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 2022

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 2022 with comparative figures for the corresponding period in 2021 are as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

		Six months ended 30 June	
	Notes	**2022 HK$'000 (unaudited)**	2021 HK$'000 (unaudited)
REVENUE	4	**49,643**	16,808
Cost of sales		**(45,131)**	(7,417)
Gross profit		**4,512**	9,391
Other income and gains, net	5	**1,103**	15,044
Selling and distribution expenses		**(7)**	–
Administrative expenses		**(21,237)**	(16,294)
Reversal of impairment of financial assets	7	**25,612**	41,417
Other expenses, net		**(7,684)**	(3,358)
Finance costs	6	**(24,662)**	(25,782)
Share of losses of associates		**–**	(323)
(LOSS)/PROFIT BEFORE TAX	7	**(22,363)**	20,095
Income tax credit/(expense)	8	**443**	(53)
(LOSS)/PROFIT FOR THE PERIOD		**(21,920)**	20,042

	Note	Six months ended 30 June **2022** **HK$'000** **(unaudited)**	2021 HK$'000 (unaudited)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**13,273**	(2,538)
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
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX		**13,273**	(302)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(8,647)**	19,740
(Loss)/profit for the period attributable to:			
Shareholders of the Company		**(9,358)**	32,275
Non-controlling interests		**(12,562)**	(12,233)
		(21,920)	20,042
Total comprehensive (loss)/income for the period attributable to:			
Shareholders of the Company		**(4,682)**	33,636
Non-controlling interests		**(3,965)**	(13,896)
		(8,647)	19,740
			Restated
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	9		
Basic (HK cents)		**(0.86)**	3.69
Diluted (HK cents)		**N/A**	3.69

Condensed Consolidated Statement of Financial Position

30 June 2022

	Notes	**30 June 2022 HK$'000 (unaudited)**	31 December 2021 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**50,477**	38,293
Right-of-use assets		**6,029**	6,931
Goodwill		**21,389**	21,389
Other intangible assets		**57,653**	59,874
Investments in associates		**–**	–
Equity investments at fair value through other comprehensive income		**81**	81
Lease, factoring and trade receivables	11	**779**	1,057
Prepayments, deposits and other receivables		**39,559**	41,349
Total non-current assets		**175,967**	168,974
CURRENT ASSETS			
Contract assets		**10,236**	11,566
Inventories		**23,101**	11,374
Lease, factoring and trade receivables	11	**123,542**	103,518
Loan receivables		**–**	–
Prepayments, deposits and other receivables		**142,082**	92,333
Financial assets at fair value through profit or loss		**310**	–
Restricted cash		**2,246**	2,351
Cash and cash equivalents		**80,561**	82,976
Total current assets		**382,078**	304,118
CURRENT LIABILITIES			
Trade payables	12	**1,779**	7,291
Other payables and accruals		**40,752**	32,702
Other loans		**357,124**	362,234
Lease liabilities		**1,846**	1,817
Income tax payables		**15,994**	16,877
Total current liabilities		**417,495**	420,921

	Note	30 June 2022 HK$'000 (unaudited)	31 December 2021 HK$'000 (audited)
NET CURRENT LIABILITIES		**(35,417)**	(116,803)
TOTAL ASSETS LESS CURRENT LIABILITIES		**140,550**	52,171
NON-CURRENT LIABILITIES			
Other payables		**965**	916
Bank loan		**4,001**	4,001
Lease liabilities		**4,417**	5,301
Deferred tax liabilities		**114**	559
Total non-current liabilities		**9,497**	10,777
Net assets		**131,053**	41,394
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	13	**2,875,800**	2,777,494
Reserves		**(2,570,599)**	(2,565,917)
		305,201	211,577
Non-controlling interests		**(174,148)**	(170,183)
Total equity		**131,053**	41,394

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 Hong Kong and Mainland China; and (vi) the trading of various commodities in Hong Kong and Mainland China.

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 of the Company (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 2022 has been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants as well as 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 2021.

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 2021, 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)*

For the six months ended 30 June 2022, the Group reported a loss for the period attributable to shareholders of the Company of approximately HK$9 million, and as at that date, the Group had net current liabilities of HK$35 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 2023 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$323 million is not expected to take place;

- 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; and

- the Group complied with all debt covenants of bank and other loans (other than those borrowed by the Subsidiary).

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 2021 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 2021 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 2021. The auditor's report was unmodified; 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 2021, except for the adoption of the following revised HKFRSs for the first time for the current period's financial information:

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment – Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts - Cost of Fulfilling a Contract*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2018-2020*

The adoption of the above revised HKFRSs has had no significant impact on these financial statements.

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 Hong Kong and Mainland China; and

