# 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 2023

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 2023 with comparative figures for the corresponding period in 2022 are as follows:

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

For the six months ended 30 June 2023

| | Notes | Six months ended 30 June **2023** **HK$'000** **(unaudited)** | 2022 HK$'000 (unaudited) |
|---|---|---|---|
| **Revenue** | 4 | **59,823** | 49,643 |
| Cost of sales | | **(50,198)** | (45,131) |
| **Gross profit** | | **9,625** | 4,512 |
| Other income and gains, net | 5 | **970** | 1,103 |
| Selling and distribution expenses | | **(347)** | (7) |
| Administrative expenses | | **(27,623)** | (21,237) |
| (Impairment losses)/reversal of impairment losses under expected credit loss model, net | 7 | **(983)** | 25,612 |
| Other expenses, net | | **(4,299)** | (7,684) |
| Finance costs | 6 | **(5,046)** | (24,662) |
| Share of losses of associates | | **(1,344)** | – |
| **Loss before tax** | 8 | **(29,047)** | (22,363) |
| Income tax (expense)/credit | 9 | **(488)** | 443 |
| **Loss for the period** | | **(29,535)** | (21,920) |

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2023** | 2022 |
| | | **HK$'000** | HK$'000 |
| | | **(unaudited)** | (unaudited) |
| **Other comprehensive (expense)/income:** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | **(1,335)** | 13,273 |
| Share of other comprehensive expense of associates | | **(4,330)** | – |
| Other comprehensive income for the period, net of income tax | | **(5,665)** | 13,273 |
| **Total comprehensive expenses for the period** | | **(35,200)** | (8,647) |
| **Loss for the period attributable to:** | | | |
| Owners of the Company | | **(27,012)** | (9,358) |
| Non-controlling interests | | **(2,523)** | (12,562) |
| | | **(29,535)** | (21,920) |
| **Total comprehensive (expense)/income for the period attributable to:** | | | |
| Owners of the Company | | **(35,231)** | (4,682) |
| Non-controlling interests | | **31** | (3,965) |
| | | **(35,200)** | (8,647) |
| **Loss per share attributable to shareholders of the Company** | 10 | | |
| Basic (HK cents) | | **(2.28)** | (0.86) |
| Diluted (HK cents) | | **N/A** | N/A |

## Condensed Consolidated Statement of Financial Position

At 30 June 2023

| | Notes | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **64,802** | 77,638 |
| Right-of-use assets | | **5,111** | 6,448 |
| Goodwill | | **21,389** | 21,389 |
| Other intangible assets | | **52,263** | 55,163 |
| Investments in associates | 12 | **74,207** | – |
| Equity investments at fair value through other comprehensive income | | **81** | 81 |
| Lease, factoring and trade receivables | 13 | **248** | 505 |
| Prepayments, deposits and other receivables | | **575** | 79,541 |
| | | **218,676** | 240,765 |
| **CURRENT ASSETS** | | | |
| Inventories | | **3,865** | 11,348 |
| Lease, factoring and trade receivables | 13 | **110,638** | 92,498 |
| Prepayments, deposits and other receivables | | **120,225** | 105,217 |
| Financial assets at fair value through profit or loss | | **11,970** | 11,687 |
| Restricted bank balances | | **345** | 361 |
| Cash and cash equivalents | | **52,080** | 79,764 |
| | | **299,123** | 300,875 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 14 | **22,178** | 15,567 |
| Other payables and accruals | | **33,036** | 27,086 |
| Bank and other loans | 15 | **118,516** | 118,134 |
| Lease liabilities | | **2,013** | 2,281 |
| Income tax payables | | **15,494** | 15,788 |
| | | **191,237** | 178,856 |

| | 30 June 2023 HK$'000 (unaudited) | 31 December 2022 HK$'000 (audited) |
|---|---|---|
| **NET CURRENT ASSETS** | **107,886** | 122,019 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **326,562** | 362,784 |
| **NON-CURRENT LIABILITIES** | | |
| Other payables | **1,080** | 960 |
| Lease liabilities | **3,246** | 4,312 |
| Deferred tax liabilities | **1,994** | 2,070 |
| | **6,320** | 7,342 |
| **NET ASSETS** | **320,242** | 355,442 |
| **EQUITY** | | |
| Share capital | **2,875,800** | 2,875,800 |
| Reserves | **(2,495,079)** | (2,459,848) |
| Equity attributable to owners of the Company | **380,721** | 415,952 |
| Non-controlling interests | **(60,479)** | (60,510) |
| **TOTAL EQUITY** | **320,242** | 355,442 |

