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## KING STONE ENERGY GROUP LIMITED

金山能源集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The unaudited condensed consolidated results of King Stone Energy Group Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2020 with comparative figures for the corresponding period in 2019 are as follows:

#### Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
<b>REVENUE</b>	4	<b>10,375</b>	15,073
Cost of sales		<b>(2,327)</b>	(9,537)
Gross profit		<b>8,048</b>	5,536
Other income and gain	5	<b>6,344</b>	2,933
Selling and distribution expenses		<b>(193)</b>	(44)
Administrative expenses		<b>(17,672)</b>	(23,917)
Reversal of impairment of a loan receivable		<b>–</b>	35,731
Other expenses, net		<b>(5,319)</b>	(3,123)
Finance costs, net	6	<b>(19,123)</b>	(25,613)
Share of losses of associates		<b>(1)</b>	(1,016)
<b>LOSS BEFORE TAX</b>	7	<b>(27,916)</b>	(9,513)
Income tax	8	<b>(1,029)</b>	(280)
<b>LOSS FOR THE PERIOD</b>		<b>(28,945)</b>	(9,793)

		Six months ended 30 June	
		2020	2019
	Note	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(723)	1,101
Share of movements in exchange fluctuation reserves of associates		(630)	(24)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		(1,353)	1,077
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods – Fair value gain/(loss) of equity investments at fair value through other comprehensive income, net of income tax of nil		20	(372)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX</b>		<b>(1,333)</b>	<b>705</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(30,278)</b>	<b>(9,088)</b>
<b>Profit/(loss) for the period attributable to:</b>			
Shareholders of the Company		(22,142)	4,730
Non-controlling interests		(6,803)	(14,523)
		(28,945)	(9,793)
<b>Total comprehensive income/(loss) for the period attributable to:</b>			
Shareholders of the Company		(25,302)	4,739
Non-controlling interests		(4,976)	(13,827)
		(30,278)	(9,088)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>			
Basic and diluted	9	(HK0.31 cent)	HK0.07 cent

# Condensed Consolidated Statement of Financial Position

30 June 2020

		30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		35,311	18,077
Right-of-use assets		4,482	3,935
Goodwill		20,543	–
Intangible assets		93,929	95,919
Investments in associates		31,898	32,528
Equity investments at fair value through other comprehensive income		1,127	1,107
Lease, factoring and trade receivables	10	76,837	89,893
Prepayments, deposits and other receivables		93,518	93,929
Total non-current assets		357,645	335,388
<b>CURRENT ASSETS</b>			
Inventories		462	451
Lease, factoring and trade receivables	10	184,881	155,895
Contract assets	11	5,266	–
Prepayments, deposits and other receivables		9,074	8,145
Restricted cash		2,092	2,130
Cash and cash equivalents		106,385	139,478
Total current assets		308,160	306,099
<b>CURRENT LIABILITIES</b>			
Trade payables	12	1,258	817
Other payables and accruals		36,194	17,577
Lease liabilities		2,030	1,998
Other loans		264,146	255,688
Income tax payables		15,053	15,857
Total current liabilities		318,681	291,937

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	<b>(10,521)</b>	14,162
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>347,124</b>	349,550
<b>NON-CURRENT LIABILITIES</b>		
Other payables	785	747
Lease liabilities	2,566	1,458
Total non-current liabilities	3,351	2,205
Net assets	343,773	347,345
<b>EQUITY</b>		
<b>Equity attributable to shareholders of the Company</b>		
Share capital	2,728,501	2,703,301
Reserves	(2,287,510)	(2,262,208)
	440,991	441,093
Non-controlling interests	(97,218)	(93,748)
Total equity	343,773	347,345

# Notes to Condensed Interim Consolidated Financial Information

## 1. Corporate 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 17th Floor, V Heun Building, No. 138 Queen’s Road Central, Central, Hong Kong.

During the period, the Company and its subsidiaries (collectively referred to as the “Group”) were principally involved in (i) the mining and sale of silver in the mainland (“Mainland China”) of the People’s Republic of China (the “PRC”); (ii) the extraction, production and sale of oil and gas in the United States of America (the “USA”); (iii) the provision of asset financing services in the PRC; (iv) the trading of liquefied natural gas (“LNG”) in the PRC; (v) the provision of tourism agency services in the PRC; and (vi) the operation of photovoltaic power businesses in the PRC.

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.

### 2.1 Basis of Preparation and Presentation

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 set out in this announcement has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). It is unaudited but has been reviewed by the Audit Committee of the Company.

The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, except for the adoption of the revised HKFRSs as disclosed in note 2.2 below.

## 2.1 Basis of Preparation and Presentation *(continued)*

In preparing the unaudited interim condensed consolidated financial information, the directors of the Company have given careful consideration to the future liquidity of the Group. Despite the operating losses of the Group in the past years and the net current liability position as at 30 June 2020, the unaudited interim condensed consolidated financial information has been prepared on the going concern basis because the Group issued convertible notes in the aggregate principal amount of HK\$50,000,000 in August 2020 and the directors expect that any material cash flows in settlement of other loans of HK\$264,146,000 as included in the Group's current liabilities can be deferred to 1 July 2021 or afterwards.

The financial information relating to the year ended 31 December 2019 that is included in the condensed consolidated statement of financial position as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to those statutory consolidated financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered its consolidated financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on the Company's consolidated financial statements for the year ended 31 December 2019. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

## 2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised HKFRSs for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

## 2.2 Changes in accounting policies and disclosures *(continued)*

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

### 3. Operating Segment Information

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

- (a) the “Silver mining” segment engages in the mining and sale of silver in the PRC;
- (b) the “Oil and gas” segment engages in the exploration, production and sale of oil and gas in the USA;
- (c) the “Asset financing” segment engages in the provision of finance leasing and factoring services in the PRC;
- (d) the “LNG” segment engages in the trading of LNG in the PRC;
- (e) the “Tourism” segment engages in the provision of tourism agency services in the PRC; and
- (f) the “Photovoltaic” segment engages in the operation of photovoltaic power businesses in the PRC.

