auditor's remuneration		**2,000**	2,800
Minimum lease payments under operating leases for buildings		**4,549**	4,424
Employee benefit expense (including directors' remuneration – note 8):			
Wages, salaries and other benefits		**34,393**	36,020
Defined contribution scheme contributions		**350**	1,190
		34,743	37,210
Foreign exchange differences, net		**30,160**	71
Impairment of items of property, plant and equipment[#]	13	**23,874**	98,737
Impairment of intangible assets[#]	15	**55,560**	353,820
Impairment of an available-for-sale investment[#]	17(b)	**–**	4,523
Impairment of a loan receivable[#]	20(b)	**2,328**	–

@ Depreciation of HK$3,930,000 (2015: HK$14,498,000) is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

* This item is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

\# These items are included in "Other expenses, net" in the consolidated statement of profit or loss and other comprehensive income.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange, 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	
	2016	2015
	HK$'000	HK$'000
Fees	**6,420**	6,887
Other emoluments:		
Salaries, allowances and benefits in kind	**370**	763
Total	**6,790**	7,650

An analysis of directors' remuneration, on a named basis, is as follows:

	Fees HK$'000	**Salaries, allowances and benefits in kind HK$'000**	**Total remuneration HK$'000**
Year ended 31 December 2016			
Executive directors:			
Zong Hao (chief executive)	**2,100**	**370**	**2,470**
Zhang Wanzhong	**300**	**–**	**300**
Xu Zhuliang	**1,800**	**–**	**1,800**
Benjamin Clark Danielson	**1,500**	**–**	**1,500**
	5,700	**370**	**6,070**
Independent non-executive directors:			
Chiu Sui Keung	**180**	**–**	**180**
Liu Shengming	**180**	**–**	**180**
Lee Ping	**180**	**–**	**180**
Lu Binghui	**180**	**–**	**180**
	720	**–**	**720**
Total	**6,420**	**370**	**6,790**

8. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Total remuneration HK$'000
Year ended 31 December 2015			
Executive directors:			
Xu Zhendong (resigned on 5 May 2015)	402	385	787
Zong Hao (chief executive)	2,100	362	2,462
Zhang Wanzhong	300	–	300
Xu Zhuliang	1,800	–	1,800
Benjamin Clark Danielson	1,500	–	1,500
Zhang Yongli (deceased on 24 January 2015)	65	16	81
	6,167	763	6,930
Independent non-executive directors:			
Chiu Sui Keung	180	–	180
Liu Shengming	180	–	180
Lee Ping	180	–	180
Lu Binghui	180	–	180
	720	–	720
Total	6,887	763	7,650

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2015: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2015: two) non-director, highest paid employees for the year are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	**3,308**	2,625
Pension scheme contributions	**18**	18
	3,326	2,643

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

	Number of employees	
	2016	2015
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	–
	2	2

10. 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 (2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2016 HK$'000	2015 HK$'000
Current – Mainland China		
Charge for the year	**2,312**	8,011
Underprovision in prior year	**4,578**	–
Current – Overseas	**–**	2,062
	6,890	10,073
Deferred – Mainland China (note 26)	**(16,732)**	(89,789)
	(9,842)	(79,716)

10. INCOME TAX (Continued)

A reconciliation of the tax credit applicable to loss before tax from continuing operations 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 2016								
Loss before tax from continuing operations	(24,659)		(117,440)		(36,583)		(178,682)	
Tax credit at the statutory tax rates	(4,069)	16.5	(29,357)	25.0	(10,602)	29.0	(44,028)	24.6
Income not subject to tax	(2,395)	9.7	–	–	–	–	(2,395)	1.3
Expenses not deductible for tax	6,464	(26.2)	340	(0.3)	840	(2.3)	7,644	(4.2)
Tax losses not recognised	–	–	19,175	(16.3)	9,762	(26.7)	28,937	(16.2)
Tax credit at the Group's effective rate	–	–	(9,842)	8.4	–	–	(9,842)	5.5
Year ended 31 December 2015								
Loss before tax from continuing operations	(29,370)		(398,860)		(114,447)		(542,677)	
Tax credit at the statutory tax rates	(4,846)	16.5	(99,715)	25.0	(30,959)	27.1	(135,520)	25.0
Income not subject to tax	(392)	1.3	–	–	–	–	(392)	0.1
Expenses not deductible for tax	1,955	(6.7)	1,866	(0.5)	1,595	(1.4)	5,416	(1.0)
Tax losses not recognised	3,283	(11.1)	31,896	(8.0)	31,426	(27.5)	66,605	(12.3)
Tax loss utilised	–	–	(15,825)	4.0	–	–	(15,825)	2.9
Tax expense/(credit) at the Group's effective rate	–	–	(81,778)	20.5	2,062	(1.8)	(79,716)	14.7

11. DISCONTINUED OPERATION

In the prior year, pursuant to a disposal agreement entered into with Jumbo Talent Group Limited (the "Purchaser", an independent third party) on 2 April 2015 and a supplemental agreement entered into with the Purchaser and Eerduosi Hengtai Coal Company Limited ("Hengtai") on 26 June 2015 (collectively the ''Disposal Agreements''), the Group sold its entire equity interest in Magic Field International Limited ("Magic Field", a then wholly-owned subsidiary of the Group, and together with its subsidiaries are hereinafter referred to as the "Disposal Group") and certain loans receivables to the Purchaser at a cash consideration of HK$1. The transaction was completed on 26 June 2015 and further details of which are set out in note 31 to the financial statements.

Pursuant to 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 an 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;

(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 the date of approval of these financial statements.

