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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 2021

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 2021 with comparative figures for the corresponding period in 2020 are as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

		Six months ended 30 June	
	Notes	**2021 HK$'000 (unaudited)**	2020 HK$'000 (unaudited)
REVENUE	4	**16,808**	10,375
Cost of sales		**(7,417)**	(2,327)
Gross profit		**9,391**	8,048
Other income and gains, net	5	**15,044**	6,344
Selling and distribution expenses		**–**	(193)
Administrative expenses		**(16,294)**	(17,672)
Reversal of impairment of financial assets	7	**41,417**	–
Other expenses, net		**(3,358)**	(5,319)
Finance costs, net	6	**(25,782)**	(19,123)
Share of losses of an associate		**(323)**	(1)
PROFIT/(LOSS) BEFORE TAX	7	**20,095**	(27,916)
Income tax	8	**(53)**	(1,029)
PROFIT/(LOSS) FOR THE PERIOD		**20,042**	(28,945)

	Note	Six months ended 30 June 2021 HK$'000 (unaudited)	2020 HK$'000 (unaudited)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2,538)**	(723)
Share of movements in exchange fluctuation reserves of associates		**–**	(630)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(2,538)**	(1,353)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods – Fair value gain of equity investments at fair value through other comprehensive income, net of income tax of nil		**2,236**	20
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF INCOME TAX		**(302)**	(1,333)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**19,740**	(30,278)
Profit/(loss) for the period attributable to:			
Shareholders of the Company		**32,275**	(22,142)
Non-controlling interests		**(12,233)**	(6,803)
		20,042	(28,945)
Total comprehensive income/(loss) for the period attributable to:			
Shareholders of the Company		**33,636**	(25,302)
Non-controlling interests		**(13,896)**	(4,976)
		19,740	(30,278)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Basic and diluted	9	**HK0.42 cent**	(HK0.31 cent)

Condensed Consolidated Statement of Financial Position

30 June 2021

	Notes	**30 June 2021 HK$'000 (unaudited)**	31 December 2020 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**38,583**	32,986
Right-of-use assets		**2,689**	3,719
Goodwill		**21,270**	20,543
Other intangible assets		**79,266**	78,201
Investments in associates	10	**–**	18,633
Equity investments at fair value through other comprehensive income		**23**	1,962
Lease, factoring and trade receivables	11	**–**	18,762
Prepayments, deposits and other receivables		**42,634**	41,452
Total non-current assets		**184,465**	216,258
CURRENT ASSETS			
Contract assets	12	**10,150**	9,095
Inventories		**25,568**	10,732
Lease, factoring and trade receivables	11	**91,696**	105,825
Prepayments, deposits and other receivables		**51,576**	64,203
Derivative financial instruments	13	**45,019**	–
Restricted cash		**2,301**	2,269
Cash and cash equivalents		**88,852**	57,382
Total current assets		**315,162**	249,506
CURRENT LIABILITIES			
Trade payables	14	**1,359**	1,149
Other payables and accruals		**21,066**	35,583
Lease liabilities		**563**	1,543
Other loans		**318,746**	286,627
Liability component of convertible notes		**–**	49,328
Derivative component of convertible notes		**–**	2,458
Income tax payables		**16,216**	16,134
Total current liabilities		**357,950**	392,822

	Note	**30 June 2021 HK$'000 (unaudited)**	31 December 2020 HK$'000 (audited)
NET CURRENT LIABILITIES		**(42,788)**	(143,316)
TOTAL ASSETS LESS CURRENT LIABILITIES		**141,677**	72,942
NON-CURRENT LIABILITIES			
Other payables		**871**	827
Lease liabilities		**2,278**	2,320
Total non-current liabilities		**3,149**	3,147
Net assets		**138,528**	69,795
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	15	**2,777,494**	2,728,501
Reserves		**(2,494,227)**	(2,527,863)
		283,267	200,638
Non-controlling interests		**(144,739)**	(130,843)
Total equity		**138,528**	69,795

Notes to Interim Condensed Consolidated Financial Information

1. Corporate Information

King Stone Energy Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered 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 provision of tourism agency services in the PRC, (v) the operation of photovoltaic power businesses in the PRC and Hong Kong; and (vi) the trading of liquefied natural gas ("LNG") and various commodities in the PRC and Hong Kong.

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 2021 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 2020.

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 2020, which 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, except for the adoption of the revised HKFRSs as disclosed in note 2.2 below.

2.1 Basis of Preparation and Presentation *(continued)*

At 30 June 2021, the Group had net current liabilities of HK$43 million. In assessing the Group's ability to operate as a going concern, the directors of the Company take into account the historical operating performance of the Group and the following:

- any material cash outflow before 30 June 2022 in settlement of other loans of HK$31 million borrowed by a subsidiary of the Company (the "Subsidiary"), and related accrued interests and overdue penalties of HK$283 million is not expected to take place;

- the Group did not have any bank loans; and

- the Company and other subsidiaries of the Group did not provide any guarantee over the other loans indebted by the Subsidiary and have no legal obligation, commitment and/or intention to inject capital or provide financial assistance to the Subsidiary to settle the above liabilities.

The directors believe that, taking into account the above factors, the Group will have sufficient working capital to continue as a going concern.