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 losses of associates, foreign exchange differences and corporate and other unallocated income/expenses are excluded from such measurement.



### 3. Operating Segment Information *(continued)*

	Silver mining		Oil and gas		Asset financing		LNG		Tourism		Photovoltaic		Total	
	Six	Six	Six	Six	Six	Six	Six	Six	Six	Six	Six	Six	Six	Six
	months	months	months	months	months	months	months	months	months	months	months	months	months	months
	ended	ended	ended	ended	ended	ended	ended	ended	ended	ended	ended	ended	ended	ended
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<hr/>														
Segment revenue														
- Sales to external customers (note 4)	-	-	838	1,876	6,652	6,140	18	7,057	655	-	2,212	-	10,375	15,073
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Segment results	(20,068)	(27,710)	(1,666)	(1,045)	4,117	2,261	(103)	(1,022)	319	-	1,541	-	(15,860)	(27,516)
<hr/>														
Reconciliation:														
Share of losses of associates													(1)	(1,016)
Foreign exchange losses, net													(5,209)	(2,755)
Corporate and other														
unallocated expenses, net													(6,846)	21,774
													<hr/>	
Loss before tax													(27,916)	(9,513)
Income tax													(1,029)	(280)
													<hr/>	
Loss for the period													(28,945)	(9,793)
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### 3. Operating Segment Information *(continued)*

	Silver mining		Oil and gas		Asset financing		LNG		Tourism		Photovoltaic		Total	
	Six months ended 30 June 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Other segment information:														
Share of losses of associates:														
Unallocated assets													1	1,016
Depreciation of items of property, plant and equipment:														
Segment assets	7	429	631	731	12	10	1	423	20	-	397	-	1,068	1,593
Unallocated assets													77	329
													1,145	1,922
Depreciation of right-of-use assets:														
Segment assets	70	32	-	-	-	-	14	-	-	-	39	-	123	32
Unallocated assets													1,023	300
													1,146	332
Amortisation of intangible assets	-	-	31	35	-	-	-	-	-	-	-	-	31	35
Loss/(gain) on disposal of items of property, plant and equipment, net	-	(2)	-	-	-	-	-	67	-	-	-	-	-	65
Gain on disposal of right-of-use asset (unallocated asset)													(200)	-
Capital expenditure*	443	117	-	124	-	-	-	-	-	-	20,746	-	21,189	241

\* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

### 3. Operating Segment Information *(continued)*

#### Geographical information

##### *Revenue from external customers*

	Six months ended 30 June	
	2020	2019
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Mainland China	9,537	13,197
USA	838	1,876
	<b>10,375</b>	15,073

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

#### Information about major customers

The revenue generated from sales to each of the customers which individually contributed more than 10% or more of the Group's total revenue during the period is set out below:

	Six months ended 30 June	
	2020	2019
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Customer A from the asset financing segment	2,505	3,381
Customer B from the asset financing segment	1,343	1,569
Customer C from the oil and gas segment	1,446	N/A*
Customer D from the LNG segment	N/A*	6,252
Customer E From the photovoltaic segment	2,212	N/A*

\* The corresponding revenue of these customers is not disclosed as they individually did not contribute more than 10% of the Group's total revenue for the relevant period.

#### 4. Revenue

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Sale of goods	838	8,933
Sale of electricity with tariff adjustment*	2,212	–
Interest income of asset financing service	6,003	5,189
Management fee income of asset financing service	649	951
Commission income	673	–
	<b>10,375</b>	<b>15,073</b>

\* Tariff adjustment represents subsidies from the government authorities in respect of the Group's photovoltaic business.

#### 5. Other Income and Gain

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Other income</b>		
Bank interest income	21	155
Interest income of a loan receivable	–	2,567
Write off of other loan <sup>#</sup>	5,515	–
Subsidy income	293	–
Others	315	211
	<b>6,144</b>	<b>2,933</b>
<b>Gain</b>		
Gain on disposal of right-of-use asset	200	–
	<b>6,344</b>	<b>2,933</b>

<sup>#</sup> In prior years, several lenders have filed legal claims against the subsidiary of the Group for recovery of several overdue loans, together with the accrued interests and overdue penalties. Pursuant to the court judgement of the second instance in respect of a claim for one of the loans with a principal amount of RMB5,000,000 (approximately HK\$5,515,000), together with the related accrued interests and overdue penalties in a total amount of HK\$4,637,000 (note 6), the Group was held not liable to pay the claim made by the lender.

## 6. Finance Costs, net

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

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interest and other borrowing costs on overdue other loans	<b>3,382</b>	3,523
Penalty on overdue other loans	<b>20,259</b>	22,090
Interest on leases liabilities	<b>119</b>	–
Reversal of accrued interest and penalty on an other loan pursuant to the outcome of court judgement of the second instance (note 5)	<b>(4,637)</b>	–
	<b>19,123</b>	25,613

## 7. Loss Before Tax

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

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Cost of inventories sold	<b>1,270</b>	8,261
Depreciation of items of property, plant and equipment <sup>a</sup>	<b>1,145</b>	1,922
Depreciation of right-of-use assets	<b>1,146</b>	332
Amortisation of intangible assets*	<b>31</b>	35
Lease payments not included in the measurement of lease liabilities	<b>532</b>	1,286
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	<b>9,645</b>	11,693
Pension scheme contributions (defined contribution schemes)	<b>286</b>	392
	<b>9,931</b>	12,085