11. DISCONTINUED OPERATION (Continued)

The Group's coal mining operation was solely undertaken by Magic Field and its subsidiaries, and hence the coal mining operation of the Group was discontinued upon the completion of the transaction. Accordingly, the coal mining operation of the Group has been presented as a discontinued operation in the comparative statement of profit or loss and other comprehensive income in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

(a) The results of the discontinued operation dealt with in the consolidated financial statements for the year ended 31 December 2015 are summarised as follows:

	2015 HK$'000
Revenue	7,269
Cost of sales	(32,791)
Gross loss	(25,522)
Other income	4,785
Selling and distribution expenses	(1,067)
Administrative expenses	(10,661)
Other expenses	(2,000)
Finance costs	(37,931)
Share of loss of a joint venture	(1,193)
Loss from the discontinued operation	(73,589)
Gain on disposal of the discontinued operation, net of income tax of nil (note 31)	2,445,779
Profit before tax from the discontinued operation	2,372,190
Income tax	–
Profit for the year from the discontinued operation	2,372,190
Attributable to:	
Shareholders of the Company	2,342,266
Non-controlling interests	29,924
	2,372,190

11. DISCONTINUED OPERATION (Continued)

(b) The net cash flows of the discontinued operation dealt with in the consolidated financial statements for the year ended 31 December 2015 are as follows:

	2015 HK$'000
Operating activities	(39,204)
Investing activities	24,989
Financing activities	13,308
Net cash outflow attributable to the discontinued operation	(907)

(c) Earnings per share from the discontinued operation is as follows:

	2015
Basic and diluted	HK$0.65

The calculation of the basic earnings per share amount from the discontinued operation for the year ended 31 December 2015 is based on the profit for the year from the discontinued operation attributable to shareholders of the Company of HK$2,342,266,000, and the weighted average number of 3,578,143,239 ordinary shares in issue during that year (note 12).

No adjustment has been made to the basic earnings per share amount from the discontinued operation presented for the year ended 31 December 2015 in respect of a dilution as the impact of the warrants of the Company outstanding during the prior year had no dilutive effect on the basic earnings per share amount presented.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amounts are based on the loss for the year attributable to shareholders of the Company of HK$111,384,000 (2015: profit of HK$2,020,128,000) and the loss for the year from continuing operations attributable to shareholders of the Company of HK$111,384,000 (2015: HK$322,138,000), and the weighted average number of ordinary shares of 5,993,662,125 (2015: 3,578,143,239) in issue during the year.

No adjustment had been made to the basic earnings/(loss) per share amounts presented for each of the years ended 31 December 2016 and 2015 for a dilution as the Group had no potential dilutive ordinary shares in issue during the year ended 31 December 2016 and the impact of the warrants of the Company outstanding during the prior year had no dilutive effect on the basic earnings/(loss) per share amounts for the prior year.

13. PROPERTY, PLANT AND EQUIPMENT

	Note	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2016								
At 1 January 2016:								
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
Net carrying amount:								
At 1 January 2016		1,830	–	66,585	671	2,110	15,338	86,534
Additions		–	–	476	–	–	431	907
Depreciation provided during the year		(523)	–	(3,934)	(307)	(683)	–	(5,447)
Impairment provided during the year	16	–	–	(23,874)	–	–	–	(23,874)
Disposals		–	–	–	(1)	–	–	(1)
Exchange realignment		(97)	–	(1,809)	(23)	(16)	(1,009)	(2,954)
At 31 December 2016		1,210	–	37,444	340	1,411	14,760	55,165
At 31 December 2016:								
Cost		3,030	1,036	169,635	1,736	3,947	33,130	212,514
Accumulated depreciation and impairment		(1,820)	(1,036)	(132,191)	(1,396)	(2,536)	(18,370)	(157,349)
Net carrying amount		1,210	–	37,444	340	1,411	14,760	55,165

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
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
Net carrying amount:								
At 1 January 2015		14,537	311	548,653	4,092	3,163	341,009	911,765
Additions		615	–	84,136	528	736	7,234	93,249
Depreciation provided during the year		(1,008)	(311)	(33,034)	(549)	(717)	–	(35,619)
Impairment provided during the year	16	–	–	(80,659)	–	–	(18,078)	(98,737)
Disposal of subsidiaries	31	(12,228)	–	(495,559)	(3,389)	(1,046)	(267,691)	(779,913)
Transfers		–	–	45,223	–	–	(45,223)	–
Exchange realignment		(86)	–	(2,175)	(11)	(26)	(1,913)	(4,211)
At 31 December 2015		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

Note: An analysis of the net carrying amounts of the Group's property, plant and equipment by operating segment as at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
Silver mining segment	**22,137**	47,061
Oil and gas segment	**31,274**	37,225
Asset financing segment	**190**	211
Unallocated amounts attributable to corporate and others	**1,564**	2,037
Total	**55,165**	86,534

14. PREPAID LAND PREMIUMS

	2016 HK$'000	2015 HK$'000
Net carrying amount as at 1 January	**1,015**	14,882
Amortisation provided during the year	**(64)**	(205)
Disposal of subsidiaries (note 31)	**–**	(13,757)
Exchange realignment	**(63)**	95
Net carrying amount as at 31 December	**888**	1,015

Note: The Group's prepaid land premiums as at the end of the reporting period are wholly attibutable to the silver mining segment.