(f) the "Trading" segment engages in the trading of commodities including audio equipments and electronic parts, etc. in Hong Kong and Mainland China.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that share of losses of associates, foreign exchange differences, net, reversal of impairment of financial assets and corporate and other unallocated income/expenses, net 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 2022 HK$'000 (unaudited)	Six months Ended 30 June 2021 HK$'000 (unaudited)	**Six months Ended 30 June 2022 HK$'000 (unaudited)**	Six months Ended 30 June 2021 HK$'000 (unaudited)	**Six months Ended 30 June 2022 HK$'000 (unaudited)**	Six months Ended 30 June 2021 HK$'000 (unaudited)	**Six months Ended 30 June 2022 HK$'000 (unaudited)**	Six months Ended 30 June 2021 HK$'000 (unaudited)	**Six months Ended 30 June 2022 HK$'000 (unaudited)**	Six months Ended 30 June 2021 HK$'000 (unaudited)	**Six months Ended 30 June 2022 HK$'000 (unaudited)**	Six months Ended 30 June 2021 HK$'000 (unaudited)	**Six months Ended 30 June 2022 HK$'000 (unaudited)**	Six months Ended 30 June 2021 HK$'000 (unaudited)
Segment revenue –														
Sales to external customers (Note 4)	**140**	–	**2,846**	780	**892**	6,715	**36**	380	**13,503**	1,919	**32,226**	7,014	**49,643**	16,808
Segment results	**(24,852)**	(24,952)	**640**	(653)	**(2,833)**	45,227	**(410)**	3	**444**	963	**(1,775)**	(208)	**(28,786)**	20,380
Reconciliation:														
Share of losses of associates													**-**	(323)
Foreign exchange differences, net													**(7,417)**	5,127
Reversal of impairment of financial assets													**25,612**	–
Corporate and other unallocated income/expenses, net													**(11,772)**	(5,089)
(Loss)/profit before tax													**(22,363)**	20,095
Income tax credit/(expense)													**443**	(53)
(Loss)/profit for the period													**(21,920)**	20,042
Other segment information:														
Share of losses of associates:														
Unallocated assets													**-**	323
Depreciation of property, plant and equipment:														
Segment assets	**1**	1	**400**	390	**2**	8	**-**	17	**485**	519	**-**	–	**888**	935
Unallocated assets													**22**	77
													910	1,012
Depreciation of right-of-use assets:														
Segment assets	**-**	13	**-**	–	**-**	–	**-**	–	**48**	51	**-**	13	**48**	77
Unallocated assets													**737**	923
													785	1,000
Amortisation of other intangible assets	**-**	–	**-**	19	**-**	–	**-**	–	**-**	–	**-**	–	**-**	19
Reversal of impairment of financial assets:														
Segment assets	**-**	–	**-**	–	**-**	(41,417)	**-**	–	**-**	–	**-**	–	**-**	(41,417)
Unallocated assets													**(25,612)**	–
													(25,612)	(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	
	2022	2021
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Mainland China	**2,426**	8,982
Hong Kong	**44,371**	7,046
USA	**2,846**	780
	49,643	16,808

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	
	2022	2021
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Customer A from the asset financing segment	**–**	3,920
Customer B from the trading segment	**14,103**	5,842
Customer C from the photovoltaic segment	**N/A***	1,887
Customer D from the photovoltaic segment	**10,716**	–
Customer E from the trading segment	**17,960**	–

* 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

Disaggregation of revenue

Six months ended 30 June 2022

	Silver mining HK$'000 (unaudited)	Oil and gas HK$'000 (unaudited)	Asset financing HK$'000 (unaudited)	Tourism HK$'000 (unaudited)	Photovoltaic HK$'000 (unaudited)	Trading HK$'000 (unaudited)	Total HK$'000 (unaudited)
Type of goods or services:							
Revenue from contracts with customers:							
– Sale of goods	140	2,846	–	–	–	32,226	35,212
– Sale of electricity and related tariff adjustment	–	–	–	–	1,885	–	1,885
– Design and installation service income	–	–	–	–	11,618	–	11,618
– Provision of tourism agency services	–	–	–	36	–	–	36
Total revenue from contracts with customers	140	2,846	–	36	13,503	32,226	48,751
Revenue from another source:							
– Interest income of asset financing services	–	–	887	–	–	–	887
– Management fee income of asset financing services	–	–	5	–	–	–	5
Total revenue	140	2,846	892	36	13,503	32,226	49,643
Geographical markets:							
Mainland China	140	–	–	36	1,358	–	1,534
Hong Kong	–	–	–	–	12,145	32,226	44,371
USA	–	2,846	–	–	–	–	2,846
Total revenue from contracts with customers	140	2,846	–	36	13,503	32,226	48,751
Revenue from another source:							
– Interest income of asset financing services	–	–	887	–	–	–	887
– Management fee income of asset financing services	–	–	5	–	–	–	5
Total revenue	140	2,846	892	36	13,503	32,226	49,643
Timing of revenue recognition:							
Goods transferred at a point in time	140	2,846	–	–	1,885	32,226	37,097
Services transferred at a point in time	–	–	–	36	11,618	–	11,654
Total revenue from contracts with customers	140	2,846	–	36	13,503	32,226	48,751
Revenue from another source:							
– Interest income of asset financing services	–	–	887	–	–	–	887
– Management fee income of asset financing services	–	–	5	–	–	–	5
Total revenue	140	2,846	892	36	13,503	32,226	49,643

4. Revenue *(continued)*

Disaggregation of revenue *(continued)*

Six months ended 30 June 2021

	Silver mining HK$'000 (unaudited)	Oil and gas HK$'000 (unaudited)	Asset financing HK$'000 (unaudited)	Tourism HK$'000 (unaudited)	Photovoltaic HK$'000 (unaudited)	Trading HK$'000 (unaudited)	Total HK$'000 (unaudited)
Type of goods or services:							
Revenue from contracts with customers:							
– Sale of goods	–	780	–	–	–	7,014	7,794
– Sale of electricity and related tariff adjustment	–	–	–	–	1,919	–	1,919
– Provision of tourism agency services	–	–	–	380	–	–	380
Total revenue from contracts with customers	–	780	–	380	1,919	7,014	10,093
Revenue from another source:							
– Interest income of asset financing services	–	–	5,970	–	–	–	5,970
– Management fee income of asset financing services	–	–	745	–	–	–	745
Total revenue	–	780	6,715	380	1,919	7,014	16,808
Geographical markets:							
Mainland China	–	–	–	380	1,887	–	2,267
Hong Kong	–	–	–	–	32	7,014	7,046
USA	–	780	–	–	–	–	780
Total revenue from contracts with customers	–	780	–	380	1,919	7,014	10,093
Revenue from another source:							
– Interest income of asset financing services	–	–	5,970	–	–	–	5,970
– Management fee income of asset financing services	–	–	745	–	–	–	745
Total revenue	–	780	6,715	380	1,919	7,014	16,808
Timing of revenue recognition:							
Goods transferred at a point in time	–	780	–	–	1,919	7,014	9,713
Services transferred at a point in time	–	–	–	380	–	–	380
Total revenue from contracts with customers	–	780	–	380	1,919	7,014	10,093
Revenue from another source:							
– Interest income of asset financing services	–	–	5,970	–	–	–	5,970
– Management fee income of asset financing services	–	–	745	–	–	–	745
Total revenue	–	780	6,715	380	1,919	7,014	16,808