## 7. Loss Before Tax *(continued)*

	Six months ended 30 June	
	2020	2019
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Foreign exchange losses, net <sup>#</sup>	5,209	2,755
Loss on disposal of items of property, plant and equipment, net <sup>#</sup>	–	65

<sup>@</sup> Depreciation of HK\$1,026,000 (Period ended 30 June 2019: HK\$1,241,000) is included in “Cost of sales” in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

<sup>\*</sup> Amortisation of intangible assets of HK\$31,000 (Period ended 30 June 2019: HK\$35,000) is included in “Cost of sales” in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

<sup>#</sup> These items are included in “Other expenses, net” in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

## 8. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2020 as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 June 2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2020	2019
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Current – Mainland China	1,029	224
Deferred – Mainland China	–	56
	1,029	280

## 9. Earnings/(Loss) per Share Attributable to Shareholders of the Company

The calculation of the basic loss per share amount (Period ended 30 June 2019: earnings per share amount) is based on the unaudited loss for the period attributable to shareholders of the Company of HK\$22,142,000 (Period ended 30 June 2019: a profit of HK\$4,730,000), and the weighted average number of ordinary shares of 7,245,440,183 (Period ended 30 June 2019: 7,010,055,568) in issue during the period.

No adjustment has been made to the basic profit/(loss) per share amounts presented for each of the six months ended 30 June 2020 and 2019 for a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

## 10. Lease, Factoring and Trade Receivables

	Notes	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Gross lease receivable	(a)	16,118	16,436
Less: Unearned interest income		(314)	(643)
Net lease receivable	(a)	15,804	15,793
Factoring receivables	(b)	244,556	230,471
Management fee receivables of asset financing services	(c)	727	–
Trade receivables	(d)	1,754	673
Impairment		(1,123)	(1,149)
Total lease, factoring and trade receivables		261,718	245,788
Portion classified as current assets		(184,881)	(155,895)
Non-current portion		76,837	89,893

Notes:

- (a) The lease receivable as at 30 June 2020 and 31 December 2019 related to a finance lease arrangement of certain plant and equipment provided by the Group in its ordinary course of business to a lessee. The lease receivable bears interest at a floating rate of the three-year lending rate promulgated by the People's Bank of China plus 20% margin and is repayable in 1 to 2 years. During the period, interest income of HK\$300,000 was recognised in profit or loss in respect of the lease receivable.

An ageing analysis of the lease receivable is not considered to be impaired is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Neither past due nor impaired	11,774	15,793
Past due for less than three months	272	–
Past due for more than three months	3,758	–
	15,804	15,793

## 10. Lease, Factoring and Trade Receivables *(continued)*

Notes: *(continued)*

- (b) The Group's factoring receivables arose from factoring services provided by the Group in its ordinary course of business. These factoring receivables bear interest at floating rates of the three-year lending rate promulgated by the People's Bank of China plus margin of up to 20% and are due for repayment between 2020 and 2023. At 30 June 2020, a factoring receivable of HK\$16,825,000, which is due from a company which has a director who was a former director of the Company, bears interest at a floating rate of the three-year lending rate promulgated by the People's Bank of China plus 20% margin, and is due for repayment in 2021. Each of these factoring receivables is secured by at least one receivable owned by a debtor to the customer. During the period, interest income of HK\$5,703,000 in total was recognised in profit or loss in respect of these factoring receivables.

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

	<b>30 June 2020 HK\$'000 (unaudited)</b>	31 December 2019 HK\$'000 (audited)
Neither past due nor impaired	<b>238,801</b>	230,471
Past due for two to three months	<b>2,925</b>	–
Past due for more than three months	<b>2,830</b>	–
	<b>244,556</b>	230,471

- (c) Management fee receivables arose from the provision of finance leasing and factoring services mentioned in notes (a) and (b) above. The management fee is charged at 1% per annum of the loan principal or RMB1,000 per transaction, and management fee income of HK\$649,000 in total was recognised in profit or loss during the period.

An ageing analysis of the management fee receivables as at 30 June 2020 and 31 December 2019, based on the invoice date and net of provisions, is as follows:

	<b>30 June 2020 HK\$'000 (unaudited)</b>	31 December 2019 HK\$'000 (audited)
Within one month	<b>362</b>	–
Two to three months	<b>365</b>	–
	<b>727</b>	–



## 10. Lease, Factoring and Trade Receivables *(continued)*

Notes: *(continued)*

(c) *(continued)*

An ageing analysis of the management fee receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>30 June 2020 HK\$'000 (unaudited)</b>	31 December 2019 HK\$'000 (audited)
Neither past due nor impaired	<b>362</b>	–
Past due within one month	<b>–</b>	–
Past due for two to three months	<b>365</b>	–
	<b>727</b>	–

- (d) The Group's trading terms with its customers from the silver, oil and gas, LNG and photovoltaic 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 the management.

An ageing 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:

	<b>30 June 2020 HK\$'000 (unaudited)</b>	31 December 2019 HK\$'000 (audited)
Billed:		
Within one month	–	673
Over three months	<b>434</b>	–
	<b>434</b>	673
Unbilled	<b>1,320</b>	–
	<b>1,754</b>	673

## 10. Lease, Factoring and Trade Receivables *(continued)*

Notes: *(continued)*

(d) *(continued)*

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

	<b>30 June 2020 HK\$'000 (unaudited)</b>	31 December 2019 HK\$'000 (audited)
Neither past due nor impaired	<b>1,320</b>	673
Past due for more than three months	<b>434</b>	–
	<b>1,754</b>	673

## 11. Contract Assets

The Group's contract assets represented the central government renewable energy subsidy for the Group's photovoltaic businesses that are to be billed and settled upon registering into the Renewable Energy Tariff Subsidy Catalogues (the "Subsidy Catalogues"). In the opinion of the directors, the registration procedures of the Subsidy Catalogues for the Group's photovoltaic businesses are administrative in nature and the Group will comply with the related procedures stipulated by the current government policy in Mainland China and all other attaching conditions, if any.