15. INTANGIBLE ASSETS

		Mineral interests		Exploration and evaluation assets		Patents		Others		Total	
	Notes	2016 HK$'000 (note (a))	2015 HK$'000 (note (a))	2016 HK$'000 (note (b))	2015 HK$'000 (note (b))	2016 HK$'000 (note (c))	2015 HK$'000 (note (c))	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
At 1 January:											
Cost		**215,993**	3,530,410	**462,173**	479,511	**61,094**	61,094	**39**	41	**739,299**	4,071,056
Accumulated amortisation and impairment		**(157,210)**	(3,036,869)	**(206,419)**	(37,773)	**(61,094)**	(4,180)	**(15)**	(3)	**(424,738)**	(3,078,825)
Net carrying amount		**58,783**	493,541	**255,754**	441,738	**-**	56,914	**24**	38	**314,561**	992,231
Net carrying amount:											
At 1 January		**58,783**	493,541	**255,754**	441,738	**-**	56,914	**24**	38	**314,561**	992,231
Additions		**47**	4,994	**1,228**	652	**-**	–	**9**	–	**1,284**	5,646
Amortisation provided during the year		**(793)**	(16,768)	**-**	–	**-**	(4,180)	**(20)**	(13)	**(813)**	(20,961)
Impairment provided during the year	(c),16	**(47,423)**	(133,611)	**(8,137)**	(167,475)	**-**	(52,734)	**-**	–	**(55,560)**	(353,820)
Disposal of subsidiaries	31	**-**	(280,383)	**-**	–	**-**	–	**-**	–	**-**	(280,383)
Exchange realignment		**(3,632)**	(8,990)	**(15,970)**	(19,161)	**-**	–	**(1)**	(1)	**(19,603)**	(28,152)
At 31 December		**6,982**	58,783	**232,875**	255,754	**-**	–	**12**	24	**239,869**	314,561
At 31 December:											
Cost		**202,426**	215,993	**428,718**	462,173	**61,094**	61,094	**45**	39	**692,283**	739,299
Accumulated amortisation and impairment		**(195,444)**	(157,210)	**(195,843)**	(206,419)	**(61,094)**	(61,094)	**(33)**	(15)	**(452,414)**	(424,738)
Net carrying amount		**6,982**	58,783	**232,875**	255,754	**-**	–	**12**	24	**239,869**	314,561

15. INTANGIBLE ASSETS (Continued)

Notes:

(a) An analysis of the net carrying amounts of mineral interests by operating segment as at the end of the reporting period is as follows:

	Notes	2016 HK$'000	2015 HK$'000
Silver mining segment	(i)	**5,237**	56,779
Oil and gas segment	(ii)	**1,745**	2,004
		6,982	58,783

(i) The amount represents a mining permit of a silver mine (the "West Mine") located at Yingshan, Fu'an City, Fujian Province, the PRC. The mining permit is valid from September 2010 up to December 2020 and covers an area of 2.1442 square kilometers with an annual production capacity of 100,000 tons.

(ii) The amount represents capitalised lease payments to various landlords and brokers of oil fields in Texas, the USA under mineral interest leasing arrangements for the production of oil and gas products. Having considered the severe oil and gas market condition, these capitalised lease payments were impaired during the year with an impairment loss of HK$191,000 (2015: HK$2,520,000) charged to profit or loss for the year.

(b) An analysis of the net carrying amounts of exploration and evaluation assets by operating segment as at the end of the reporting period is as follows:

	Notes	2016 HK$'000	2015 HK$'000
Silver mining segment	(i)	**232,006**	246,939
Oil and gas segment	(ii)	**869**	8,815
		232,875	255,754

Notes:

(i) The amount represents an exploration permit of a silver mine (the "East Mine") covering an area of 4.97 square kilometers in Tuorong County, Yingshan, Fujian Province, the PRC. The exploration permit was valid from October 2012 to November 2016 (as extended). At the date of approval of these financial statements, the Group is applying for a further extension of the expiry date of the exploration permit and, in the opinion of the directors, they are not aware of any legal impediments in obtaining the relevant approval for the application, based on previous experiences of similar applications in the past.

(ii) The amount represented capitalised lease payments to various landlords and brokers of oil fields in Texas, the USA under mineral interest leasing arrangements for the exploration of oil and gas. Having considered the severe oil and gas market condition, the Group has suspended its plan to invest in new oil and gas exploration activities and accordingly, these capitalised lease payments were impaired during the year with a total impairment loss of HK$8,137,000 (2015: HK$4,771,000) charged to profit or loss for the year.

(c) Purchased patents of the Group are patents of a new heavy oil extraction technology (the "HydroFlame Technology") that burns a fuel directly inside a rotating stream of water heavy oil recovery application. The HydroFlame Technology has not yet been commercialised.

The patents were acquired in 2013 and were fully impaired during the prior year with an impairment loss amounting to HK$52,734,000 recognised in profit or loss as, in the opinion of the directors, there was uncertainty in the successful commercialisation of the technology in light of a further delay in its commercialisation and the then severe oil and gas market condition.

16. IMPAIRMENT TESTING OF NON-CURRENT ASSETS

The Group's silver mining segment and oil and gas segment have been loss-making for some time which, amongst others, constitutes an indication of impairment of non-current assets attributable to these segments, including property, plant and equipment, prepaid land premiums and intangible assets. Accordingly, the Group carried out an impairment testing of these assets as at 31 December 2016 in accordance with HKAS 36 *Impairment of Assets*, which is summarised as follows:

(a) Silver Mining Assets

In view of the indications of impairment arising from decrease in forecast silver prices and the estimated lower ore grade content with reference to the 2016 annual production record, the directors of the Company had estimated the recoverable amounts (which is the value in use ("VIU")) of the non-current assets of the silver mining segment (the "Silver Mining Assets") 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 VIU of the cash-generating units ("CGUs") of the silver mining segment and management had derived the VIU of the Silver Mining Assets from the VIU of the relevant CGUs. In assessing the VIU of each of the CGUs, the future pre-tax cash flows of the silver mining segment which cover the periods to utilise the remaining reserves of the mine are discounted to the related present values using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such 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, which reflected the current conditions of the market and estimated trend in the future. The fair value measurement used significant unobservable inputs (level 3 of fair value hierarchy).

The key assumptions which were used in assessing the VIU of the CGUs of the silver mining segment included but not limited to the following:

(i) In respect of the revenue from the silver mining 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 management; and (c) the projected market prices of silver. The silver selling price of RMB3.97 per gram at 31 December 2016 (2015: RMB3.18 per gram) was used as the projection basis for future years, and the growth rates applied to the silver selling price in the cash flow projections for 2017, 2018, 2019 and 2020 are 1.1%, 1.9%, 2.0% and 3.0% (2015: 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 inflation rate in the PRC of 3% per annum (2015: 3% per annum) in subsequent years.