The financial information relating to the year ended 31 December 2020 included in this unaudited interim condensed consolidated financial information 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 2020 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 2020. 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 2020, except for the adoption of the following revised HKFRSs for the first time for the current period's financial information:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

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

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. 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 hedging relationships.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021. The Group early adopted the amendment on 1 January 2021 and the amendment did not have any impact on the financial position and performance of the Group.

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 "Tourism" segment engages in the provision of tourism agency services in the PRC;

(e) the "Photovoltaic" segment engages in the operation of photovoltaic power businesses in the PRC and Hong Kong; and

(f) the "Trading" segment engages in the trading of LNG and various commodities in the PRC and Hong Kong.

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		Tourism		Photovoltaic		Trading		Total	
	Six months Ended 30 June 2021 HK$'000 (unaudited)	Six months Ended 30 June 2020 HK$'000 (unaudited)	**Six months Ended 30 June 2021 HK$'000 (unaudited)**	Six months Ended 30 June 2020 HK$'000 (unaudited)	**Six months Ended 30 June 2021 HK$'000 (unaudited)**	Six months Ended 30 June 2020 HK$'000 (unaudited)	**Six months Ended 30 June 2021 HK$'000 (unaudited)**	Six months Ended 30 June 2020 HK$'000 (unaudited)	**Six months Ended 30 June 2021 HK$'000 (unaudited)**	Six months Ended 30 June 2020 HK$'000 (unaudited)	**Six months Ended 30 June 2021 HK$'000 (unaudited)**	Six months Ended 30 June 2020 HK$'000 (unaudited)	**Six months Ended 30 June 2021 HK$'000 (unaudited)**	Six months Ended 30 June 2020 HK$'000 (unaudited)
Segment revenue –														
Sales to external customers (note 5)	**-**	-	**780**	838	**6,715**	6,652	**380**	655	**1,919**	2,212	**7,014**	18	**16,808**	10,375
Segment results	**(24,952)**	(20,068)	**(653)**	(1,666)	**45,227**	4,117	**3**	319	**963**	1,541	**(208)**	(103)	**20,380**	(15,860)
Reconciliation:														
Share of losses of an associate													**(323)**	(1)
Foreign exchange differences, net													**5,127**	(5,209)
Corporate and other unallocated expenses, net													**(5,089)**	(6,846)
Profit/(loss) before tax													**20,095**	(27,916)
Income tax													**(53)**	(1,029)
Profit/(loss) for the period													**20,042**	(28,945)
Other segment information:														
Share of losses of an associate:														
Unallocated assets													**323**	1
Depreciation of items of property, plant and equipment:														
Segment assets	**1**	7	**390**	631	**8**	12	**17**	20	**519**	397	**-**	1	**935**	1,068
Unallocated assets													**77**	77
													1,012	1,145
Depreciation of right-of-use assets:														
Segment assets	**13**	70	**-**	-	**-**	-	**-**	-	**51**	39	**13**	14	**77**	123
Unallocated assets													**923**	1,023
													1,000	1,146
Amortisation of other intangible assets	**-**	-	**19**	31	**-**	-	**-**	-	**-**	-	**-**	-	**19**	31
Gain on disposal of right-of-use assets:														
Unallocated assets													**-**	(200)
Reversal of impairment of financial assets	**-**	-	**-**	-	**(41,417)**	-	**-**	-	**-**	-	**-**	-	**(41,417)**	-
Gain on disposal of an associate:														
Unallocated assets													**(6,615)**	-
Loss on deemed disposal of an associate:														
Unallocated assets													**3,276**	-

3. Operating Segment Information *(continued)*

Geographical information

Revenue from external customers

	Six months ended 30 June	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Mainland China	**8,982**	9,537
Hong Kong	**7,046**	–
USA	**780**	838
	16,808	10,375

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 10% or more of the Group's total revenue during the period is set out below:

	Six months ended 30 June	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Customer A from the asset financing segment	**N/A***	2,505
Customer B from the asset financing segment	**N/A***	1,343
Customer C from the asset financing segment	**3,920**	1,446
Customer D from the trading segment	**5,842**	N/A*
Customer E from the photovoltaic segment	**1,887**	2,212

* The corresponding revenue of these customers is not disclosed as they individually did not contribute 10% or more 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	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Sale of goods*	**7,794**	838
Sale of electricity and related tariff adjustment#	**1,919**	2,212
Interest income of asset financing service	**5,970**	6,003
Management fee income of asset financing service	**745**	649
Commission income	**380**	673
	16,808	10,375

* During the period ended 30 June 2021, the Group entered into contracts to buy and sell commodities with total and sales amounts of HK$5,992,770,000 and HK$5,985,776,000, respectively, and the associated net trading income amounted to HK$7,014,000 included in the sale of goods.

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

5. Other income and gains, net

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

	Six months ended 30 June	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Other income, net		
Bank interest income	**21**	21
Trading income, net*	**7**	–
Subsidy income	**106**	293
Write-back of an other loan#	**–**	5,515
Management fee income	**252**	–
Others	**767**	315
	1,153	6,144

5. Other income and gains, net *(continued)*

	Six months ended 30 June	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Gains, net		
Gain on disposal of an associate (note 10(a))	**6,615**	–
Gain on disposal of right-of-use assets	**–**	200
Fair value gain of the derivative components of convertible notes	**2,149**	–
Foreign exchange gains, net	**5,127**	–
	13,891	200
Other income and gains, net	**15,044**	6,344

* During the period ended 30 June 2021, the Group entered into contracts to buy and sell commodities with total purchase and sales amounts of HK$31,341,000 and HK$31,334,000, respectively, and the associated net trading income amounted to HK$7,000.