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	
	2022	2021
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Other income, net		
Bank interest income	**92**	21
Trading income, net*	**107**	7
Subsidy income	**–**	106
Management fee income	**368**	252
Others	**536**	767
	1,103	1,153
Gains, net		
Gain on disposal of an associate	**–**	6,615
Fair value gain of the derivative components of convertible notes	**–**	2,149
Foreign exchange gains, net	**–**	5,127
	–	13,891
Other income and gains, net	**1,103**	15,044

* During the six months ended 30 June 2022, the Group entered into contracts to buy and sell commodities with total purchases and sales amounts of HK$2,383,000 and HK$2,490,000 (six months ended 30 June 2021: HK$31,334,000 and HK$31,341,000), respectively, and the associated net trading income amounted to HK$107,000 (six months ended 30 June 2021: HK$7,000).

6. Finance Costs

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

	Six months ended 30 June	
	2022	2021
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on a bank loan	**139**	–
Interest and other borrowing costs on overdue other loans	**2,308**	2,290
Interest on a short-term loan	**251**	228
Penalties on overdue other loans	**21,865**	21,780
Interest on lease liabilities	**99**	95
Interest on convertible notes	**–**	634
Imputed interest on convertible notes	**–**	755
	24,662	25,782

7. (Loss)/Profit Before Tax

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

	Six months ended 30 June	
	2022	2021
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of inventories sold	**34,383**	6,490
Subcontracting cost included in cost of sales	**9,404**	–
Depreciation of property, plant and equipment[@]	**910**	1,012
Depreciation of right-of-use assets	**785**	1,000
Amortisation of other intangible assets*	**–**	19
Lease payments not included in the measurement of lease liabilities	**472**	353
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**11,039**	9,651
Pension scheme contributions (defined contribution schemes)	**626**	577
	11,665	10,228
Reversal of impairment of financial assets:		
Lease, factoring and trade and other receivables	**(25,612)**	(41,115)
A deposit	**–**	(302)
	(25,612)	(41,417)
Foreign exchange difference, net	**7,417[#]**	(5,127)[&]
Loss on deemed disposal of an associate	**–**	3,276[#]

@ Depreciation of HK$758,000 (six months ended 30 June 2021: HK$908,000) 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$Nil (six months ended 30 June 2021: HK$19,000) 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.

& The item is calculated in "Other income and gains, net" in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

8. Income Tax (Credit)/Expense

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2022 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2021: HK$nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries are 25% for both six months ended 30 June 2022 and 30 June 2021.

	Six months ended 30 June	
	2022	2021
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current – Mainland China	**–**	53
Deferred – Hong Kong	**(443)**	–
	(443)	53

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

The calculation of the basic loss per share amount (six months ended 30 June 2021: earnings per share amount) is based on the unaudited loss for the period (six months ended 30 June 2021: unaudited profit for the period) attributable to shareholders of the Company of HK$9,358,000 (six months ended 30 June 2021: HK$32,275,000), and the weighted average number of ordinary shares of approximately 1,092,330,000 (six months ended 30 June 2021: 875,174,000 as restated) in issue during the period.

The weighted average number of ordinary shares for the purpose of basic earnings per share have been adjusted for share consolidation on 30 December 2021 and the effect of rights issue on 2 March 2022.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2022 in respect of a dilution as the Group had no dilutive potential ordinary shares in issue during the six months ended 30 June 2022.

For the six months ended 30 June 2021, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their assumed conversion would result in an increase in earnings per share.

10. Property, Plant and Equipment

During the current interim period, the Group paid HK$14 million for construction costs for the solar plant in Hong Kong for the operation of photovoltaic power business in Hong Kong.

11. Lease, Factoring and Trade Receivables

	Notes	**30 June 2022 HK$'000 (unaudited)**	31 December 2021 HK$'000 (audited)
Gross lease receivable	(a)	**1,716**	1,794
Less: Unearned interest income	(a)	**(234)**	(301)
Net lease receivable	(a)	**1,482**	1,493
Factoring receivables	(b)	**195,780**	197,533
Management fee receivables of asset financing services	(c)	**3,300**	3,443
Trade receivables	(d)	**35,522**	19,054
		236,084	221,523
Impairment	(e)	**(111,763)**	(116,948)
Total lease, factoring and trade receivables		**124,321**	104,575
Portion classified as current assets		**(123,542)**	(103,518)
Non-current portion		**779**	1,057

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

Notes:

(a) The lease receivable as at 31 December 2021 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 12% per annum and is repayable in 3 years.

At 30 June 2022, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its customers are as follows:

	30 June 2022 HK$'000 (unaudited)	31 December 2021 HK$'000 (audited)
Amount receivable:		
Within in one year	**858**	598
After one year but within two years	**572**	598
After two years but within three years	**286**	598
Total minimum lease receivables	**1,716**	1,794
Future interest income	**(234)**	(301)
Total net lease receivable	**1,482**	1,493
Portion classified as current assets	**(703)**	(436)
Non-current portion	**779**	1,057

(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 2021 and 2023. 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$887,000 (six months ended 30 June 2021: HK$5,970,000) 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 2022 and 31 December 2021, based on the invoice date and net of provisions, is as follows:

	30 June 2022 HK$'000 (unaudited)	31 December 2021 HK$'000 (audited)
Billed		
Within one month	**391**	245
One to two months	**136**	245
Two to three months	**360**	245
Over three months	**50,651**	52,266
	51,538	53,001
Unbilled	**34,490**	29,689
Total factoring receivables	**86,028**	82,690

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$5,000 (six months ended 30 June 2021: HK$745,000) was recognised in profit or loss during the period.