16. IMPAIRMENT TESTING OF NON-CURRENT ASSETS (Continued)

(a) Silver Mining Assets (Continued)

(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 2016 was RMB1.4 per gram (2015: RMB2.0 per gram).

(iv) Production for the West Mine is forecasted to be ending in 2020.

(v) Production for the East Mine is forecasted to be commenced in 2020 (2015: 2019).

(vi) The cash flow projections are based on the financial budgets covering a 4-year period up to 31 December 2020. The growth rate applied to the silver selling price in the cash flow projections after 2020 is based on the expected inflation rate in the PRC of 3% per annum (2015: 3% per annum after 2019).

(vii) 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 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 pre-tax discount rates ranging from 11% to 16% (2015: 17% to 21%) used in assessing the VIU of all the CGUs of the silver mining segment were arrived by the weighted average of the cost of equity and the cost of debt before tax of the respective CGUs.

Based on the VIU assessment of the CGUs of the silver mining segment which is determined to be HK$261,191,000, the directors of the Company are of the opinion that an impairment loss of the Silver Mining Assets totalling HK$67,474,000 (2015: HK$344,646,000) was resulted during the year, in which HK$20,242,000 (2015: HK$50,851,000) was allocated to property, plant and equipment and HK$47,232,000 (2015: HK$293,795,000) was allocated to intangible assets of the Group's silver mining segment, based on their relative carrying amounts amongst the Silver Mining Assets. The above impairment provisions aggregating HK$67,474,000 (2015: HK$344,646,000) were recognised as "Other expenses, net" in profit or loss during the year.

(b) Oil and Gas Assets

In view of the indications of impairment arising from a significant decline of oil and gas price in recent years, the directors of the Company had estimated the recoverable amounts (which is the VIU) of the non-current assets of the Group's oil and gas segment (the "Oil and Gas Assets") for impairment testing purposes.

In this connection, the Company had assessed the VIU of the CGUs of the oil and gas segment and derived the VIU of the Oil and Gas Assets from the VIU of the relevant CGUs. In assessing the VIU of each of the CGUs, the future cash flows of the relevant oil and gas segment 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 pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of oil and gas, production cost and other expenses, capital expenditure, production plan and discount rate, which reflected the current conditions of the market and estimated trend in the future. The fair value measurement used significant unobservable inputs (level 3 of fair value hierarchy).

16. IMPAIRMENT TESTING OF NON-CURRENT ASSETS (Continued)

(b) Oil and Gas Assets (Continued)

The key assumptions which were used in assessing the VIU of the CGUs of the oil and gas segment included but not limited to the following:

(i) In respect of the revenue from the Oil and Gas Assets, the budgeted revenue is based on (a) the total projected annual productions as assessed and estimated by management; and (b) the projected market prices of oil, gas and natural gas liquid for 2017 to 2020 with reference to certain published forecast prices considered appropriate by management. Forecast selling prices of oil, gas and natural gas liquid for the first year subsequent to 2016 are US$53.72/BBL, US$3.49/MCF and US$15.04/BBL (2015: 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 management, and the expected inflation rate in the USA 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 2016 were US$33.49/BBL to US$33.46/BBL, US$1.83/MCF to US$1.84/MCF and US$9.37/BBL to US$9.38/BBL (2015: US$23.64/BBL to US$24.15/BBL, US$1.24/MCF to US$1.27/MCF 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 2020 is based on the expected inflation rate in the USA of 2% per annum (2015: 2% per annum).

(v) When evaluating the appropriate discount rate for each of the CGUs, the CAPM had been used. The pre-tax discount rate of 16% (2015: 13%) used in assessing the VIU of the CGUs of the oil and gas segment was arrived by the weighted average of the cost of equity and the cost of debt before tax of the respective CGUs.

(vi) The cost of development of those undeveloped oil and gas wells with lease period ending on or before 31 December 2017 (2015: On or before 31 December 2016) will outweigh the benefits and returns of such undeveloped oil and gas wells. On this basis, the directors of the Company have made an impairment loss on intangible assets of HK$8,137,000 (2015: HK$4,771,000) to fully write off the relevant capitalised lease payments which will expire in 2017 (2015: in 2016).

Based on the VIU assessment of the CGUs of the oil and gas segment which was determined to be HK$32,155,000 (2015: HK$38,131,000), the directors of the Company are of the opinion that an impairment loss of the Oil and Gas Assets totalling HK$11,960,000 (2015: HK$55,177,000) was resulted during the year, in which HK$3,632,000 (2015: HK$47,886,000) was allocated to property, plant and equipment, and HK$8,328,000 (2015: HK$7,291,000) was allocated to intangible assets. The above impairment provisions aggregating HK$11,960,000 (2015: HK$55,177,000) were recognised as "Other expenses, net" in profit or loss during the year.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2016 HK$'000	2015 HK$'000
Listed equity investments, at fair value	**9,465**	19,899
Unlisted equity investment, at cost	**4,018**	4,296
Impairment (note (b))	**(4,018)**	(4,296)
	–	–
	9,465	19,899

Notes:

(a) During the year ended 31 December 2016, the gross loss in respect of the Group's listed available-for-sale investments recognised in other comprehensive income amounted to HK$10,434,000 (2015: gain of HK$17,172,000), of which none (2015: gain of HK$13,553,000) was reclassified from other comprehensive income to profit or loss for the year. Owing to the significant and prolonged decline in the market value of a listed equity investment during the year ended 31 December 2015, the directors considered that such a decline indicated that the listed equity investment have been impaired and impairment loss of HK$82,000 was recognised directly in profit or loss during the year ended 31 December 2015.

(b) The Group's unlisted equity investment was stated at cost less any impairment losses because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

During the year ended 31 December 2015, a full provision for impairment was made against the Group's unlisted equity investment as at 31 December 2015 because the investee had financial difficulties and hence, in the opinion of the directors, the investment cost may not be recovered.