## 12. Trade Payables

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

	<b>30 June 2020 HK\$'000 (unaudited)</b>	31 December 2019 HK\$'000 (audited)
Less than six months	<b>946</b>	488
Six months to one year	–	–
Over one year	<b>312</b>	329
	<b>1,258</b>	817

The trade payables are non-interest-bearing and are normally settled on a term of 60 days.

### **13. Impact of the Coronavirus**

The novel coronavirus (COVID-19) (the “Pandemic”) has impacted on certain operations of the Group, including mining activities at the west mine, trading of LNG, tourism and photovoltaic power businesses in the PRC. Management of the Group has been actively taking measures to control the operating costs and pay attention to cash flow management to readily prepare for business recovery after the Pandemic.

### **14. Event After the Reporting Period**

On 15 July 2020, the Group entered into subscription agreements with two independent third parties (the “Subscribers”), pursuant to which the Company issued convertible notes in an aggregate principal amount of HK\$50,000,000 to the Subscribers, further details of which are set out in the announcements of the Company dated 15 July 2020 and 4 August 2020. The convertible notes were issued on 7 August 2020.

## Interim Dividend

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2020 (the "Period") (six months ended 30 June 2019: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

King Stone Energy Group Limited (the "Company", together with its subsidiaries, the "Group") is principally engaged in exploring and drilling natural gas and oil in the United States of America (the "USA"), mining of silver minerals, provision of asset financing and factoring services, trading of liquefied natural gas ("LNG"), provision of tourism agency services and photovoltaic power generation in the People's Republic of China (the "PRC") during the Period.

During the Period, the outbreak of novel coronavirus (COVID-19) has impacted the operations of the Group, which are mostly based in the PRC. Due to the closures of cities and the measures taken by the local government in the PRC, the Group has been in limited operations in the PRC. The mining activities at the West Mine and certain businesses of the Group especially trading of LNG, tourism and photovoltaic power business in the PRC have been affected and/or suspended since the outbreak of COVID-19. Nevertheless, the Group has adopted "work from home" policy as far as possible to maintain the basic operations of the Group and used the best endeavours to minimise the impact. The Group is resuming its operations gradually following the stabilisation of the outbreak of COVID-19 in the PRC in second half this year.

#### ***(1) Oil and gas exploration and production***

The Group currently operates an upstream oil and gas exploration and production ("Oil and gas E&P") project in East Texas, the USA. The Group completed drilling of the first well and the second well (the "Operating Wells") which have started production since July 2014 and March 2015 respectively. The oil and gas produced from the Operating Wells are sold to oil and gas storage and transportation companies in East Texas, the USA. Each well normally has a production life of over 10 years.

The Group had entered into over 400 lease agreements (the "Lease Agreements") with mineral owners. Pursuant to the Lease Agreements, the Group is entitled to explore and produce oil and gas in a total area of about 1,845 acres at East Texas, the USA (the "Mining Area"). Royalty fees are payable by the Group to the owners of the Mining Area based on total production from the Mining Area. The Lease Agreements contain provisions that the lease shall remain in force for a primary term, typically of three years from the date of the Lease Agreement, and as long thereafter as oil and/or gas is being produced in economic quantities (i.e. value of sales exceed costs) or operations are being conducted at the relevant Mining Area. Such Lease Agreements are classified as "held by production".

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Business Review *(continued)*

#### **(1) Oil and gas exploration and production** *(continued)*

Due to the drop in oil and gas prices in these years, the Group did not consider it commercially viable to increase the production from the Mining Area by drilling additional wells. Notwithstanding this, the Group is entitled to drill additional wells at the Mining Area subject to the necessary drilling permit for that particular new well being obtained. The Group expects that six additional new wells can be drilled for production in the acreage where the Operating Wells are located. The cost to drill an additional well and build related infrastructures is estimated to be around US\$4.5million (equivalent to approximately HK\$35.1 million) and it takes about three months from the application of drilling permit, commencement of drilling to commencement of production. There was no new well drilled during the Period and the Group has been exploring other energy related projects in the USA.

#### **(2) Silver Mining**

Currently, the Group conducts its silver mining business through two silver mines in Ningde City, Fujian Province, the PRC, namely the “Western Section” located in Fu’an County of Ningde City (the “West Mine”) and the “Eastern Section” located in Zherong County of Ningde City (the “East Mine”). Based on an updated technical report issued by SRK Consulting China Limited (“SRK”), an independent technical consultant, dated 31 May 2018, the probable ore reserve as at 31 May 2018 of the West Mine was estimated to be approximately 0.69 million tonnes, while the probable ore reserve of the East Mine was estimated to be approximately 6.07 million tonnes, adopting the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves released by the Joint Ore Reserves Committee.

##### *The West Mine*

The overall production capacity of mining and processing at the West Mine is 100,000 tonnes per annum, or 300 tonnes per day. The ore mining at the West Mine has been resumed in fourth quarter last year but has been suspended due to novel coronavirus (COVID-19) epidemic during the Period. The Group is also examining the ore processing plant in order to comply with more stringent rules in respect of environmental production imposed on the West Mine and will use its best endeavours to resume mining at the West Mine as soon as possible. Meanwhile, the Group is in the process of renewing the mining license which will be expired in December 2020. The Group is also exploring other revenue stream generated from this segment.