An ageing analysis of the management fee receivables as at 30 June 2022 and 31 December 2021, based on the invoice date and net of provisions, is as follows:

	30 June 2022 HK$'000 (unaudited)	31 December 2021 HK$'000 (audited)
Within one month	**–**	31
One to two months	**2**	31
Two to three months	**3**	31
Over three months	**1,576**	1,551
	1,581	1,644

(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 2022 HK$'000 (unaudited)	31 December 2021 HK$'000 (audited)
Billed		
Within one month	**24,822**	14,501
One to two months	**192**	22
Two to three months	**229**	25
Over three months	**10,036**	13
	35,279	14,561
Unbilled	**–**	4,239
	35,279	18,800

(e) During the six months ended 30 June 2022, no impairment loss was recognised (six months ended 30 June 2021: reversal of impairment loss, net of impairment, of HK$41,115,000 was recognised as certain lease and factoring customers have fully repaid their outstanding balances).

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:

	30 June 2022 HK$'000 (unaudited)	31 December 2021 HK$'000 (audited)
Less than six months	**1,114**	6,966
Six months to one year	**385**	32
Over one year	**280**	293
	1,779	7,291

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

13. Share Capital

	30 June 2022 HK$'000 (unaudited)	31 December 2021 HK$'000 (audited)
Issued and fully paid:		
1,187,258,334 (2021: 791,505,556) ordinary shares	**2,875,800**	2,777,494

13. 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 2022	791,505,556	2,777,494
Issue of ordinary shares under rights issue (Note)	378,841,666	94,168
Issue of ordinary shares in respect of placing (Note)	16,911,112	4,138
At 30 June 2022	1,187,258,334	2,875,800

Note:

As disclosed in the prospectus of the Company dated 26 January 2022,

(i) the Company proposed a rights issue on the basis of one rights share for every two existing shares held by shareholders of the Company on 25 January 2022 as record date at a subscription price of HK$0.25 per rights share (the "Rights Issue").

(ii) the Company entered into a placing agreement (the "Placing Agreement") with DT Securities & Futures Co. Limited (the "Placing Agent"), pursuant to the Placing Agreement, the Placing Agent conditionally agreed to act as the Placing Agent for the Company to procure, on a best effort basis, independent placees to subscribe for the placing shares (i.e. the untaken shares during the Rights Issue and the excluded shareholder(s) unsold rights shares) (the "Placing Share(s)") at the placing price of HK$0.25 per Placing Share on the terms and subject to the conditions set out in the Placing Agreement (the "Placing").

The Rights Issue and the Placing was completed on 2 March 2022, 378,841,666 ordinary shares were issued under the Rights Issue and 16,911,112 ordinary shares were issued under the Placing.

The net proceeds from the Rights Issue and the Placing are approximately HK$98.31 million. The Company has applied and will apply the net proceeds of the Rights Issue and the Placing in the following manner: (i) approximately HK$80 million for the business development of the photovoltaic power generation sector to develop and secure more solar photovoltaic system projects of the Group and other investment opportunities in renewable energy sector in Hong Kong, the PRC and Japan if such opportunities arise; and (ii) the remaining amount for general working capital of the Company.

Details of the Rights Issues and the Placing were set out in the announcement of the Company dated 16 November 2021, 2 December 2021, 26 January 2022, 27 January 2022, 21 February 2022, 3 March 2022 and the prospectus of the Company dated 26 January 2022.

All the shares which were issued during the six months ended 30 June 2022 rank pari passu with the then existing shares in all respects.

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 2022 (the "Period") (six months ended 30 June 2021: 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) the 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) the extraction, production and sale of natural gas and oil in the United States of America ("USA"); (5) the provision of asset financing and factoring services in the PRC; and (6) the trading of various commodities 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.

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 during the Period has been affected by the following reasons: (1) due to Chinese new year holidays and the holding of National People's Congress and the Chinese People's Political Consultative Conference, 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 still being affected by COVID-19 pandemic prevention measures imposed during the Period. The production has been resumed 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. Fu'an Leixin has submitted the two-year licensing extension application to the Department of Natural Resources of Fujian and the mining permit for the West Mine has retained its current status for two years up to 9 December 2022. Fu'an Leixin is preparing the documents for extension of the mining permit for the West Mine and has been in discussion about the extension of such mining permit with the relevant government officers of Ningde City, Fujian Province, the PRC (the "Ningde Government") as detailed below during the Period.

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 in renewal of the license was mainly attributable to the Project (as defined and detailed below) close to the West Mine and East Mine. Nevertheless, Zherong Leixin is still applying for such license renewal and communicating with the relevant government bodies from time to time. In the third quarter of 2020, Zherong Leixin has received further request from the Department of Natural Resources of Fujian for provision of documents and has applied for a five-year extension for the renewal of the exploration license. The Group has also been in discussion with the Ningde Government the impact of potential exploration and mining activities at the East Mine on the Project and renewal of such exploration license as detailed below during the Period.

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 including a summary report of exploration work on the East Mine for past few years 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 bodies, 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 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. Based on the preliminary information provided by the Ningde Government, the highest elevation of the planned reservoir is 185 meters(m) 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 185m above sea level is limited; and (ii) there are no ore below 185m above sea level based on the latest feasibility study. The Group has been in discussions with the Ningde Government in relation to the impact of the Project on the West Mine and the East Mine from time to time. As at date of this announcement, to the best knowledge of the Group, (1) the Project has been modified from water conservancy project to flood control project; (2) the highest elevation of the planned reservoir has been changed to 175m above sea level; (3) the Project is still being reviewed and finalized by certain relevant government authorities in Fujian and Zhejiang Provinces.