\# 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. Accordingly, the other loan and related accrued interests and overdue penalties were written back in prior period in other income and gains, net and finance costs, net, respectively.

6. Finance Costs, net

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

	Six months ended 30 June	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest and other borrowing costs on overdue other loans	**2,290**	3,382
Interest on a short-term loan	**228**	–
Penalties on overdue other loans	**21,780**	20,259
Interest on lease liabilities	**95**	119
Interest on convertible notes	**1,389**	–
Reversal of accrued interest and penalty on an other loan pursuant to the outcome of a court judgement (note 5)	**–**	(4,637)
	25,782	19,123

7. Profit/(loss) Before Tax

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

	Six months ended 30 June	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of inventories sold	**6,490**	1,270
Depreciation of items of property, plant and equipment[@]	**1,012**	1,145
Depreciation of right-of-use assets	**1,000**	1,146
Amortisation of other intangible assets*	**19**	31
Lease payments not included in the measurement of lease liabilities	**353**	532
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**9,651**	9,645
Pension scheme contributions (defined contribution schemes)	**577**	286
	10,228	9,931

7. Profit/(loss) Before Tax *(continued)*

	Six months ended 30 June	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Reversal of impairment of financial assets:		
Lease, factoring and trade receivables	**41,115**	–
A deposit	**302**	–
	41,417	–
Foreign exchange differences, net	**(5,127)&**	5,209#
Loss on deemed disposal of an associate (note 10(b))	**3,276#**	–

@ Depreciation of HK$908,000 (Period ended 30 June 2020: HK$1,026,000) is included in "Cost of sales" in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

* Amortisation of intangible assets of HK$19,000 (Period ended 30 June 2020: HK$31,000) is included in "Cost of sales" in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

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

& This item is included in "Other income and gains, 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 2021 as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 June 2020: 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	
	2021	2020
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current – Mainland China	**53**	1,029
Deferred – Mainland China	**–**	–
	53	1,029

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

The calculation of the basic earnings per share amount (Period ended 30 June 2020: loss per share amount) is based on the unaudited profit for the period attributable to shareholders of the Company of HK$32,275,000 (Period ended 30 June 2020: a loss of HK$22,142,000), and the weighted average number of ordinary shares of 7,689,106,460 (Period ended 30 June 2020: 7,245,440,183) in issue during the period.

No adjustment has been made to the basic earnings/loss per share amount presented for each of the periods ended 30 June 2021 and 2020 in respect of a dilution as the impact of the convertible notes outstanding during the period ended 30 June 2021 had an anti-dilutive effect on the basic earnings per share amount presented; and the Group had no dilutive potential ordinary shares in issue during the period ended 30 June 2020.

10. Investments in associates

(a) On 31 December 2020, the Group entered into a share transfer agreement with an independent third party for the disposal of the Group's entire 19.5% equity interest in 海南深耕海洋發展有限公司 ("Hainan Shengeng") for a cash consideration of RMB21 million. The cash consideration of RMB21 million has been received by the Group in March 2021 and the disposal transaction has been completed on 20 June 2021.

(b) During the period, the Group's equity interest in One Asia Securities Co., Limited ("OAS") was diluted from 35.76% to 0.18% upon the placing of 90,750,000 new shares by OAS to a new investor which is an independent third party, resulting in a loss on deemed disposal of HK$3,276,000 recognised by the Group in the condensed consolidated statement of profit or loss and other comprehensive income.

11. Lease, Factoring and Trade Receivables

	Notes	**30 June 2021 HK$'000 (unaudited)**	31 December 2020 HK$'000 (audited)
Gross lease receivable	(a)	**–**	17,449
Less: Unearned interest income		**–**	(104)
Net lease receivable	(a)	**–**	17,345
Factoring receivables	(b)	**206,507**	253,514
Management fee receivables of asset financing services	(c)	**2,336**	1,591
Trade receivables	(d)	**957**	9,494
Impairment	(e)	**(118,104)**	(157,357)
Total lease, factoring and trade receivables		**91,696**	124,587
Portion classified as current assets		**(91,696)**	(105,825)
Non-current portion		**–**	18,762

11. Lease, Factoring and Trade Receivables *(continued)*

Notes:

(a) The lease receivable as at 31 December 2020 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 bore interest at a floating rate of the three-year lending rate promulgated by the People's Bank of China plus 20% margin and was repayable in 1 year. During the period, interest income of HK$300,000 was recognised in profit or loss in respect of the lease receivable.

At 30 June 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its customers are as follows:

	30 June 2021 HK$'000 (unaudited)	31 December 2020 HK$'000 (audited)
Amount receivable within one year	**–**	17,449
Total minimum lease receivables	**–**	17,449
Future interest income	**–**	(104)
Total net lease receivable classified as current assets	**–**	17,345

(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% or at fixed rate of 12% per annum and are due for repayment between 2020 and 2023. At 30 June 2021, a factoring receivable of HK$18,186,000, 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$5,670,000 in total was recognised in profit or loss in respect of these factoring receivables.

An ageing analysis of the factoring receivables as at 30 June 2021 and 31 December 2020, based on the invoice date and net of provisions, is as follows:

	30 June 2021 HK$'000 (unaudited)	31 December 2020 HK$'000 (audited)
Unbilled	**86,254**	104,303
Within one month	**898**	633
Two to three months	**346**	564
Over three months	**1,648**	1,869
	89,146	107,369

11. Lease, Factoring and Trade Receivables *(continued)*

Notes: *(continued)*

(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$745,000 in total was recognised in profit or loss during the period.