The movements in the provision for impairment of the unlisted equity investment are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**4,296**	–
Impairment loss recognised	**–**	4,441
Exchange realignment	**(278)**	(145)
At 31 December	**4,018**	4,296

18. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials and consumables	**247**	499
Finished goods	**871**	3,021
	1,118	3,520

19. LEASE, FACTORING AND TRADE RECEIVABLES

	Notes	**2016 HK$'000**	2015 HK$'000
Gross lease receivable		**47,726**	6,610
Less: Unearned interest income		**(3,218)**	(750)
Net lease receivable	(a)	**44,508**	5,860
Factoring receivables	(b)	**147,043**	–
Management fee receivables of asset financing services	(c)	**603**	–
Trade receivables	(d)	**988**	3,739
Total lease, factoring and trade receivables		**193,142**	9,599
Portion classified as current assets		**(16,472)**	(6,430)
Non-current portion		**176,670**	3,169

19. LEASE, FACTORING AND TRADE RECEIVABLES (Continued)

Notes:

(a) The balance as at 31 December 2016 represents a lease receivable of RMB38,800,000 provided by the Group in its ordinary course of business to a lessee, which is a company with a director who is also a director of the Company and principally engaged in coal mining business, in connection with a finance lease arrangement of certain plant and equipment. The lease receivable bears interest at a floating rate of three-year lending rate promulgated by the People's Bank of China plus 20% margin and is repayable within 3 years in 6 equal semi-annual instalments of RMB7,127,000 each. During the year, interest income of HK$1,185,000 (2015: Nil) was recognised in profit or loss in respect of the lease receivable.

The balance as at 31 December 2015 was early settled in full by the lessee during the current year and interest income of HK$24,000 (2015: HK$817,000) was recognised in profit or loss in respect of this lease receivable during the year ended 31 December 2016.

At 31 December 2016, the Group's total future minimum lease receivable under the finance lease arrangement with the related company and their present values were as follows:

	2016		2015	
	Gross investment in the finance lease HK$'000	**Present value of minimum lease receivables HK$'000**	Gross investment in the finance lease HK$'000	Present value of minimum lease receivables HK$'000
Amounts receivable:				
Within one year	**15,909**	**14,058**	3,354	2,691
In the second year	**15,909**	**14,797**	3,256	3,169
In the third to fifth years, inclusive	**15,908**	**15,653**	–	–
Total minimum lease receivable	**47,726**	**44,508**	6,610	5,860
Future interest income	**(3,218)**		(750)	
Total net lease receivable	**44,508**		5,860	

(b) The Group's factoring receivables arose from factoring services provided in the ordinary course of business of the Group to an intermediate holding company of a company which has a director who is also a director of the Company and an investee of a company which has a supervisor who is a director of the Company. These factoring receivables bear interest at a floating rate of the three-year lending rate promulgated by the People's Bank of China plus 20% margin, due in 2019 and each is secured by a receivable owed by a debtor to the customer. During the year, interest income of HK$3,995,000 (2015: Nil) in total was recognised in profit or loss in respect of these factoring receivables.

The factoring receivables as at 31 December 2016 are neither past due nor impaired based on the due date.

(c) Management fee receivables arose from the provision of finance leasing and factoring services to the three related companies mentioned in notes (a) and (b) above. The management fee is charged at 1% per annum of the principal amounts of the receivables and management fee income of HK$1,157,000 (2015: Nil) in total was recognised in profit or loss during the year. The management fee receivables as at 31 December 2016 are past due for less than six months.

19. LEASE, FACTORING AND TRADE RECEIVABLES (Continued)

Notes: (Continued)

(d) The Group's trading terms with its customers from silver and oil and gas segments 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 management.

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

	2016 HK$'000	2015 HK$'000
Within one month	988	–
One to six months	–	3,739
	988	3,739

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

	2016 HK$'000	2015 HK$'000
Neither past due nor impaired	988	1,414
Past due for less than three months	–	2,325
	988	3,739

Receivables that were neither past due nor impaired relate to customers with no recent history of default.

Receivables that were past due but not impaired relate to 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.

20. LOAN RECEIVABLES

	Notes	2016 HK$'000	2015 HK$'000
Gross amount	(a)	32,326	82,560
Less: Impairment	(b)	(32,326)	(30,000)
		–	52,560

20. LOAN RECEIVABLES (Continued)

Notes:

(a) Included in the balance as at 31 December 2015 was a loan receivable of HK$50,200,000 advanced to an investee of a general partner of the ultimate holding company which was unsecured, bore interest at the rate of 5% per annum and was repayable in June 2016. The balance was repaid during the year.

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

	2016 HK$'000	2015 HK$'000
At 1 January	**30,000**	30,000
Impairment loss recognised in profit or loss during the year	**2,328**	–
Exchange realignment	**(2)**	–
At 31 December	**32,326**	30,000

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2016 HK$'000**	2015 HK$'000
Prepayments		**6,888**	7,125
Deposits and other receivables	(a)	**4,274**	38,328
Receivables on commodity trading	(b)	**160,613**	–
		171,775	45,453
Portion classified as current assets		**(169,182)**	(43,421)
Non-current portion		**2,593**	2,032

Notes:

(a) The balance as at 31 December 2015 included an other receivable of HK$35,000,000 for a potential acquisition of an entity, which was unsecured and interest-free. The receivable was refunded during the year when the acquisition was not proceeded.

(b) Receivables on commodity trading as at 31 December 2016 arose from selling nickel to a subsidiary of a related company which has a director who is also a director of the Company. The amounts due from this company are unsecured, interest-free and repayable in 90 days after the relevant transactions. During the year, the gross trading amount of the commodity with that related company and its subsidiaries amounted to HK$1,026,022,000 (2015: HK$301,997,000) and the associated net trading income amounted to HK$37,394,000 (2015: HK$13,927,000) (note 5).

22. RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	2016 **HK$'000**	2015 HK$'000
Cash and bank balances	**302,016**	203,696
Less: Restricted cash (note (c))	**(351)**	(374)
Cash and cash equivalents	**301,665**	203,322

Notes:

(a) At 31 December 2016, the cash and bank balances of the Group denominated in RMB amounted to HK$245,471,000 (2015: HK$138,566,000). 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. The bank balances are deposited with creditworthy banks with no recent history of default.

(c) The restricted cash is pledged for the work safety of mining workers required by the PRC local government and cannot be used for daily operations.

23. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 **HK$'000**	2015 HK$'000
Less than six months	**1,858**	4,581
Six months to one year	**813**	625
Over one year	**80**	281
	2,751	5,487

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

24. OTHER PAYABLES AND ACCRUALS

	2016 HK$'000	2015 HK$'000
Accruals	**5,939**	2,253
Receipts in advance	**873**	–
Value-added tax and other tax payables	**94**	766
Consideration payable for the purchase of an intangible asset (note)	**–**	8,218
Other payables	**10,685**	6,952
	17,591	18,189
Portion classified as current liabilities	**(17,079)**	(17,717)
Non-current portion	**512**	472

Note: The balance as at 31 December 2015 represented the outstanding consideration payable in respect of the acquisition of the HydroFlame Technology in 2013 (note 15(c)) and it was fully settled during the year.

25. OTHER LOANS

The other loans of the Group as at 31 December 2016 comprised the following:

(i) a loan from a former shareholder of a subsidiary of the Group of RMB20,000,000 (approximately HK$22,324,000 (2015: HK$23,864,000)), which is unsecured, interest-free, repayable on 1 January 2016, and subject to an overdue penalty of 0.5% per day on the loan principal;

(ii) a loan of RMB9.5 million (approximately HK$10,604,000 (2015: HK$11,335,000)), which is unsecured, interest-free, repayable in September 2016, and subject to an overdue penalty of 0.05% per day on the loan principal;

(iii) a loan of RMB5.5 million (approximately HK$6,139,000 (2015: HK$6,563,000)), which is unsecured, bears interest at 15% per annum, repayable on 1 January 2016 and subject to an overdue penalty of 1% on the overdue balance; and

(iv) a loan of RMB5 million (approximately HK$5,581,000 (2015: HK$5,966,000)), which is unsecured, bears interest at 15% per annum, repayable in April 2014, and subject to an overdue penalty of 1% on the overdue balance.

At 31 December 2016, all the above four other loans (2015: one loan) were overdue with accumulated interest expenses and penalty charges of HK$64,044,000 (2015: HK$17,175,000), which were included in the carrying amounts of the other loans as at the end of the reporting period.

In July 2016, the liquidator of the lender (as specified in (i) above) filed a legal claim against the subsidiary of the Group for recovering the overdue loan with accrued interest and penalty. The litigation was subsequently withdrawn by the liquidator in October 2016.

26. DEFERRED TAX LIABILITIES

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

	Notes	Attributable to Impairment, depreciation and amortisation of non-current assets HK$'000	Attributable to Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2015		(269,425)	415,996	146,571
Deferred tax credited to profit or loss during the year	10	(89,789)	–	(89,789)
Disposal of subsidiaries		257,263	(257,263)	–
Exchange realignment		663	(7,104)	(6,441)
At 31 December 2015 and 1 January 2016		**(101,288)**	**151,629**	**50,341**
Deferred tax credited to profit or loss during the year	10	**(16,732)**	**–**	**(16,732)**
Exchange realignment		**6,347**	**(9,785)**	**(3,438)**
At 31 December 2016		**(111,673)**	**141,844**	**30,171**

Notes:

(a) At 31 December 2016, unutilised tax losses and deductible temporary differences of approximately HK$516,425,000 (2015: HK$428,028,000) and HK$1,479,000 (2015:HK$107,911,000), respectively, have not been recognised as deferred tax assets, as they have 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 and deductible temporary differences 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 2016, there were no unremitted earnings that were subject to withholding taxes of the Group's subsidiaries established in Mainland China (2015: Nil).

27. SHARE CAPITAL

Shares

	2016 **HK$'000**	2015 HK$'000
Issued and fully paid:		
7,010,055,568 (2015: 4,010,055,568) ordinary shares	**2,703,301**	2,287,807

A summary of movements in the Company's share capital during the years ended 31 December 2016 and 2015 is as follows:

	Notes	**Number of ordinary shares in issue**	**Share capital HK$'000**
At 1 January 2015		**3,342,055,568**	**2,108,700**
Placement of new shares	(a)	**668,000,000**	**183,700**
Share issue expenses		**–**	**(4,593)**
At 31 December 2015 and 1 January 2016		**4,010,055,568**	**2,287,807**
Placement of new shares	(b)	**3,000,000,000**	**417,000**
Share issue expenses		**–**	**(1,506)**
At 31 December 2016		**7,010,055,568**	**2,703,301**

Notes:

(a) On 24 August 2015, the Company issued 668,000,000 ordinary shares at the placing price of HK$0.275 per ordinary share pursuant to a placing agreement entered into between the Company and a placing agent on 4 August 2015 (the "2015 Placing"). Net proceeds from the 2015 Placing, after deducting relevant expenses incurred, amounted to approximately HK$179 million and would be used to finance part of a possible investment project in relation to stone paper business.

(b) On 4 May 2016, the Company issued 3,000,000,000 ordinary shares at the placing price of HK$0.139 per ordinary share pursuant to a placing agreement and a supplemental agreement entered into between the Company and a placing agent on 6 November 2015 and 25 January 2016, respectively (the "2016 Placing"). Net proceeds from the 2016 Placing, after deducting relevant expenses incurred, amounted to approximately HK$415,494,000 and would be used to finance part of a possible investment project in relation to the stone paper business and general working capital.