In May 2022, the Group had a meeting with personnel responsible for the Project and government officers of Department of Natural Resources of Ningde city to discuss the impact on the Project on the West Mine and the East Mine and works to be carried out to renew licenses of the West Mine and the East Mine including but not limited to commissioning geologist reports, reserve reports and other necessary reports for both the West Mine and the East Mine based on the latest proposal of the Project. In July 2022, the boundaries between the Project site and the West/East Mine were provided by the office responsible for the Project. As at date of this announcement, Fu'an Leixin and Zherong Leixin are preparing the documents for renewal of the licenses per request by relevant government bodies.

The Group will continue to follow up with the relevant governmental bodies and make further announcement(s) if there is any material update on the Project as and when appropriate.

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

The Group commenced its photovoltaic power business 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 4.157 mW. Currently Chengde Shuntian is entitled to receive 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). Chengde Shuntian has sold electricity to a power generation company, which is a subsidiary of a state-owned enterprise, during the Period.

Business Review *(continued)*

(2) Photovoltaic power business *(continued)*

In June 2021, the Group has completed an acquisition of 100% of the issued share capital in SinoPower Solar Investment Co. Limited ("SPSI") which is an integrated project developer and investor of distribution type of solar energy projects in Hong Kong. The Group has also set up two non-wholly owned subsidiaries, namely King Stone Solar Farm Limited and Solar Farm Investment Limited, with other solar energy projects developers in Hong Kong to acquire and explore more solar energy projects during the Period.

Currently, the Group receives monthly feed-in tariff ("FiT") from CLP Power Hong Kong Limited at rates ranging from HK$3 to HK$5 per kWh (HK$2.5 to HK$4 per kWh for projects approved and completed after 27 April 2022) for the solar photovoltaic systems operated by the Group. In particular, the FiT scheme has been adopted for the entire lifetime of the solar photovoltaic system project or until end of 2033, whichever is earlier. After collecting FiT Income, the Group will distribute the share of FiT income to the relevant landlord/incorporated owners according to the terms of the respective profit-sharing agreements.

In August 2021, SPSI (as vendor), an indirect wholly-owned subsidiary of EPI (Holdings) Limited ("EPI", a company listed on the Main Board of the Stock Exchange with stock code: 689) (as purchaser) and the Company (as 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 Kilo Watts ("kW") calculated at HK$18.0 per watt multiplied by the kW capacity with the maximum consideration of HK$75,000,000. The Group will be responsible for the provision of the operation and maintenance services for the projects transferred at the agreed monthly fee of HK$0.9 per kWh multiplied by actual unit of energy generated shared by the purchaser for the solar energy projects. As at date of this announcement, projects of an aggregate power generation capacity of approximately 2,300 kW has been completed and sold to EPI.

As at date of this announcement, the Group has developed various rooftop solar energy projects with an on-grid power generation capacity of approximately 2,900 kW (including projects completed and sold to EPI) in Hong Kong. The Group is still in the process of negotiation with other potential landlords/incorporated owners for the installation of solar photovoltaic systems to increase the Group's market share in the solar energy market in Hong Kong.

(3) Tourism business

The Group 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.

Business Review *(continued)*

(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 fluctuations 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.

(5) Asset Financing

The asset financing business of the Group is operated by three wholly-owned subsidiaries in the PRC (the "Asset Financing Subsidiaries").

Business model

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 an 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.

The target customers are mainly state-owned enterprises, listed companies, companies with AA credit rating, and sizeable and reputable private enterprises which are independent third parties. The Group currently sources its customers by referrals from parties of which the Group has business relationship or business connection.

Business Review *(continued)*

(5) ***Asset Financing*** *(continued)*

Major terms of lease and factoring receivables

The Group sets the loan terms in conjunction with the credit risk of the borrower as assessed pursuant to the procedures above. The loan tenure is typically fixed at three years while the security required differ based on the level of risk (e.g. the level of collateral (in the form of receivables or for finance leases, the leased assets) or provision of guarantor(s)). The interest rate is typically agreed at a floating rate based on the three-year lending rate as promulgated by the People's Bank of China plus a margin of 20%.

As at 30 June 2022, the total outstanding lease and factoring receivables (including management fee receivables) before impairment were approximately HK$200.6 million (31 December 2021: HK$202.5 million). As at 30 June 2022, the receivables balance before impairment of the Group's five largest customers of asset financing segment of approximately HK$188.7 million (31 December 2021: HK$197.2 million) accounted for 94.1% (31 December 2021: 97.4%) of the total lease and factoring receivables before impairment and the receivable balance before impairment of the Group's largest customer of asset financing segment of approximately HK$110.4 million (31 December 2021: HK$115.5 million) accounted for 55.0% (31 December 2021: 57.1%) of the total lease and factoring receivables before impairment.

Internal control systems

Finance leasing

The credit and internal control measures for finance leasing mainly consist of the below stages, namely (1) initial project review; (2) on-site investigation; (3) project analysis and review; and (4) on-going lease management.

Our credit risk assessment for our finance leasing services consists of an initial project review with project officer(s) assigned to review and verify the documents, such as corporate documents and audit reports, provided by the customer applying for finance leasing.

On-site investigations will be conducted by project officers at the offices of the customer and guarantor (if any). During the investigations, the project officers shall inspect their operation, conduct interviews with the relevant personnel and obtain an understanding of the customer's operation, financials, usage of loan proceeds and the pledged collateral (its purchase cost and its net value).