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Equity investment revaluation reserve HK$'000 (Note (a)) | Exchange fluctuation reserve HK$'000 (Note (a)) | Accumulated losses HK$'000 (Note (a)) | Subtotal HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| **At 1 January 2022 (audited)** | 2,777,494 | 38 | (23,104) | (2,542,851) | 211,577 | (170,183) | 41,394 |
| Loss for the period | - | - | - | (9,358) | (9,358) | (12,562) | (21,920) |
| Other comprehensive income (expense) for the period: | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | 4,676 | - | 4,676 | 8,597 | 13,273 |
| Total comprehensive income/(expense) for the period | - | - | 4,676 | (9,358) | (4,682) | (3,965) | (8,647) |
| Issue of shares in respect of rights issue | 94,710 | - | - | - | 94,710 | - | 94,710 |
| Transaction costs attributable to rights issue | (542) | - | - | - | (542) | - | (542) |
| Placing of new shares | 4,228 | - | - | - | 4,228 | - | 4,228 |
| Transaction costs attributable to placing of new shares | (90) | - | - | - | (90) | - | (90) |
| **At 30 June 2022 (unaudited)** | 2,875,800 | 38 | (18,428) | (2,552,209) | 305,201 | (174,148) | 131,053 |

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Equity investment revaluation reserve HK$'000 (Note (a)) | Other reserve HK$'000 (Note (a)) | Statutory reserve HK$'000 (Notes (a) & (b)) | Exchange fluctuation reserve HK$'000 (Note (a)) | Accumulated losses HK$'000 (Note (a)) | Subtotal HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2023 (audited) | 2,875,800 | 38 | (198) | 224 | (25,282) | (2,434,630) | 415,952 | (60,510) | 355,442 |
| Loss for the period | – | – | – | – | – | (27,012) | (27,012) | (2,523) | (29,535) |
| Other comprehensive (expense)/income for the period: | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | (3,889) | – | (3,889) | 2,554 | (1,335) |
| Share of other comprehensive expense of associates | – | – | – | – | (4,330) | – | (4,330) | – | (4,330) |
| | – | – | – | – | (8,219) | – | (8,219) | 2,554 | (5,665) |
| Total comprehensive (expense)/income for the period | – | – | – | – | (8,219) | (27,012) | (35,231) | 31 | (35,200) |
| **At 30 June 2023 (unaudited)** | **2,875,800** | **38** | **(198)** | **224** | **(33,501)** | **(2,461,642)** | **380,721** | **(60,479)** | **320,242** |

Notes:

(a) These reserve accounts comprise the consolidated negative reserves of approximately HK$2,495,079,000 (31 December 2022: HK$2,459,848,000) in the condensed consolidated statement of financial position as at 30 June 2023.

(b) In accordance with the relevant PRC Laws and regulations, the PRC subsidiaries are required to appropriate 10% of their profit after taxation reported in their financial statements prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC to the statutory reserve. The appropriation to statutory reserve may cease if the balance of the statutory reserve has reached 50% of the registered capital of the relevant PRC subsidiaries.

The statutory reserve can be utilised to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. However, when converting the statutory reserve of the PRC subsidiaries into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant PRC subsidiaries.

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| **CASH FLOWS FROM OPERATIONS** | | |
| Cash flows used in operations | **(20,829)** | (76,458) |
| Interest paid | **(263)** | (525) |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(21,092)** | (76,983) |
| **INVESTING ACTIVITIES** | | |
| Interest received | **34** | 92 |
| Purchase of property, plant and equipment | **(4,666)** | (14,470) |
| Purchase of other intangible assets | **–** | (476) |
| Acquisition of financial assets at fair value through profit or loss | **–** | (310) |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(4,632)** | (15,164) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from bank loans | **990** | – |
| Repayment of bank loans | **(108)** | (12,000) |
| Repayment of lease liabilities | **(665)** | (954) |
| Proceeds from issue of shares in respect of rights issue | **–** | 94,710 |
| Transaction costs attributable to rights issue | **–** | (542) |
| Proceeds from placing of new shares | **–** | 4,228 |
| Transaction costs attributable to placing of new shares | **–** | (90) |
| **NET CASH FROM FINANCING ACTIVITIES** | **217** | 85,352 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(25,507)** | (6,795) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **79,764** | 82,976 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET** | **(2,177)** | 4,380 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **52,080** | 80,561 |

## 1. Corporate Information

King Stone Energy Group Limited (the "Company") is a public limited liability company incorporated in Hong Kong and its shares 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 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 the PRC and (vi) the trading of various commodities in Hong Kong and the PRC.