An ageing analysis of the management fee receivables as at 30 June 2021 and 31 December 2020, based on the invoice date and net of provisions, is as follows:

	30 June 2021 HK$'000 (unaudited)	31 December 2020 HK$'000 (audited)
Unbilled	**241**	–
Within one month	**390**	398
Two to three months	**165**	163
Over three months	**797**	433
	1,593	994

(d) The Group's trading terms with its customers from the silver, oil and gas and trading 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:

	30 June 2021 HK$'000 (unaudited)	31 December 2020 HK$'000 (audited)
Billed – Within one month	**957**	8,658
Unbilled	**–**	836
	957	9,494

(e) During the period, impairment of HK$41,115,000 was reversed as certain lease and factoring customers have fully repaid their outstanding balances.

12. Contract Assets

The Group's contract assets represented central government renewable energy subsidies 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.

13. Derivative financial instruments

The Group has a practice of selling a commodity within a short period after purchase and generated profit or incurred loss from these transactions. Since these contracts are 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 are accounted for as derivative financial instruments. As at 30 June 2021, the Group has two commodity contracts with an aggregate amount of HK$45,019,000 being classified as derivative financial instruments.

14. 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:

	30 June 2021 HK$'000 (unaudited)	31 December 2020 HK$'000 (audited)
Less than six months	**1,071**	780
Six months to one year	**–**	31
Over one year	**288**	338
	1,359	1,149

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

15. Share Capital

	30 June 2021 HK$'000 (unaudited)	31 December 2020 HK$'000 (audited)
Issued and fully paid:		
7,915,055,568 (2020: 7,290,055,568) ordinary shares	**2,777,494**	2,728,501

15. Share Capital *(continued)*

A summary of movement in the Company's share capital during the period is as follows:

	Number of shares in issue	**Share capital** HK$'000
At 1 January 2021	7,290,055,568	2,728,501
Issue of new ordinary shares upon exercise of convertible notes	625,000,000	48,993
At 30 June 2021	7,915,055,568	2,777,494

On 11 February 2021, 26 February 2021 and 17 June 2021, the convertible noteholders exercised the conversion rights of all its interest in the convertible notes with an aggregate principal amount of HK$50,000,000 and accordingly, 625,000,000 new ordinary shares of the Company were allotted and issued. The then aggregate carrying amount of the liability and derivative components of the relevant convertible notes as at the date of conversion of HK$48,993,000 was transferred to the Company's share capital account.

16. Event after the reporting period

On 30 August 2021, the Group entered into a sale and purchase agreement with EPI Energy Investment Limited, an independent third party, for the disposal of certain property, plant and equipment of the Group under photovoltaic power business for a cash consideration of HK$6.5 million. The Group is in the process of completing the disposal transaction as at the date of approval of this unaudited interim condensed consolidated financial information.

Interim Dividend

The Board of Directors (the "Board") has resolved not to declare an interim dividend in respect of the six months ended 30 June 2021 (the "Period") (six months ended 30 June 2020: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

King Stone Energy Group Limited (the "Company", together with its subsidiaries, the "Group") is principally engaged in (1) mining and sale of silver minerals in the People's Republic of China (the "PRC"); (2) the generation of electricity through photovoltaic power in the PRC and Hong Kong; (3) the provision of tourism agency services in the PRC; (4) exploring and drilling natural gas and oil in the USA; (5) provision of asset financing and factoring services in the PRC; and (6) trading of liquefied natural gas ("LNG") and various commodities in Hong Kong and the PRC during the Period.

(1) Silver Mining

The Group has been carrying on silver mining business in the PRC since 2013. 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") owned by Fu'an City Leixin Mining Company Limited ("Fu'an Leixin") and the "Eastern Section" located in Zherong County of Ningde City (the "East Mine") owned by Zherong County Leixin Mining Company Limited ("Zherong Leixin").

West Mine

The West Mine covers an area of 2.1442 square kilometers with an annual production capacity of 100,000 tonnes. Based on an independent competent person's report on the latest status of the West Mine and the East Mine issued by SRK Consulting China Limited ("SRK") in May 2018 (the "Technical Report"), the probable ore reserves of the West Mine as at 31 May 2018 was approximately 693,000 tonnes with an average silver grade of 210.4 gram per tonne. The overall production capacity of mining and processing at the West Mine is 100,000 tonnes per annum, or 300 tonnes per day. Silver ore (and/or lead/zinc ore if any) mined will be processed in a processing plant which extracts silver/lead/zinc into concentrate following a processing flowsheet of crushing, grinding, floatation, and dewatering. Sales contracts are entered into between Fu'an Leixin and its customers for sales of silver/lead/zinc concentrates produced from processing of ore inventory. Customers of Fu'an Leixin are mainly smelting factories and traders of precious metals. Fu'an Leixin carries on mining business by itself and/or may subcontract part of its mining activities to sub-contractors. Fu'an Leixin has entered into framework agreements in respect of sales of silver and/or other metals concentrates with certain customers.