The project analysis consists of analysing the customer's and the guarantor's good standing, their willingness and ability of repayment and their ability to perform their obligations under contract. On analysing the borrower's ability of repayment, their financial statements and cash flow will be taken into account, including but not limited to the borrower's solvency (financial leverage ratio), profitability (profit ratio), operating capacity (efficiency ratio), asset quality, capital structure and forecast of its development. The potential economic impact on the finance leasing project and the guarantor are also taken into account. The information of the project and will then be submitted to the risk department for its further review, evaluation and approval.

Business Review *(continued)*

(5) ***Asset Financing*** *(continued)*

Internal control systems (continued)

Finance leasing *(continued)*

The finance leases will be inspected regularly, at least once every quarter, depending on the amount, lease period, counter guarantee measures employed and risk level of the lease etc. Projects with higher risk shall be monitored closely with more frequent inspections if required. The inspection shall cover the business operation, financial situation, the status of any counter guarantee measures and changes in the loan amount. Any issue will be immediately reported to the general manager and appropriate measures will be taken. For all finance leasing projects, the customer will be informed 30 days prior to the expiry of the finance lease. If the customer fails to perform its obligations, the guarantor will be required to repay on its behalf. Any proposals for recovery of the outstanding payments will be prepared by the risk department and approved by the general manager.

Business factoring

Business factoring mainly consists of the following stages: (1) preliminary review; (2)due diligence; (3) risk control; and (4) loan management.

Our credit risk assessment for our business factoring services begins from due diligence procedures conducted on the borrower, which includes but not limited to, the verification result of the information provided, credit score, the rights of the pledged collateral and collateral loan ratio, and if guarantor is involved, the guarantor's repayment ability and its authorisation.

Once the due diligence is completed, the risk department shall further examine the consistency of the borrower's information, the background of the borrower and its associates, status of the collateral pledged (such as its assessed value compared to the industry benchmark, rate of mortgage and its liquidity) and the borrower's regulatory compliance.

Our credit risk assessment is an ongoing process that extends after a loan is granted. The officer shall conduct a post-loan interview with the borrower to ascertain if there are any abnormal changes after the issuance. The officer shall also conduct irregular inspections (inspection frequency determined on a case by case basis) on its day to day business operations, debt situation, business operations and any irregularities on the security of the assets shall be alerted in the case of any potential risks on the security of the assets and reported to the general manager.

In the event of a material change in business and changes in the ownership structure of the borrower without prior consent of the Company or the value of the pledged collateral has been adversely affected, the Company will implement measures, such as inserting deadline for remedying the breach, recall in whole or in part of the loan in advance, dispose of the collateral (if applicable) and other relevant measures.

Actions on delinquent loans

The Group closely monitors the payment status of its loans. When a loan becomes delinquent, we typically attempt to negotiate in good faith and provide a short grace period for making payment before exercising other remedies, including calling the loan in advance, exercising rights over the collateral, seeking repayment from the guarantor and taking legal action to recover the same from the borrower and/or guarantor.

Business Review *(continued)*

(5) Asset Financing (continued)

Internal control systems (continued)

Actions on delinquent loans *(continued)*

Depending on the situation, we will negotiate with the customer to agree on a viable repayable schedule before taking further legal action, starting with issuing legal letters. The exact proposal for recovery of delinquent loans is handled by the risk department and approved by the general manager.

The Group is in the process of assessing the credit standing and negotiating for updated repayment schedules with the existing customers. Further actions will be taken, including but not limited to sending legal letters demanding repayment, to collect the outstanding receivables.

(6) Commodities trading

During the Period, the Group was engaged in the trading of various commodities including iron ore, copper, coal, audio equipments and electronic parts etc mainly through its subsidiary namely King Stone Group Trading Company Limited. The Group continues to explore more trading opportunities for different commodities to expand the commodities trading business.

Financial Review

Revenue and cost of sales

The Group recorded a total revenue of approximately HK$49.6 million for the Period (six months ended 30 June 2021: HK$16.8 million), representing an increase of 195% compared with last comparable period. The increase in revenue was mainly due to increase in revenue generated from photovoltaic power business and trading of commodities during the Period.

There was revenue of approximately HK$0.1 million (six months ended 30 June 2021: nil) and cost of sales of approximately HK$0.4 million (six months ended 30 June 2021: nil) from silver mining business during the Period.

For photovoltaic power generation business, (i) Chengde Shuntian produced and sold approximately 2,600 Mega Watts of electricity in the PRC and recorded revenue from photovoltaic power generation of approximately HK$1.3 million (six months ended 30 June 2021: approximately HK$1.9 million) during the Period. The related cost of sales was approximately HK$0.8 million (six months ended 30 June 2021: approximately HK$0.6 million) and gross margin was 38.5% during the Period. (ii) SPSI (which was acquired by the Group in late June 2021) produced and sold approximately 220,000kWh of electricity and recorded revenue from photovoltaic power generation in Hong Kong (after sharing of FiT income to the landlords incorporated owners) of approximately HK$0.6 million (six months ended 30 June 2021: nil) in Hong Kong during the Period. The related cost of sales was approximately HK$0.5 million (six months ended 30 June 2021: nil) and gross margin was 16.7%; (iii) SPSI also sold solar energy projects to EPI and generated revenue of approximately HK$10.6 million (six months ended 30 June 2021: nil) during the Period. The related cost of sales was approximately HK$9.4 million (six months ended 30 June 2021: nil) and gross margin was 11.3%; (iv) King Stone Green Energy Technology Company Limited, which is responsible for O&M for solar energy projects of the Group, recorded revenue and cost of sales of approximately HK$1 million (six months ended 30 June 2021: nil) and HK$0.8 million (six months ended 30 June 2021: nil) respectively during the Period. The gross margin was 20%.