##### *The East Mine*

The East Mine is designed to have a production capacity of 330,000 tonnes per annum (i.e. approximately 1,000 tonnes per day) with an expected life of 19 years. The exploration license for the East Mine held by the Group covers an area of 4.97 square kilometers and was valid from October 2012 to April 2018. The license renewal application is still being processed. Barring any unforeseen circumstances, there is no legal impediment for such renewal process as advised by the PRC legal adviser.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Business Review *(continued)*

#### **(2) Silver Mining** *(continued)*

##### *The East Mine (continued)*

The first-stage general exploration work on the mining area at the East Mine has been completed. The Company is in the process of preparing the application for the mining license, such as commissioning a geologist report and preparation of other relevant documents. Under normal circumstances, the time for applying for and obtaining a mining license is approximately 12 to 18 months. The Group intends to carry out infrastructure construction at the East Mine once the mining license is obtained. Given that the Group has to comply with more stringent rules and regulations on the mines, it is expected that infrastructure construction of the East Mine will begin by end of 2020. It will take about two years to complete the construction and trial production, and the mining production will begin in 2023. The above schedules may be delayed in view of the risks and uncertainties caused by the recent outbreak of the novel coronavirus (COVID-19) epidemic.

##### *Update on the possible construction of a reservoir close to the West Mine and the East Mine*

The government of Ningde City, Fujian Province, the PRC (the “Ningde Government”) is implementing a project to construct a reservoir (the “Project”) close to the West Mine and the East Mine. If the Project proceeds, it might affect the production activities in the West Mine and the East Mine and/or increase the cost of production, such as the cost of meeting the environmental requirement from the government or altering the mining roads. The Group is however not in the position to estimate the additional cost of production, if any, and the impact of the Project on the production/exploration at the West Mine and the East Mine, as no concern plan of the Project has been published by the Ningde Government or provided to the Group.

Based on the preliminary information provided by the Ningde Government, the highest elevation of the planned reservoir is 185 metres above sea level. Based on the review performed by SRK, it is of the view that there will be certain impact on the mining of orebodies occurring below that elevation. However, given that the Project has not yet been concretely implemented, and the design, approval, and construction time of the reservoir are not finalised, the impact of the Project on the Group is considered to be limited due to the following reasons: (i) the amount of resources at the East Mine and the West Mine below 185 metres above sea level is limited; and (ii) there are no ore below 185 metres above sea level based on the latest feasibility study.

The Group has been in discussions with the relevant bodies at Ningde Government in relation to the impact of the Project on the Group and the possible compensation to the Group. There are no material progress for the Project which has been suspended to the best knowledge of the Group. The Group will continue to follow up with the relevant governmental bodies and further announcement(s) will be made by the Company if there is any material update on the Project as and when appropriate.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Business Review *(continued)*

#### **(3) Asset Financing** *(continued)*

The asset financing business of the Group is operated by three wholly-owned subsidiaries in the PRC (the “Asset Financing Subsidiaries”). The business scope of the Asset Financing Subsidiaries as set out in their business licenses includes finance leasing and factoring business in the PRC and the business models of the Group’s asset financing business are as follows:

- (i) the relevant Asset Financing Subsidiary purchases assets specified by its client (being the lessee) and leases the assets to the client in return for leasing income which is determined based on the purchase price of the relevant assets plus interest. At the expiry of the lease term, the client shall have the right to acquire the assets at a nominal consideration;
- (ii) the client sells its own assets to the relevant Asset Financing Subsidiary and leases back such assets from the relevant Asset Financing Subsidiary. Leasing income is earned for this sale and leaseback arrangement based on the purchase price of the relevant assets plus interest; and
- (iii) the relevant Asset Financing Subsidiary provides factoring services to client which sells its receivable balances to the relevant Asset Financing Subsidiary. The relevant Asset Financing Subsidiary charges arrangement fee for the factoring services and interest on the receivable balances during the period from the factoring to the final settlement of the receivable balances by the debtors. In certain cases, the receivables are secured by assets of the debtors.

On 6 June 2016, Qingrui Commercial Factoring Company Limited (“Qingrui Factoring”), one of the Asset Financing Subsidiaries, entered into a factoring agreement in the principal sum of RMB90 million (equivalent to approximately HK\$105 million) for a term of 3 years as disclosed in the announcement of the Company dated 12 September 2016. On 4 June 2019, Qingrui Factoring entered into a supplemental agreement to extend the expiry date of the factoring agreement from 5 June 2019 to 5 June 2020. The rate of interest applicable to the facilities shall be at a floating rate in accordance with the lending rate promulgated by the People’s Bank of China. On 4 June 2020, Qingrui Factoring entered into a second supplemental agreement to extend the expiry date of the factoring agreement from 5 June 2020 to 5 June 2021.

In January 2020, Qingrui Factoring also entered into factoring arrangements with two customers with revolving facilities in an aggregate of the principal sum of RMB15 million (equivalent to approximately HK\$16.8 million) for a term of 3 years.

The business of this segment was relatively stable during the Period.

#### **(4) Trading of LNG**

The Group acquired 51% equity interest of Shaanxi Wanxi Logistics Co., Ltd (“Shaanxi Wanxi”) in November 2018 and commenced business of trading of LNG in the PRC through Shaanxi Wanxi. Shaanxi Wanxi currently holds a Hazardous Chemical Products Operating Permit which is valid for a period of 3 years up to 8 July 2022. LNG were sold to certain state-owned LNG companies during the Period.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Business Review *(continued)*

#### **(5) Tourism**

The Group acquired 60% equity interest of Beijing Jade Bird Tianjian Tourism Investment Development Co., Ltd. ("Tianjian Tourism"), which is principally engaged in local tourism business, in October 2019 and commenced tourism business in the PRC through Tianjian Tourism. Tianjian Tourism has provided tourism agency services to a travel company in the PRC during the Period. As a result of the travel restriction and social distancing measures in place to combat with the outbreak of COVID-19, the business of this segment was affected during the Period.