All the prerequisites for the full resumption of production at the West Mine has been in place since the fourth quarter of 2020. The ore production at the West Mine was approximately 6,000 tonnes during the Period, which has been affected by the following reasons: (1) due to the holding of National People's Congress and the Chinese People's Political Consultative Conference and 100th anniversary of the founding of the Communist Party of China, the production at the West Mine has been temporarily suspended for a couple of months as requested by the local government; and (2) allocation of manpower for ore mining and processing and respective logistics being affected by COVID-19 pandemic prevention measures imposed during the Period. The production is expected to resume to normal in third quarter this year.

Business Review *(continued)*

(1) ***Silver Mining*** *(continued)*

West Mine (continued)

The mining permit for the West Mine was issued by Department of Land and Resources in Fujian Province and has expired in December 2020. Based on the Group's communications with the relevant government body, it was noted that (i) due to the impact of the COVID-19 pandemic, all mining licenses in Fujian province can retain their status for a grace period of two years. In this regard, Fu'an Leixin was eligible to submit a two-year licensing extension application to the Department of Natural Resources of Fujian; and (ii) under this arrangement, Fu'an Leixin can continue its mining operations as usual pending its renewal of mining license. Fu'an Leixin has submitted the two-year licensing extension application to the relevant government body. Such application has been approved by the relevant government body and the mining permit for the West Mine has retained its status for two years up to 9 December 2022.

East Mine

Based on the Technical Report, the probable ore reserves of the East Mine as at 31 May 2018 was approximately 6,069,000 tonnes with an average silver grade of 122.1 gram per tonne.

The exploration license, which is a pre-requisite for obtaining the mining 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. There was no official reason given by the relevant regulatory body as to why the renewal of the exploration license has yet to be granted but the Group believes that the delay was mainly attributable to the Project (as defined below) close to the West Mine and East Mine which, to the best of the knowledge of the Group, has been suspended. Nevertheless, Zherong Leixin is still applying for such license renewal and communicating with the relevant government body. In September 2020, Zherong Leixin has received further request from the Department of Natural Resources of Fujian for provision of documents. Given the uncertainty of the development of the Project, the Group has applied for a five-year extension for the renewal of the exploration license in October 2020. Based on the latest communications with the relevant government officers in the second quarter this year, the renewal of the exploration license is still being reviewed.

The preparation work for exploration on the mining area at the East Mine including construction of electricity and water network, cleaning of mine tunnel, repairs of certain mining facilities and road at the East Mine etc 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 for submission to the relevant government authority. The Group intends to carry out infrastructure construction at the East Mine once the mining license is obtained.

Based on the previous experience of similar applications and communications with the relevant government body, the Group is not aware of any material impediment in obtaining the relevant approval for the license renewal.

Business Review *(continued)*

(1) ***Silver Mining*** *(continued)*

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 concrete 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 would 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 is 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.

(2) ***Photovoltaic power business***

The Group commenced its photovoltaic power business in the PRC after completion of the acquisition of the 89% equity interests in Beijing Jiezhong Technology Co., Ltd ("Beijing Jiezhong") in January 2020. Chengde Shuntian Photovoltaic Power Generation Co., Ltd ("Chengde Shuntian"), which is a subsidiary of Beijing Jiezhong, is principally engaged in a 5 Mega Watts ("mW") 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 4.085 mW. 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 assuming there is no change in such subsidy policy) and (ii) provincial financial subsidy from 1 January 2018 until 31 December 2020. Such business has contributed steady revenue from power generation to the Group during the Period. Chengde Shuntian has sold electricity to a power generation company, which is a subsidiary of a state-owned enterprise, during the Period.

It is the Group's strategy to continuously explore market opportunities in the PRC, Hong Kong and Japan to expand its photovoltaic power business. On 22 June 2021, First Gain Global Limited, an indirect wholly-owned subsidiary of the Company as purchaser, has completed acquisition of 100% of the issued share capital in SinoPower Solar Investment Co. Limited ("SPSI") from SinoPower Holding (Hong Kong) Co. Limited as vendor, which is an independent third party of the Company, for an aggregate cash consideration of HK$8,000,000.

Business Review *(continued)*

(2) *Photovoltaic power business* *(continued)*

SPSI is an integrated project developer and investor of distribution type of solar energy projects in Hong Kong. Currently, SPSI has developed several rooftop solar energy projects with an on-grid power generation capacity of approximately 840 Kilo Watts ("kW") and has a pipeline of solar energy projects with power generation capacity of approximately 20 mW. It has also worked with numerous property owners and land owners in Hong Kong for renewable energy investment projects, and is recognised as one of the leading solar energy market players in Hong Kong.

On 30 August 2021, SPSI as the vendor, an indirect wholly-owned subsidiary of EPI (Holdings) Limited (a company listed on the Main Board of the Stock Exchange with stock code 689) as purchaser, and the Company as the guarantor of SPSI entered into an agreement in relation to the disposal of certain existing and ongoing projects of an aggregate power generation capacity of approximately 4,133 kW calculated at HK$18.0 per watt multiplied by the kW capacity with the maximum consideration of HK$75,000,000 (or such other amount as may be agreed by SPSI and the purchaser in writing). SPSI will be responsible to provide operation and maintenance ("O&M") service for the projects transferred at the agreed monthly fee of HK$0.9 per kWh multipled by actual unit of energy generated shared by the purchaser for the solar energy projects. Further details of the above transactions are set out in the announcement of the Company dated 30 August 2021.