Financial Review *(continued)*

Revenue and cost of sales (continued)

For tourism business, the Group recorded revenue of approximately HK$36,000 (six months ended 30 June 2021: HK$0.4 million) 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 683 Bbl of oil, approximately 48 million cubic feet of natural gas, and approximately 2,058 Bbl of natural gas liquids (six months ended 30 June 2021: approximately 275 Bbl of oil, approximately 32 million cubic feet of natural gas, and approximately 1,599 Bbl of natural gas liquids). The revenue was approximately HK$2.8 million during the Period (six months ended 30 June 2021: HK$0.8 million). Cost of sales for Oil and gas E&P was approximately HK$1.7 million during the Period (six months ended 30 June 2021: HK$0.9 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 margin of 39.3% (six months ended 30 June 2021: gross loss margin of 16.1%) during the Period.

The Group recorded revenue of approximately HK$0.1 million from provision of asset financing services representing interest income and management fee income during the Period (six months ended 30 June 2021: 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$32.2 million (six months ended 30 June 2021: HK$7.0 million) and cost of sales of approximately HK$31.5 million (six months ended 30 June 2021: HK$5.7 million). The gross margin was 2% (six months ended 30 June 2021: 18.4%) during the Period.

Other income and gains, net

Other income and gains, net was approximately HK$1.1 million during the Period (six months ended 30 June 2021: HK$15.0 million). In 2021, it mainly represented foreign exchange gains, net of HK$5.1 million and gain on disposal of an associate, namely Hainan Shengeng Ocean Development Co., Ltd, of HK$6.6 million. There were no such income and gains during the Period.

Selling and administrative expenses

Selling and administrative expenses were approximately HK$21.2 million during the Period as compared to approximately HK$16.3 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.

Financial Review *(continued)*

Other expenses, net (continued)

The breakdown of reversal of impairment of financial assets and other expenses, net is as follows:

	Six months ended 30 June	
	2022	2021
	HK$'000	HK$'000
Reversal of impairment of financial assets:		
Lease, factoring and trade and other receivables	**(25,612)**	(41,115)
A deposit	**–**	(302)
	(25,612)	(41,417)
Foreign exchange loss, net	**7,417**	–
Loss on deemed disposal of an associate	**–**	3,276
Others	**267**	82
Total	**(17,928)**	(38,059)

Finance costs, net

Finance costs, net were approximately HK$24.7 million during the Period (six months ended 30 June 2021: HK$25.8 million) which mainly represented interest and penalty expenses for borrowings of approximately HK$21.9 million (six months ended 30 June 2021: HK$21.8 million) raised for silver mining business.

Share of losses of associates

In 2021, 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. There was no share of losses of associates recognised during the Period.

Income tax credit/(expense)

Income tax credit was approximately HK$0.4 million (six months ended 30 June 2021: expense of HK$53,000) during the Period. It represented deferred income tax arising from photovoltaic business in Hong Kong of approximately HK$0.4 million (six months ended 30 June 2021: nil) during the Period. In 2021, it mainly represented income tax arising from asset financing business of approximately HK$53,000. No provision for profit tax in Hong Kong, the USA, Japan and Singapore has been made during the Period.

Fund raising exercises

On 16 November 2021, the Company has proposed the following:

(i) the share consolidation involving consolidation of every ten (10) existing shares into one (1) consolidated share ("Share Consolidation");

(ii) change in the board lot size for trading from 1,000 existing shares to 10,000 consolidated shares conditional upon the Share Consolidation becoming effective;

Financial Review *(continued)*

Fund raising exercises *(continued)*

(iii) conditional upon the Share Consolidation becoming effective, the rights issue (the "Right Issue"), which is on a non-underwritten basis, on the basis of one (1) rights share for every two (2) consolidated shares at the subscription price of HK$0.25 per rights share, to raise up to approximately HK$98.94 million before expenses by way of issuing up to 395,752,778 rights shares.

On 16 November 2021, the Company also entered into the placing agreement (the "Placing Agreement") with an independent placing agent in relation to placing, on a best effort basis, for the placing shares (i.e., right shares not taken up in the Right Issue)(the "Placing"). Under the terms of the Placing Agreement, if all the rights shares are already fully taken up in the Rights Issue, the Placing will not proceed.

The estimated net proceeds from the Rights Issue and the Placing after deducting the estimated expenses in relation to the Rights Issue of up to approximately HK$97.74 million, of which (i) approximately HK$80 million is intended for the business development of the photovoltaic power generation sector to develop and secure more solar photovoltaic system projects of the Group, and other investment opportunities in renewable energy sector in Hong Kong, the PRC and Japan if such opportunities arise; and (ii) the remaining amount for general working capital of the Company.

The Share Consolidation and change in board lot size has been effective from 30 December 2021. The Rights Issue and the Placing completed on 2 March 2022 as follows:

(a) 378,841,666 rights shares were subscribed under the Rights Issue; and

(b) 16,911,112 placing shares were allotted and issued to one independent placee under the Placing.

Therefore, the total number of shares taken by shareholders under the Rights Issue and the shares placed under the Placing represents the total number of 395,752,778 rights shares available for subscription under the Rights Issue raising gross proceeds of approximately HK$98.94 million and net proceeds of approximately HK$98.31 million. Details of the above were disclosed in announcements of the Company dated 16 November 2021, 2 December 2021, 28 December 2021, 31 December 2021, 27 January 2022, 21 February 2022 and 3 March 2022, circular of the Company dated 8 December 2021 and prospectus of the Company dated 26 January 2022.