#### **(6) Photovoltaic power generation**

On 20 December 2019, Gold Wish Investments Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with HongKong YLM International Shares Limited, an independent third party, in relation to the acquisition of 89% equity interests in Beijing Jiezhong Technology Co., Ltd ("Beijing Jiezhong"), at the consideration of HK\$19.6 million which shall be satisfied by the issue of 280 million new shares of the Company at the issue price of HK\$0.07 per share. Beijing Jiezhong through its 85%-owned indirect subsidiary, Chengde Shuntian Photovoltaic Power Generation Co., Ltd ("Chengde Shuntian"), is principally operating a photovoltaic power generation project located in Hebei Province, the PRC. The acquisition was completed and 280,000,000 consideration shares were issued on 30 January 2020. The closing price per share of the Company as at 30 January 2020 was HK\$0.09 as quoted on the The Stock Exchange of Hong Kong limited. Details of the above were set out in the announcements of the Company dated 20 December 2019 and 3 January 2020.

Chengde Shuntian, is principally engaged in a 5 Mega Watts rooftop distributed photovoltaic power generation project located in Liugou Industrial Park, Liugou Town, Chengde County, Chengde City, Hebei Province, the PRC. Photovoltaic modules were installed on 32 rooftops within the industrial park with a power generation capacity of 4.038 Mega Watts. According to national and provincial photovoltaic power generation subsidy policy, Chengde Shuntian is entitled to receive (i) national financial subsidy from 1 January 2018 until the end of the project (which is expected to maintain for at least 20 years given there is no change in such subsidy policy) and (ii) provincial financial subsidy from 1 January 2018 until 31 December 2020. Chengde Shuntian has sold electricity to a power generation company during the Period.

#### **(7) New projects in development phrase**

In 2019, a wholly owned subsidiary has been established by the Group in Guangdong Province, the PRC to develop and improve technology of car tire low-temperature pyrolysis and Buton Rock Asphalt modifier. The Group is negotiating to implement the projects in several regions including entering a framework agreement for development of car tire low-temperature pyrolysis project with a county government in Hubei province, the PRC during the Period. As at date of this announcement, the Group has obtained four utility model patents for car tire low-temperature pyrolysis project in the PRC. In addition, the Group has also entered a co-operation agreement with a scientific institution in Shenzhen for research and development of the asphalt modifier technology from 18 June 2020 to 17 June 2023.

### Financial Review

#### **Revenue and cost of sales**

The Group recorded a total revenue of approximately HK\$10.4 million for the Period (six months ended 30 June 2019: HK\$15.1 million), representing a decrease of 31% compared with last comparable period. The decrease in revenue was mainly due to decrease in revenue generated from trading of LNG by Shaanxi Wanxi for the Period as explained below.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review *(continued)*

#### **Revenue and cost of sales** *(continued)*

For the oil and gas E&P in the USA, the Group, net to its ownership interests, has produced approximately 807 Bbl of oil, approximately 52 million cubic feet of natural gas, and approximately 2,452 Bbl of natural gas liquids (six months ended 30 June 2019: approximately 998 Bbl of oil, approximately 62 million cubic feet of natural gas, and approximately 2,859 Bbl of natural gas liquids). The revenue was approximately HK\$0.8 million during the Period (six months ended 30 June 2019: HK\$1.9 million). Cost of sales for oil and gas E&P was approximately HK\$1.7 million during the Period (six months ended 30 June 2019: HK\$1.6 million) which primarily consisted of depreciation and amortisation, related labour cost for the production, taxes, supplies, utilities and other incidental expenses. The USA oil and gas E&P recorded a gross loss margin of 107% (six months ended 30 June 2019: gross profit margin of 13%) during the Period.

There was no revenue (six months ended 30 June 2019: nil) and cost of sales (six months ended 30 June 2019: HK\$0.5 million) from silver mining business during the Period.

The Group recorded revenue of approximately HK\$6.7 million from provision of asset financing service representing interest income and management fee income during the Period (six months ended 30 June 2019: HK\$6.1 million). There was no respective cost of sales in this segment.

The Group recorded provision of LNG sourcing services of approximately HK\$0.02 million which represented netting off total sales of approximately HK\$2.24 million against total purchase of approximately HK\$2.22 million pursuant to the applicable accounting standards during the Period. During the period ended 30 June 2019, the Group recorded revenue of approximately HK\$7.1 million from trading of LNG and related cost of sales of HK\$7.4 million.

For tourism business, the Group recorded revenue of approximately HK\$0.7 million (six months ended 30 June 2019: nil) from provision of tourism agency services during the Period. There was no respective cost of sales in this segment.

For photovoltaic power generation business, The Group produced and sold approximately 2,394 Mega Watts of electricity and recorded revenue from photovoltaic power generation of approximately HK\$2.2 million (six months ended 30 June 2019: nil) during the Period. The related cost of sales was approximately HK\$0.6 million (six months ended 30 June 2019: nil) and gross margin was 73% during the Period.

#### **Other income and gain**

Other income and gain were approximately HK\$6.3 million during the Period (six months ended 30 June 2019: HK\$2.9 million), which mainly represented write off of other loan of approximately HK\$5.5 million (six months ended 30 June 2019: nil). During the period ended 30 June 2019, there was interest income from a loan to a third party, namely Kumi Umi Energy Co. Ltd ("KUE"), of approximately HK\$2.6 million. There was no such interest income during the Period.

#### **Selling and administrative expenses**

Selling and administrative expenses were approximately HK\$17.9 million during the Period as compared to approximately HK\$24.0 million for the corresponding period of last year. Administrative expenses mainly comprised staff cost for administrative and finance functions including legal and professional fee incurred for operation, depreciation and other incidental administrative expenses. The decrease was mainly due to reducing operations of the Group affected by COVID-19 epidemic during the Period.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review *(continued)*

#### **Reversal of impairment of a loan receivable**

During the period ended 30 June 2019, it mainly represented reversal of impairment loss on loan to KUE, which has been fully impaired but fully collected in 2019, of JPY 500 million. There was no such reversal of impairment during the Period.