It is believed that the Group will earn profits from engineering, procurement and construction ("EPC") of solar energy projects and monthly income from O&M for projects transferred to the purchaser under the above transactions. The Group will continue to invest and develop solar energy projects in Hong Kong through SPSI.

(3) *Tourism business*

To diversify the business portfolio of the Group, the Group strategically acquired 60% equity interest of Beijing Hai Yun De Te Tourism Investment Development Company Limited ("Beijing Hai Yun"), which is principally engaged in local tourism business in the PRC, in October 2019. In September 2020, Beijing Hai Yun has acquired 100% equity interest in Beijing Huan Yu Zun Cheng International Travel Agency Company Limited, which is a tourist agency company in the PRC holding an international tourist agency license. The tourism business, which mainly represented income from the provision of MICE Travel and hotels and tickets booking services in the PRC, was still affected by COVID-19 pandemic during the Period.

(4) *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 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"). Due to the drop in oil and gas prices in past few years, the Group did not consider it commercially viable to increase the production from the Mining Area by drilling new wells. Notwithstanding this, the Group is entitled to drill six additional wells at the Mining Area. The Group is closely monitoring oil and natural gas prices and will formulate an appropriate strategy and timetable to expand the production at the Mining Area as and when appropriate.

Business Review *(continued)*

(5) Asset Financing

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.

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. A demand letter was issued against this customer requesting repayment in April 2021.

On 8 October 2016, Qingrui Factoring entered into two factoring agreements with a customer in respect of receivable factoring services with revolving facilities in the aggregate principal sum of RMB41 million (equivalent to approximately HK$47.8 million) for a term of 3 years as disclosed in the announcement of the Company dated 8 October 2016. On 8 October 2019, Qingrui Factoring entered into supplemental agreements to extend the expiry date of the factoring agreements from 8 October 2019 to 8 October 2020. On 8 October 2020, Qingrui Factoring entered into second supplemental agreements to extend the expiry date of the factoring agreements from 8 October 2020 to 8 October 2021.

On 1 April 2021, Qingrui Factoring entered into a factoring arrangement with one customer in principal sum of RMB1.5 million (equivalent to approximately HK$1.8 million) for a term of half year with expiry date of 9 October 2021. On 25 June 2021, Qingrui Factoring entered into the factoring arrangement with same customer in principal sum of RMB2.5 million (equivalent to approximately HK$3 million) for a term of nine months with expiry date of 24 March 2022.

During the Period, the Group has fully recovered the lease receivable and one of the factoring receivables and is in the process of assessing the credit standing and negotiating for updated repayment schedules with other existing customers.

(6) Commodities trading

During the Period, the Group is engaged in trading of various commodities including iron ore, copper, wood etc mainly through King Stone Group Trading Company Limited set up by the Group in December 2019. The Group continues to explore more trading opportunities for different commodities to expand the commodities trading business.

The Group commenced business of trading of LNG in the PRC through Shaanxi Wanxi Logistics Co., Ltd ("Shaanxi Wanxi") which currently holds a Hazardous Chemical Products Operating Permit which is required under the relevant laws and regulations for Shaanxi Wanxi to operate its existing business and it is valid for a period of 3 years up to 8 July 2022. The trading of LNG business was affected as the local government would like to develop tourism industry in the region where Shaanxi Wanxi is located during the Period. Shaanxi Wanxi is in progress of relocation to other region in which LNG enterprises are centralised around Xi'an city, the PRC.

Business Review *(continued)*

Solid waste disposal in development phrase

King Stone New Materials (Hong Kong) Co., Ltd., a wholly-owned subsidiary of the Company, focuses on technology development, production and sales of integrated utilization of new energy, new materials and solid waste resources. It cooperates with several well-known universities and research institutes and has self-developed the process technology and integrated equipment for preparing new functional materials by low-temperature pyrolysis of waste tires, and has successively obtained four utility model patents for its equipment. Its subsidiary, Zhaoqing Xinshan Weili New Material Technology Co., Ltd. is planning to establish an integrated production line for low-temperature pyrolysis of waste tires with international leading technology in the Guangdong-Hong Kong-Macao Greater Bay Area. Its major products include new carbon black composite materials and modified rubber pyrolysis oil. Locally, the Company is negotiating for the cooperation with a large-scale environmental recycling company in Hong Kong as it deploys to invest in the recycling business of waste paper, waste plastic and scrap metal in Hong Kong.

Financial Review

Revenue and cost of sales

The Group recorded a total revenue of approximately HK$16.8 million for the Period (six months ended 30 June 2020: HK$10.4 million), representing an increase of 61.5% compared with last comparable period. The increase in revenue was mainly due to increase in revenue generated from trading of commodities during the Period.

There was no revenue (six months ended 30 June 2020: nil) and cost of sales (six months ended 30 June 2020: nil) from silver mining business during the Period.

For photovoltaic power generation business, the Group produced and sold approximately 2,659 Mega Watts of electricity in the PRC and recorded revenue from photovoltaic power generation of approximately HK$1.9 million (six months ended 30 June 2020: approximately HK$2.2 million) during the Period. The related cost of sales was approximately HK$0.8 million (six months ended 30 June 2020: approximately HK$0.6 million) and gross margin was 58.2% during the Period. The revenue and cost of sales from solar energy projects at SPSI, which was acquired at end of June 2021, was not yet reflected during the Period.

For tourism business, the Group recorded revenue of approximately HK$0.4 million (six months ended 30 June 2020: HK$0.7) from provision of MICE Travel and hotels and tickets booking services during the Period. There was no cost of sales in this segment.