Share options

Details of the Company's share option scheme are included in note 28 to the financial statements.

28. 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 ordinary shares of the Company issuable under share options to be granted under the Scheme is 701,055,556, representing 10% of the number of ordinary shares of the Company in issue as at 31 December 2016. 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 ordinary 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 ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's ordinary 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. Share options granted may be exercised under the Scheme at any time during a period not exceeding five years after the date when the options are granted and expiring on the last date of this period.

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

No share option was granted under the Scheme during the years ended 31 December 2016 and 2015, and no share options were outstanding as at 31 December 2016 and 2015.

29. 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.

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

For the years ended 31 December 2016 and 2015, Million Grow and its subsidiaries (collectively, the "Million Grow Group") were considered subsidiaries that had material non-controlling interests and details of which are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests	**50%**	50%

	2016 **HK$'000**	2015 HK$'000
Loss for the year allocated to non-controlling interests	**(57,429)**	(103,257)
Accumulated balances of non-controlling interests at the reporting dates	**68,785**	134,928

30. 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:

	2016 HK$'000	2015 HK$'000
Revenue	**3,704**	21,195
Other income and gains	**28**	75,049
Total expenses	**(118,268)**	(281,302)
Loss for the year	**(114,536)**	(185,058)
Total comprehensive loss for the year	**(129,980)**	(205,884)
Current assets	**10,538**	23,460
Non-current assets	**262,169**	353,827
Current liabilities	**(125,537)**	(79,608)
Non-current liabilities	**(30,171)**	(50,341)
Net cash flows from/(used in) operating activities	**(14,386)**	42
Net cash flows used in investing activities	**(1,709)**	(10,444)
Net cash flows from financing activities	**10,715**	3,580
Net decrease in cash and cash equivalents	**(5,380)**	(6,822)

* The amounts disclosed above are before any inter-company eliminations.

31. DISPOSAL OF SUBSIDIARIES

In the prior year, the Group disposed of the Disposal Group as further detailed in note 11 to the financial statements. The assets and liabilities of the Disposal Group at the date of disposal of 26 June 2015 were as follows:

	Notes	2015 HK$'000
Net liabilities disposed of:		
Property, plant and equipment	13	**779,913**
Prepaid land premiums	14	**13,757**
Intangible assets	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)**
Income tax payable		**(224,811)**
Bank and other borrowings		**(1,630,199)**
Non-controlling interests		**100,022**
		(2,103,820)
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of the Disposal Group		**226,903**
Liabilities assumed by the Purchaser, net of transfer of the Sale Loans (as defined in note 11)		**116,303**
Professional expenses incurred on disposal of the Disposal Group		**(1,247)**
Gain on disposal of the Disposal Group	11	**2,445,779**
		–
Satisfied by cash consideration		**–**

31. DISPOSAL OF SUBSIDIARIES (Continued)

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

	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)**

32. COMMITMENTS

(a) Operating Lease Commitments

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

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**3,140**	3,035
In the second to fifth years, inclusive	**1,616**	88
	4,756	3,123

(b) Capital Commitments

At 31 December 2016, in addition to the operating lease commitments detailed in note 32(a) above, the Group had a capital commitment of HK$1,674,000 (2015: HK$1,900,000) in respect of the acquisition of a 30% equity interest in Liaoyuan under the Disposal Agreements (note 11), which is contracted, but not provided for.

33. RELATED PARTY DISCLOSURES

(a) Other than the balances and transactions detailed elsewhere in these financial statements, the Group did not have other significant related party balances as at the end of the reporting period and related party transactions during the reporting period.

(b) Compensation of key management personnel of the Group

	2016 **HK$'000**	2015 HK$'000
Short-term employee benefits	**9,077**	10,275
Post-employment benefits	**18**	18
Total compensation paid to key management personnel	**9,095**	10,293

Further details of directors' emoluments are included in note 8 to the financial statements.

34. FINANCIAL INSTRUMENTS BY CATEGORY

Except for available-for-sale investments which are classified as available-for-sale financial assets, all financial assets and liabilities of the Group as at 31 December 2016 and 2015 were loans and receivables and financial liabilities stated at amortised cost, respectively.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

(b) The fair value of the listed equity investment is based on its quoted market price, while the fair value of the unlisted equity investment cannot be reliably measured.

(c) The fair values of non-current portion of lease and factoring receivables have been calculated by discounting the expected future cash flows using rate currently available for instruments with similar terms, credit risk and remaining maturities.

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank balances, 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.

The Group also enters into derivative transactions by trading of commodity.

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 has significant lease and factoring receivables which bear interest at floating rates and hence the Group is exposed to cash flow interest rate risk. For other interest-free loan and receivables, the Group is exposed to fair value interest rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk.

Sensitivity analysis

The sensitivity analysis of cash flow interest rate risk below has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

If interest rates had been 100 (2015:100) basis points higher/lower and all other variables were held constant, the Group's post-tax loss (2015: loss) for the year ended 31 December 2016 would decrease/increase by approximately HK$1,435,000 (2015: HK$44,000).

(b) Foreign currency risk

The Group's businesses are mainly carried out by subsidiaries located in Mainland China and Singapore, and majority of its transactions are conducted in RMB. The Group also has transactional currency exposures in SGD arise from other income by operating units in currencies other than the units' functional currencies. Approximately 86% (2015: 46%) of the Group's other income were denominated in currencies other than the functional currencies.