#### **Other expenses, net**

The breakdown of other expenses, net is as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Foreign exchange loss, net	5,209	2,755
Loss on disposal of items of property, plant and equipment, net	–	65
Others	110	303
Total	5,319	3,123

#### **Finance costs, net**

Finance costs, net were approximately HK\$19.1 million during the Period (six months ended 30 June 2019: HK\$25.6 million) which mainly represented interest and penalty expenses for borrowings of approximately HK\$20.3 million (six months ended 30 June 2019: HK\$22 million) raised for silver mining business.

#### **Share of losses of associates**

During the Period, the Group shared the losses of Hainan Shengeng Ocean Development Co., Ltd. (“Hainan Shengeng”), an associate which is principally engaged in fund investment in deep sea fish farming industry in Hainan Province, the PRC, of approximately HK\$1,000 (six months ended 30 June 2019: HK\$2,000). During the period ended 30 June 2019, it mainly represented share of loss of One Asia Securities Limited, an associate which is principally engaged in securities trading in Japan, of approximately HK\$1 million.

#### **Income tax**

Income tax, which mainly represented tax on profits from asset financing business, was approximately HK\$1million during the Period (six months ended 30 June 2019: HK\$0.3 million).

#### **Fund raising exercises**

The Company did not have any equity fund raising activity during the Period, nor was there any unutilised proceed from equity fund raising brought forward from previous years.

On 15 July 2020, the Company and the two independent subscribers entered into the subscription agreements in relation to subscription of convertible notes in the aggregate principal amount of HK\$50 million with the conversion price of HK\$0.08 each. The gross proceeds from the subscription will be HK\$50 million and the net proceeds will be approximately HK\$49.8 million (representing net conversion price of HK\$0.079 each). The net proceeds were intended to utilize as to (i) approximately HK\$40 million for trading of medical supplies and (ii) approximately HK\$9.8 million for general working capital. Details of the above were set out in the announcements of the Company dated 15 July 2020 and 4 August 2020. The convertible notes were issued on 7 August 2020.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review *(continued)*

#### ***Liquidity and Financial Review***

The Group mainly financed its day to day operations by internally generated cash flow during the Period. As at 30 June 2020, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.97:1 (31 December 2019: 1.05:1).

As at 30 June 2020, the cash and cash equivalents of the Group were approximately HK\$106.4 million (31 December 2019: HK\$139.5 million). During the Period, the Group recorded a net cash outflow from its operating activities of approximately HK\$31.3 million (six months ended 30 June 2019: inflow of HK\$29.6 million).

As at 30 June 2020, there was no outstanding interest-bearing bank loan (31 December 2019: nil).

As at 30 June 2020, there were other loans of approximately HK\$264.1 million (31 December 2019: HK\$255.7 million) comprising loan principal of approximately HK\$28 million (31 December 2019: HK\$34.1 million) and overdue interest/penalty of approximately HK\$236.1 million (31 December 2019: HK\$221.6 million). All other loans were denominated in Renminbi. Other loans with principal of approximately HK\$22 million (31 December 2019: HK\$22.4 million) and HK\$6 million (31 December 2019: HK\$11.7 million) were interest-free and with fixed interest rate of 15% per annum, respectively. These other loans were subject to overdue penalties ranging from 0.05% – 0.5% per day on loan principal and 1% on the overdue balance, respectively. As at 30 June 2020, all other loans (31 December 2019: all) were overdue.

There were certain legal proceedings which have been instituted against the Group in respect of other loans (which were included in “other loans” in the consolidated statement of financial position of the Group as at 30 June 2020) as detailed below:

- (i) Pursuant to the judgment of the second instance in respect of a claim for outstanding loan with principal amount of RMB9.5 million (equivalent to approximately HK\$10.8 million) issued in August 2017, the Group was held liable to pay a sum of approximately RMB10.4 million (equivalent to approximately HK\$11.9 million) to the creditor with costs incurred for this litigation. In January 2018, the court issued the execution order to freeze the assets of the Group of approximately RMB10.5 million (equivalent to approximately HK\$12 million). The execution order is not yet implemented and there has been no material update as at the date of this announcement.
- (ii) Pursuant to the judgment of the second instance in respect of a claim for outstanding loan with principal amount of RMB5.5 million (equivalent to approximately HK\$6.3 million) and respective accrued interest issued in March 2018, the Group was held liable to pay the claims made by the creditor. There has been no material update as at the date of this announcement.

Adequate accrued interest and penalties have been provided by the Group as at 30 June 2020. The Directors are of the opinion that the above litigations do not have any material adverse impact on the operation and financial position of the Group.

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

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Financial Review *(continued)*

#### **Gearing Ratio**

The gearing ratio of the Group, measured as total debt (which included trade payables, other payables and accruals and other loans) as a percentage to the total equity attributable to shareholders of the Company, was 0.68 as at 30 June 2020 (31 December 2019: 0.63).

#### **Material Acquisitions and Disposals**

On 4 December 2017, the Company entered into a non-legally binding memorandum of understanding (as supplemented on 29 June 2018, 27 December 2018, 28 June 2019, 27 December 2019 and 26 June 2020) in respect of the proposed acquisition of 51% of issued share capital of South Ray Investment Limited which indirectly owns one mining permit and three exploration permits in Inner Mongolia, the PRC. The Group shall pay the earnest money in the sum of RMB70 million to the vendor and up to RMB30 million for meeting the operating expenses and/or capital expenditure of the target group subject to prior approval by the Company, which shall both be fully refundable together with interest calculated at 3% per annum if the said proposed acquisition does not proceed on or before 31 December 2020. Earnest money of RMB85.5 million was paid and no formal agreement in respect of proposed acquisition was made up to date of this announcement. Details of the above were set out in the announcements of the Company dated 4 December 2017, 29 June 2018, 27 December 2018, 28 June 2019, 27 December 2019 and 26 June 2020.