For the Oil and gas E&P in the USA, the Group, net to its ownership interests, has produced approximately 275 Bbl of oil, approximately 32 million cubic feet of natural gas, and approximately 1,599 Bbl of natural gas liquids (six months ended 30 June 2020: approximately 807 Bbl of oil, approximately 52 million cubic feet of natural gas, and approximately 2,452 Bbl of natural gas liquids). The revenue was approximately HK$0.8 million during the Period (six months ended 30 June 2020: HK$0.8 million). Cost of sales for Oil and gas E&P was approximately HK$0.9 million during the Period (six months ended 30 June 2020: HK$1.7 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 16.1% (six months ended 30 June 2020: gross loss margin of 107%) during the Period.

Financial Review *(continued)*

Revenue and cost of sales (continued)

The Group recorded revenue of approximately HK$6.7 million from provision of asset financing services representing interest income and management fee income during the Period (six months ended 30 June 2020: HK$6.7 million). There was no cost of sales in this segment.

The Group also recorded revenue from trading of various commodities of approximately HK$7.0 million (six months ended 30 June 2020: HK$0.02 million representing revenue from trading of LNG) and cost of sales of approximately HK$5.7 million (six months ended 30 June 2020: Nil). The gross margin was 18.4% (six months ended 30 June 2020: nil) during the Period. There was no revenue and cost of sales from trading of LNG during the Period.

Other income and gains, net

Other income and gains, net was approximately HK$15.0 million during the Period (six months ended 30 June 2020: HK$6.3 million). It mainly represented foreign exchange gains, net of HK$5.1 million (six months ended 30 June 2020: nil) and gain on disposal of an associate, namely Hainan Shengeng Ocean Development Co., Ltd ("Hainan Shengeng"), of HK$6.6 million (six months ended 30 June 2020: nil). During the period ended 30 June 2020, there was write off of other loan of approximately HK$5.5 million. There was no such write off during the Period.

Selling and administrative expenses

Selling and administrative expenses were approximately HK$16.3 million during the Period as compared to approximately HK$17.8 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.

Other expenses, net

The breakdown of other expenses, net is as follows:

	Six months ended 30 June	
	2021	2020
	HK$'000	HK$'000
Reversal of impairment of financial assets:		
Lease, factoring and trade receivables	**(41,115)**	–
A deposit	**(302)**	–
	(41,417)	–
Foreign exchange loss, net	**–**	5,209
Loss on deemed disposal of an associate	**3,276**	–
Others	**82**	110
Total	**(38,059)**	5,319

Financial Review *(continued)*

Finance costs, net

Finance costs, net were approximately HK$25.8 million during the Period (six months ended 30 June 2020: HK$19.1 million) which mainly represented interest and penalty expenses for borrowings of approximately HK$22.3 million (six months ended 30 June 2020: HK$20.3 million) raised for silver mining business.

Share of losses of associates

During the Period, the Group shared the losses of One Asia Securities Limited, an associate which is principally engaged in securities trading in Japan, of approximately HK$0.3 million (six months ended 30 June 2020: Nil). During the period ended 30 June 2020, it represented share of loss of Hainan Shengeng of approximately HK$1,000.

Income tax

Income tax, which mainly represented tax on profits from asset financing business, was approximately HK$53,000 during the Period (six months ended 30 June 2020: HK$1 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.

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 2021, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.88:1 (31 December 2020: 0.64:1).

As at 30 June 2021, the cash and cash equivalents of the Group were approximately HK$88.9 million (31 December 2020: HK$57.4 million). During the Period, the Group recorded a net cash inflow from its operating activities of approximately HK$4.4 million (six months ended 30 June 2020: outflow of HK$31.3 million).

As at 30 June 2021, there was no outstanding interest-bearing bank loan (31 December 2020: nil).

The convertible notes in the aggregate principal amount of HK$50 million with the conversion price of HK$0.08 each were issued on 7 August 2020 and all convertible notes have been converted into a total of 625,000,000 new ordinary shares of the Company during the Period. There were no outstanding convertible notes as at 30 June 2021.

As at 30 June 2021, there were other loans of approximately HK$318.7 million (31 December 2020: HK$286.6 million) comprising loan principal and commission payable of approximately HK$64.6 million (31 December 2020: HK$57.9 million), overdue interest/penalty of approximately HK$253.9 million (31 December 2020: HK$228.7 million) and non-overdue interest of approximately HK$0.2 million (31 December 2020: nil). Other loans of approximately HK$314.3 million and HK$4.4 million were denominated in Renminbi and Japanese Yen respectively. Other loans with principal of approximately HK$24.0 million (31 December 2020: HK$23.8 million) and HK$6.6 million (31 December 2020: HK$6.5 million) were interest-free and with fixed interest rate of 15% per annum, respectively. Other loans of approximately HK$314.3 million were subject to an overdue penalty of 0.5% per day on loan principal and 1% on the overdue balance, respectively. Other loans of approximately HK$4.4 million were with fixed interest rate of 12% per annum and were due on 20 July 2021. As at 30 June 2021, other loans of approximately HK$314.3 million (31 December 2020: all) were overdue.

Financial Review *(continued)*

Liquidity and Financial Review *(continued)*

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 condensed consolidated statement of financial position of the Group as at 30 June 2021) 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 2021. 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.