The immediate holding company of the Company is Belton Light Limited, which is incorporated in the British Virgin Islands, and, in the opinion of the directors 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 2023 has been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

The financial information relating to the year ended 31 December 2022 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:

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

The Company has delivered its consolidated financial statements for the year ended 31 December 2022 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. 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.

Other than additional/change in accounting policies resulting from application of new and amendments to HKFRSs, and application of certain accounting policies which became relevant to the Group in the current interim period, the accounting policies and methods of computation used in the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2022.

The Directors have, at the time of approving the interim condensed consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the interim condensed consolidated financial statements.

## 2.2 Principal Accounting Policies

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as appropriate.

### Application of news and amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's interim condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from Single Transaction |

## 2.2 Principal Accounting Policies *(continued)*

### Application of news and amendments to HKFRSs *(continued)*

Except as described below, the application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited interim condensed consolidated financial statements.

***Impacts on application of Amendments to HKAS 8 Definition of Accounting Estimates***

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to HKAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current period had no material impact on the interim condensed consolidated financial statements.

***Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

*Accounting policies*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For lease transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

## 2.2 Principal Accounting Policies *(continued)*

### Application of amendments to HKFRSs *(continued)*

***Impacts and changes in accounting policies on application of Amendments to HKAS 12***
***Deferred Tax related to Assets and Liabilities arising from a Single Transaction*** *(continued)*

*Transition and summary of effects*

The application of the amendments in the current period had no material impact on the interim condensed consolidated financial statements.

***Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statements 2***
***Disclosure of Accounting Policies***

In addition, the Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies* which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's consolidated financial statements for the year ending 31 December 2023.

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments in the current period had no material impact on the interim condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending 31 December 2023.

## 3. Operating Segment

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 business in Hong Kong and the PRC; and

(f) the "Trading" segment engages in the trading of commodities including LNG, medical supplies and electronic parts, etc. in Hong Kong and the PRC.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that share of losses of associates, foreign exchange differences, net, (impairment losses)/reversal of impairment losses under expected credit loss model, net and corporate and other unallocated expenses, net are excluded from such measurement.

## 3. Operating Segment *(continued)*

| | Silver mining | | Oil and gas | | Asset financing | | Tourism | | Photovoltaic | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Six months ended 30 June 2023 HK$'000 (unaudited)** | Six months ended 30 June 2022 HK$'000 (unaudited) | **Six months ended 30 June 2023 HK$'000 (unaudited)** | Six months ended 30 June 2022 HK$'000 (unaudited) | **Six months ended 30 June 2023 HK$'000 (unaudited)** | Six months ended 30 June 2022 HK$'000 (unaudited) | **Six months ended 30 June 2023 HK$'000 (unaudited)** | Six months ended 30 June 2022 HK$'000 (unaudited) | **Six months ended 30 June 2023 HK$'000 (unaudited)** | Six months ended 30 June 2022 HK$'000 (unaudited) | **Six months ended 30 June 2023 HK$'000 (unaudited)** | Six months ended 30 June 2022 HK$'000 (unaudited) | **Six months ended 30 June 2023 HK$'000 (unaudited)** | Six months ended 30 June 2022 HK$'000 (unaudited) |
| Segment revenue-<br>Sales to external customers (Note 4) | **4,120** | 140 | **1,682** | 2,846 | **106** | 892 | **541** | 36 | **18,745** | 13,503 | **34,629** | 32,226 | **59,823** | 49,643 |
| Segment results | **(2,329)** | (24,852) | **(413)** | 640 | **(1,119)** | (2,833) | **(174)** | (410) | **3,663** | 444 | **(3,243)** | (1,775) | **(3,615)** | (28,786) |
| Reconciliation: | | | | | | | | | | | | | | |
| Share of losses of associates | | | | | | | | | | | | | **(1,344)** | – |
| Foreign exchange differences, net | | | | | | | | | | | | | **(4,036)** | (7,417) |
| (Impairment losses)/reversal of impairment losses under expected credit loss model, net | | | | | | | | | | | | | **(983)** | 25,612 |
| Corporate and other unallocated expenses, net | | | | | | | | | | | | | **(19,069)** | (11,772) |
| Loss before tax | | | | | | | | | | | | | **(29,047)** | (22,363) |
| Income tax (expense)/credit | | | | | | | | | | | | | **(488)** | 443 |
| Loss for the period | | | | | | | | | | | | | **(29,535)** | (21,920) |