Save for the above, the business factoring agreements, the acquisition of 89% equity interest in Beijing Jiezhong in January 2020 as mentioned above and proposed disposal of 19.5% equity interests in Hainan Shengeng as mentioned below, the Group had no other material acquisition and disposal of subsidiaries, associates and joint ventures during the Period.

#### **Significant investment**

The Group had the following significant investment of carrying value of 5% or more of the total assets as at 30 June 2020:

The Group held 19.5% equity interest in Hainan Shengeng which is a company established in the PRC in August 2018 and is principally engaged in the business of marine engineering and the research and development of marine engineering equipment and technology in the PRC. The Group acquired Hainan Shengeng through its capital contribution of RMB39 million (equivalent to approximately HK\$44.4 million) in December 2018. Share of loss of Hainan Shengeng was approximately HK\$1,000 during the Period (six months ended 30 June 2019: HK\$2,000). As at 30 June 2020, the carrying value of Hainan Shengeng as an associate of the Group was approximately HK\$31.9 million (31 December 2019: HK\$32.5 million).

Since its establishment, Hainan Shengeng has yet to invest in the fund in deep sea fish farming industry in Hainan Province, the PRC which is the purpose of establishment of Hainan Shengeng. On 24 March 2020, Zhuhai Jinwei Environmental Protection Technology Co., Ltd (a wholly owned subsidiary of the Company), Yuntai Shidai (Beijing) Technology & Trade Co., Ltd., an independent third party, and Hainan Shengeng entered into the disposal agreement in respect of disposal of 19.5% equity interests in Hainan Shengeng at cash consideration of RMB39 million (equivalent to approximately HK\$43.3 million). The disposal was not yet completed as at date of this announcement. Details of the above were set out in the announcement of the Company dated 24 March 2020.

#### **Capital Commitment, Charge on Group Assets and Contingent Liabilities**

As at 30 June 2020, the Group had contracted capital commitments not provided for in the consolidated financial statements of RMB1.5 million (equivalent to approximately HK\$1.6 million) (31 December 2019: HK\$1.7 million) in respect of acquisition of 30% equity interest in a former subsidiary of the Company within 10 years after completion of disposal of the former subsidiaries in June 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Capital Commitment, Charge on Group Assets and Contingent Liabilities *(continued)*

As at 30 June 2020, time deposits which are restricted for use of approximately HK\$2.1 million (31 December 2019: HK\$2.1 million) were placed in a bank for conducting mining businesses as required by relevant government authorities. Save as disclosed above, the Group had no other assets pledged as at 30 June 2020 (31 December 2019: nil).

As at 30 June 2020, there was no material contingent liability of the Group (31 December 2019: nil).

### Human Resources and Share Option Scheme

As at 30 June 2020, the Group had 43 (31 December 2019: 76) employees. The total staff costs (including directors' remuneration) for the Period were approximately HK\$9.9 million (six months ended 30 June 2019: HK\$12.1 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 employees of the Group options to subscribe for shares in the Company. No share option was granted nor exercised during the Period. There were no outstanding share options as at 30 June 2020.

### Future Outlook

Looking forward, the Group remains very cautious with the outlook of commodity and oil and gas markets especially in view of the recent vigorous fluctuations in such markets. The Group is also monitoring the commodity market environment closely and formulating an appropriate strategy and timetable to expand the production by drilling additional wells when necessary. The Group will use its best endeavours to comply with more stringent rules and regulations on safety production and environmental protection in the PRC and resume ore mining and processing at the West Mine as soon as possible. For assets financing, trading of LNG and photovoltaic power generation, the Group will continue to expand its customers base for broadening its revenue base. For tourism business, the Group is actively seeking for potential acquisition of other travel agent company(ies) to expand the scale and customer base and developing online platform for promotion of travel and agricultural products from various scenic spots/regions.

The Group continues to develop and implement the projects for tire low-temperature pyrolysis and Buton Rock Asphalt modifier in various regions in the PRC. Meanwhile, the Group is also actively exploring other investment projects including trading of medical supplies in period of outbreak of COVID-19 to diversify the Group's businesses. Further announcement(s) will be made when any of the above investment opportunities materializes.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Purchase, Redemption or Sale of Securities

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

### Corporate Governance Code

In the opinion of the Directors, save for provision A.4.1 as explained below, the Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules during the Period.

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. All independent non-executive Directors are not appointed on specific terms, though all of them are subject to retirement by rotation at the annual general meeting of the Company. According to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less than those in the Code.

### Model Code for 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 of the Listing Rules for directors' securities transactions. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

### Review by Audit Committee

The 2020 interim financial statements are unaudited, but have been reviewed by the audit committee of the Company which comprises the three independent non-executive directors namely, Mr. Chiu Sui Keung, Mr. Lee Ping and Mr. Lee Kwok Wan. The audit committee was established for the purposes of reviewing and providing supervision over, among other matters, the Group's financial reporting process, internal control and risk management systems.

On behalf of the Board  
**King Stone Energy Group Limited**  
**Xu Zhuliang**  
*Chairman*

Hong Kong, 28 August 2020

*As at the date of this announcement, the executive Directors are Mr. Xu Zhuliang, Mr. Zong Hao and Ms. He Qing, and the independent non-executive Directors are Mr. Chiu Sui Keung, Mr. Lee Ping and Mr. Lee Kwok Wan.*