Gearing Ratio

The gearing ratio of the Group, measured as total debt (which included trade payables, other payables and accruals, lease liabilities, other loans and liability component of convertible notes) as a percentage to the total equity attributable to shareholders of the Company, was 1.22 as at 30 June 2021 (31 December 2020: 1.89).

Material Acquisitions and Disposals

(i) Proposed acquisition of lead and zinc mines in the PRC

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, 26 June 2020, 22 December 2020 and 25 June 2021) 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 2021. 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, 26 June 2020, 22 December 2020 and 25 June 2021.

Material Acquisitions and Disposals *(continued)*

(ii) Disposal of Hainan Shengeng

On 31 December 2020, Zhuhai Jinwei Environmental Protection Technology Co., Ltd (a wholly owned subsidiary of the Company), Xi An Tong Da International Trading Limited (an independent third party which held 5.5% equity interests in Hainan Shengeng) and Hainan Shengeng entered into the disposal agreement in respect of disposal of 19.5% equity interests in Hainan Shengeng at cash consideration of RMB21 million (equivalent to approximately HK$25 million). The cash consideration of RMB21 million has been received in March 2021 and the disposal was completed during the Period.

Save for the above and completion of acquisition of 100% equity interests in SPSI as mentioned before, the Group had no other material acquisition and disposal of subsidiaries, associates and joint ventures during the Period.

Significant investment

The Group had no significant investment of carrying value of 5% or more of the total assets as at 30 June 2021 (31 December 2020: nil).

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 30 June 2021, the Group had contracted capital commitments not provided for in the consolidated financial statements of RMB1.5 million (equivalent to approximately HK$1.8 million) (31 December 2020: HK$1.8 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.

As at 30 June 2021, time deposits which are restricted for use of approximately HK$2.3 million (31 December 2020: HK$2.3 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 2021 (31 December 2020: nil).

As at 30 June 2021, there was no material contingent liability of the Group (31 December 2020: nil).

Human Resources and Share Option Scheme

As at 30 June 2021, the Group had 47 (31 December 2020: 62) employees. The total staff costs (including directors' remuneration) for the Period were approximately HK$10.2 million (six months ended 30 June 2020: HK$9.9 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 2021.

Future Outlook

In recent years, governments around the world have been furthering the promotion of sustainable finance and environmental, social and governance ("ESG") policies and regulations. Investors have begun to place increasingly strong emphasis on investment factors other than commercial returns such as environmental impact and social responsibility. It is pointed out that ESG-focused companies and green investments are more defensive against the fluctuating market conditions in the pandemic and the global low interest environment, prompting investors to pay more attention to investment issues such as sustainable finance and ESG.

Therefore, while continuing to maintain and develop its existing businesses, the Group has recently actively diversified its businesses and invested in eco-friendly new energy, solid waste disposal and new materials. In respect of new energy, it mainly focuses on technology research and development, equipment and product manufacturing, project investment and operation and management in the fields of solar energy, wind energy and energy storage.

The Group has completed the acquisition of SPSI, which is principally engaged in development of solar energy projects, for the first step of entering the new energy market of Hong Kong in June 2021. Meanwhile, King Stone Energy, Inc. ("KSE Inc"), a wholly-owned subsidiary of the Group in Japan, will also further develop solar power generation projects in Japan. The Group, through KSE Inc, has also been seeking opportunities for merger and acquisition of renewable energy businesses in Japan. Among them, the Group believes that wind power generation business in Japan can generate stable cash flow under the Feed-in-Tariff Program, and make it easier to manage and control risks, which is an investment target with huge potential. The Group has been in negotiation for cooperation with a high-tech company, which is specialised in wind power generation, to jointly engage in product sales, market development, project operation and maintenance, asset management and other businesses of small to medium-sized distributed on-grid wind power systems in Japan, with an aim to become a project developer that can effectively integrate the resources of small to medium-sized distributed wind power market in Japan.

The Group is also actively conducting the research on materials, technology, and application development of the energy storage industry to strengthen its presence in the PRC. In light of this, it is cooperating with a high-tech enterprise dedicated to the research and development, production and sales of new energy vehicle power batteries to work on the research and development and production of new vanadium redox battery and multi-energy integration and complement projects in the PRC. In March 2021, the Company entered into a memorandum with an independent third party in respect of the proposed acquisition of a target company in Baotou City, Inner Mongolia. The target company is a high-tech enterprise engaged in the research and development, manufacturing and sales of technology, materials and equipment of rare earth new power supply. It possesses various patents for the core technology of the industrialization of rare earth new power supply projects, and its market positioning is to provide power supply, energy storage supply and start-up power supply for new energy vehicles in alpine regions in the PRC.

Future Outlook *(continued)*

As the society and the capital market put more emphasis on ESG, the Group is adjusting its business strategy and gradually diversifying into an integrated new energy company that focuses on eco-friendly energy, solid waste treatment and new materials, accompanied with traditional energy and mineral exploration, and combined with light assets including asset financing services, commodities trading and tourism. The Group believes that the new energy and solid waste disposal projects are eco-friendly and produce significant economic benefits, and are also in line with the values of recycling use and ecological development that are advocated worldwide. It is expected that the implementation of the Group's new energy projects will achieve the win-win goal of regional economic development and contribute to a better environment that is beneficial to the country and mankind, creating better returns for the shareholders and investors of the Company in the long term.

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 2021 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, 30 August 2021

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.