As at 30 June 2022, approximately HK$19 million and HK$18.31 million were utilised for development of the photovoltaic power generation and general working capital of the Company as intended respectively. Net proceeds of approximately HK$61 million were not yet utilised. As disclosed in the prospectus of the Company dated 26 January 2022, the proceeds for the business development of the photovoltaic power generation sector from the Rights Issue and the Placing was expected to be fully utilised by the end of 2022. Due to the Company's evaluation of the recent market condition and having considered the progress of the development and acquisition of solar photovoltaic system projects as affected by COVID-19 during the Period, the Company has taken a more conservative approach when developing new solar photovoltaic system projects and seeking investment opportunities in the renewable energy sector and expects that the outstanding net proceeds shall be fully utilised on or before 31 March 2023, subject to the progress of the projects and the then market condition. Save as disclosed above, there was no unutilised proceed brought forward from any issue of equity securities made in previous years.

Financial Review *(continued)*

Liquidity and Financial Review

The Group mainly financed its day to day operations by internally generated cash flow, the Right Issue and the Placing during the Period. As at 30 June 2022, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.91:1 (31 December 2021: 0.72:1). As at 30 June 2022, the cash and cash equivalents of the Group were approximately HK$80.6 million (31 December 2021: HK$83.0 million).

As at 30 June 2022, there was outstanding interest-bearing bank loan of principal of approximately HK$4 million (31 December 2021: HK$4 million) which was denominated in Hong Kong dollars. The bank loan was subject to fixed interest rate of 7% per annum and was due on 31 December 2024. The bank loan was secured by (i) several solar energy projects of the Group with an aggregate net carrying amount of approximately HK$5.1 million; (ii) 100% equity interest in a wholly owned subsidiary of the Company; (iii) corporate guarantee by the Company; and (iv) personal guarantee by a director of the Company. A time deposit of HK$0.5 million was also maintained for the above bank loan as at 30 June 2022(31 December 2021: HK$0.5 million).

As at 30 June 2022, there were other loans of approximately HK$357.1 million (31 December 2021: HK$362.2 million) comprising loan principal and commission payable of approximately HK$78.2 million (31 December 2021: HK$81.7 million), overdue interest/penalty of approximately HK$278.3 million (31 December 2021: HK$280.3 million) and non-overdue interest of approximately HK$0.6 million (31 December 2021: HK$0.2 million). Other loans of approximately HK$353 million and HK$4.1 million were denominated in Renminbi and Japanese Yen respectively. Other loans with principal of approximately HK$23.4 million (31 December 2021: HK$24.5 million) and HK$6.4 million (31 December 2021: HK$6.7 million) were interest-free and with fixed interest rate of 15% per annum, respectively. Other loans of approximately HK$23.4 million and HK$6.4 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$4.1 million were with fixed interest rate of 12% per annum and were repaid in August 2022. As at 30 June 2022, other loans of approximately HK$353 million (31 December 2021: HK$345.5 million) 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 condensed consolidated statement of financial position of the Group as at 30 June 2022) 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.

Financial Review *(continued)*

Liquidity and Financial Review *(continued)*

Adequate accrued interest and penalties have been provided by the Group as at 30 June 2022. 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 bank loan) as a percentage to the total equity attributable to shareholders of the Company, was 1.35 as at 30 June 2022 (31 December 2021: 1.96).

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, 25 June 2021, 30 December 2021 and 30 June 2022) 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, 25 June 2021, 30 December 2021, 30 June 2022 and 29 August 2022.

(ii) Set up of a joint venture company

On 4 April 2022, Zhuhai Jinwei Environmental Protection Technology Co., Ltd, a wholly-owned subsidiary of the Company, entered into an agreement with Yipai Hydrogen Energy Technology (Shanghai) Co., Ltd for establishment of a joint venture company (the "JV Company") for the purpose of engaging in, amongst other things, (i) the research and development of hydrogen fuel cell and key components; (ii) the research and development, manufacturing and sales of hydrogen fuel cell heavy trucks; (iii) the operation of hydrogen fuel cell heavy trucks; and (iv) the operation of hydrogen refueling station in Ordos City, Inner Mongolia, the PRC. Both parties will each contribute RMB50 million (equivalent to HK$60 million) to the JV Company for 50% equity interest in the joint venture company. The JV Company was established in May 2022. Details of the above were disclosed in announcement of the Company dated 4 April 2022.

Save for the above, 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 2022 (31 December 2021: nil).

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 30 June 2022, 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 2021: 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 and approximately HK$18.1 million (31 December 2021: HK$4.9 million) in respect of purchase of photovoltaic projects.

As at 30 June 2022, time deposits which are restricted for use of approximately HK$2.2 million (31 December 2021: HK$2.4 million) were placed in a bank for conducting mining businesses as required by relevant government authorities. Save as disclosed above and certain assets of the Group pledged for a bank loan as stated in section headed "Liquidity and Financial Review", the Group had no other assets pledged as at 30 June 2022 (31 December 2021: nil).

As at 30 June 2022, there was no material contingent liability of the Group (31 December 2021: nil).

Human Resources and Share Option Scheme

As at 30 June 2022, the Group had 55 (31 December 2021: 54) employees. The total staff costs (including directors' remuneration) for the Period were approximately HK$11.7 million (six months ended 30 June 2021: HK$10.2 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 2022.

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.

Future Outlook *(continued)*

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. In 2022, the Group has further acquired solar energy projects from other solar energy developers to increase the market share of solar energy market in Hong Kong.

In May 2022, the Company has established a joint venture entity to build and develop a full end hydrogen energy industry chain in Ordos City, mainly engaged in the technology research and development, product development, manufacturing and sale of hydrogen fuel cells and main components (membrane electrodes) and hydrogen fuel cell semi-trailer trucks, financial leasing services and operation of hydrogen fuel cell heavy trucks, and construction and development of hydrogen refueling stations. The Group is still seeking more opportunities in renewable energy sector in Hong Kong, the PRC and Japan.

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 the Company has complied with the applicable code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules throughout the Period.

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 2022 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, 31 August 2022

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.