| | Silver mining | | Oil and gas | | Asset financing | | Tourism | | Photovoltaic | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) |
| **Segment assets** | **73,554** | 72,134 | **7,601** | 7,937 | **47,397** | 49,500 | **3,669** | 1,303 | **101,974** | 114,046 | **135,879** | 81,807 | **370,074** | 326,727 |
| Reconciliation: | | | | | | | | | | | | | | |
| Investments in associates | | | | | | | | | | | | | **74,207** | – |
| Equity investments at fair value through other comprehensive income | | | | | | | | | | | | | **81** | 81 |
| Restricted bank balances | | | | | | | | | | | | | **345** | 361 |
| Cash and cash equivalents | | | | | | | | | | | | | **52,080** | 79,764 |
| Corporate and other unallocated assets | | | | | | | | | | | | | **21,012** | 134,707 |
| Total assets | | | | | | | | | | | | | **517,799** | 541,640 |
| **Segment liabilities** | **117,948** | 116,561 | **2,960** | 3,183 | **5,515** | 5,273 | **3,501** | 1,061 | **17,869** | 22,667 | **25,612** | 13,749 | **173,405** | 162,494 |
| Reconciliation: | | | | | | | | | | | | | | |
| Income tax payables | | | | | | | | | | | | | **15,494** | 15,788 |
| Corporate and other unallocated liabilities | | | | | | | | | | | | | **8,658** | 7,916 |
| Total liabilities | | | | | | | | | | | | | **197,557** | 186,198 |

## 4. Revenue

### (a) Disaggregation of revenue

***Six months ended 30 June 2023***

| | 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 | 4,120 | 1,682 | – | – | – | 34,629 | 40,431 |
| – Sale of electricity with tariff adjustment | – | – | – | – | 3,670 | – | 3,670 |
| – Provision of design and installation services | – | – | – | – | 13,727 | – | 13,727 |
| – Provision of consultancy services | – | – | – | – | 1,348 | – | 1,348 |
| – Provision of tourism agency services | – | – | – | 541 | – | – | 541 |
| Total revenue from contracts with customers | 4,120 | 1,682 | – | 541 | 18,745 | 34,629 | 59,717 |
| Revenue from another source: | | | | | | | |
| – Provision of asset financing services | – | – | 106 | – | – | – | 106 |
| Total revenue | 4,120 | 1,682 | 106 | 541 | 18,745 | 34,629 | 59,823 |
| **Geographical markets:** | | | | | | | |
| The PRC | 4,120 | – | – | 541 | 1,977 | 9,767 | 16,405 |
| Hong Kong | – | – | – | – | 16,768 | 17,739 | 34,507 |
| USA | – | 1,682 | – | – | – | – | 1,682 |
| Japan | – | – | – | – | – | 7,123 | 7,123 |
| Total revenue from contracts with customers | 4,120 | 1,682 | – | 541 | 18,745 | 34,629 | 59,717 |
| Revenue from another source: | | | | | | | |
| – The PRC | – | – | 106 | – | – | – | 106 |
| Total revenue | 4,120 | 1,682 | 106 | 541 | 18,745 | 34,629 | 59,823 |
| **Timing of revenue recognition:** | | | | | | | |
| At a point in time | 4,120 | 1,682 | – | 541 | 17,397 | 34,629 | 58,369 |
| Over time | – | – | – | – | 1,348 | – | 1,348 |
| Total revenue from contracts with customers | 4,120 | 1,682 | – | 541 | 18,745 | 34,629 | 59,717 |
| Revenue from another source: | | | | | | | |
| – Provision of asset financing services | – | – | 106 | – | – | – | 106 |
| Total revenue | 4,120 | 1,682 | 106 | 541 | 18,745 | 34,629 | 59,823 |