The net assets of the Group's investments in these Mainland China and Singapore subsidiaries are exposed to foreign currency translational risk. The Group has not hedged its transactional and translational currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB/HK$ and SGD/HK$ exchange rates, with all other variables held constant, of the Group's loss before tax and of the Group's equity resulted from the translation of the Group's foreign operations.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk (Continued)

	Increase/ (decrease) in RMB/SGD rate %	Increase/ (decrease) in loss before tax HK$'000	Increase/ (decrease) in equity HK$'000
2016			
If HK$ weakens against RMB	**5**	**(5,748)**	**18,407**
If HK$ strengthens against RMB	**(5)**	**5,748**	**(18,407)**
If HK$ weakens against SGD	**5**	**(28,296)**	**(1,920)**
If HK$ strengthens against SGD	**(5)**	**28,296**	**1,920**
2015			
If HK$ weakens against RMB	5	(19,948)	24,085
If HK$ strengthens against RMB	(5)	19,948	(24,085)
If HK$ weakens against SGD	5	457	1,593
If HK$ strengthens against SGD	(5)	(457)	(1,593)

(c) Credit risk

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

At 31 December 2016, lease, factoring and trade receivables from external customers which individually amounted to over 10% of the Group's total revenue for the years ended 31 December 2016 and 2015 were:

	2016 HK$'000	2015 HK$'000
Number of individual external customers from which the receivables amounted to over 10% of the Group's total revenue for the year	**3**	2
Lease, factoring and trade receivables (before impairment) from the above customers	**101,465**	1,075
Percentage of total lease, factoring and trade receivables (before impairment) as at the end of the reporting period	**53%**	11%

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, loan receivables 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 2016			
Trade payables	**2,751**	**–**	**2,751**
Other payables and accruals	**16,206**	**512**	**16,718**
Other loans	**108,692**	**–**	**108,692**
	127,649	**512**	**128,161**
At 31 December 2015			
Trade payables	5,487	–	5,487
Other payables and accruals	17,717	472	18,189
Other loans	64,903	–	64,903
	88,107	472	88,579

36. 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 2016 and 31 December 2015.

The Group monitors capital using the gearing ratio, which is total debt divided by the total equity attributable to shareholders of the Company. Total debt includes trade payables, other payables and accruals and other loans. The gearing ratio as at the end of the reporting period was as follows:

	2016 HK$'000	2015 HK$'000
Trade payables	**2,751**	5,487
Other payables and accruals	**17,591**	18,189
Other loans	**108,692**	64,903
Total debt	**129,034**	88,579
Total equity attributable to shareholders of the Company	**731,551**	454,802
Gearing ratio	**18%**	19%

37. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to confirm to the current year's presentation and disclosures.

38. 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	**2016** **HK$'000**	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,311**	1,777
Investments in subsidiaries		**212,093**	133,488
Due from subsidiaries		**65**	52,568
Available-for-sale investments		**9,465**	19,899
Prepayment, deposits and other receivables		**692**	–
Total non-current assets		**223,626**	207,732
CURRENT ASSETS			
Prepayments, deposits and other receivables		**124,358**	40,087
Due from subsidiaries		**288,704**	165,303
Cash and bank balances		**61,772**	56,797
Total current assets		**474,834**	262,187
CURRENT LIABILITIES			
Other payables and accruals		**2,327**	2,618
Due to subsidiaries		**5,759**	5,759
Total current liabilities		**8,086**	8,377
NET CURRENT ASSETS		**466,748**	253,810
Net assets		**690,374**	461,542
EQUITY			
Share capital	27	**2,703,301**	2,287,807
Reserves (note)		**(2,012,927)**	(1,826,265)
Total equity		**690,374**	461,542

Director
Zhang Wanzhong

Director
Zong Hao

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

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

	Available-for-sale investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	7,850	(1,774,715)	(1,766,865)
Loss for the year	–	(63,019)	(63,019)
Other comprehensive income for the year:			
Change in fair value of an available-for-sale investment	3,619	–	3,619
Total comprehensive income/(loss) for the year	3,619	(63,019)	(59,400)
At 31 December 2015 and 1 January 2016	11,469	(1,837,734)	(1,826,265)
Loss for the year	**–**	**(176,228)**	**(176,228)**
Other comprehensive loss for the year:			
Change in fair value of an available-for-sale investment	**(10,434)**	**–**	**(10,434)**
Total comprehensive loss for the year	**(10,434)**	**(176,228)**	**(186,662)**
At 31 December 2016	**1,035**	**(2,013,962)**	**(2,012,927)**

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

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 annual report for the year ended 31 December 2015 and the published audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
CONTINUING OPERATIONS					
REVENUE	**17,642**	38,091	39,838	150,306	571,129
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**(178,682)**	(542,677)	(1,846,370)	(1,563,817)	(2,276,920)
DISCONTINUED OPERATION					
PROFIT FOR THE YEAR FROM A DISCONTINUED OPERATION	**–**	2,372,190	–	–	–
PROFIT/(LOSS) FOR THE YEAR	**(168,840)**	1,909,229	(1,803,259)	(1,468,039)	(1,755,042)
Attributable to:					
Shareholders of the Company	**(111,384)**	2,020,128	(1,723,508)	(1,373,711)	(1,655,263)
Non-controlling interests	**(57,456)**	(110,899)	(79,751)	(94,328)	(99,779)
	(168,840)	1,909,229	(1,803,259)	(1,468,039)	(1,755,042)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
TOTAL ASSETS	**973,438**	736,837	2,315,325	3,877,272	3,556,761
TOTAL LIABILITIES	**(174,951)**	(148,929)	(3,669,043)	(3,512,937)	(2,781,782)
Net assets/(liabilities)	**798,487**	587,908	(1,353,718)	364,335	774,979
EQUITY/(DEFICITS) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	**731,551**	454,802	(1,509,337)	122,289	752,933
NON-CONTROLLING INTERESTS	**66,936**	133,106	155,619	242,046	22,046
Total equity/(deficits in assets)	**798,487**	587,908	(1,353,718)	364,335	774,979

Note: As mentioned in note 11 to the consolidated financial statements, the Group disposed of certain subsidiaries for the year ended 31 December 2015. The results of the disposed subsidiaries for the year ended 31 December 2015 have been presented as a discontinued operation while their results for the three years ended 31 December 2012 to 2014 have not been re-presented and were included in continuing operations.