## 4. Revenue *(continued)*

### (a) Disaggregation of revenue *(continued)*

*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 with tariff adjustment | – | – | – | – | 1,885 | – | 1,885 |
| – Provision of design and installation services | – | – | – | – | 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: | | | | | | | |
| – Provision 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:** | | | | | | | |
| The PRC | 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: | | | | | | | |
| – The PRC | – | – | 892 | – | – | – | 892 |
| Total revenue | 140 | 2,846 | 892 | 36 | 13,503 | 32,226 | 49,643 |
| **Timing of revenue recognition:** | | | | | | | |
| At a point in time | 140 | 2,846 | – | 36 | 13,503 | 32,226 | 48,751 |
| Over time | – | – | – | – | – | – | – |
| Total revenue from contracts with customers | 140 | 2,846 | – | 36 | 13,503 | 32,226 | 48,751 |
| Revenue from another source: | | | | | | | |
| – Provision 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 |

## 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 | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| **Other income, net** | | |
| Bank interest income | **34** | 92 |
| Trading income, net | **206** | 107 |
| Management fee income | **228** | 368 |
| Others | **502** | 536 |
| Other income and gains, net | **970** | 1,103 |

## 6. Finance Costs

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

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Interest on bank loans | **264** | 139 |
| Interest on other loans | **1,706** | 1,816 |
| Interest and other borrowing costs on overdue other loans | **469** | 492 |
| Interest on a short-term loan | **–** | 251 |
| Penalties on overdue other loans | **2,425** | 21,865 |
| Interest on lease liabilities | **182** | 99 |
| | **5,046** | 24,662 |

## 7. (Impairment Losses)/Reversal of Impairment Losses Under Expected Credit Loss Model, Net

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Lease, factoring and trade receivables | **(322)** | – |
| Deposits and other receivables | **(661)** | 25,612 |
| | **(983)** | 25,612 |

The basis of determining the inputs and assumptions and the estimation techniques used in the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022.

## 8. Loss Before Tax

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

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Cost of inventories sold | **36,404** | 34,383 |
| Subcontracting cost included in cost of sales | **12,100** | 9,404 |
| Depreciation of property, plant and equipment* | **1,953** | 910 |
| Depreciation of right-of-use assets* | **1,169** | 785 |
| Foreign exchange difference, net | **4,036#** | 7,417# |
| Loss from changes in fair value of financial assets at FVTPL | **283#** | – |
| Employee benefit expense (including directors' remuneration): | | |
| Wages, salaries and other benefits | **13,310** | 11,039 |
| Pension scheme contributions (defined contribution schemes) | **751** | 626 |
| | **14,061** | 11,665 |

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

* Depreciation of property, plant and equipment and right-of-use assets of approximately HK$1,926,000 (30 June 2022: approximately HK$758,000) and approximately HK$116,000 (30 June 2022: HK$Nil), respectively are included in "Cost of sales" on the face of the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income.

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

## 9. Income tax Expense/(Credit)

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Current tax: | | |
| The PRC | **35** | – |
| Hong Kong | **389** | – |
| | **424** | – |
| Deferred tax – Hong Kong | **64** | (443) |
| | **488** | (443) |

## 10. Loss per Share Attributable to Shareholders of the Company

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| Loss for the period for the purpose of basic loss per share | **(27,012)** | (9,358) |

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **1,187,258** | 1,092,330 |

No diluted loss per share for both six months ended 30 June 2023 and 2022 were presented as there were no potential ordinary shares in issue for both six months ended 30 June 2023 and 2022.

## 11. Property, Plant and Equipment

During the current interim period, the Group paid approximately HK$4,624,000 (30 June 2022: approximately HK$14,470,000) for construction costs for new solar plants for the operation of photovoltaic power business in Hong Kong.

During the current interim period, the Group disposed of certain plant and equipment with an aggregate carrying amount of approximately HK$14,364,000 (six months ended 30 June 2022: HK$Nil) at a consideration of approximately HK$14,364,000 (six months ended 30 June 2022: HK$Nil).

## 12. Investments in Associates

| | **30 June 2023 HK$'000** | 31 December 2022 HK$'000 |
|---|---|---|
| Cost of investment in associates | **90,009** | 10,128 |
| Share of post-acquisition losses and other comprehensive expense | **(7,344)** | (6,000) |
| Share of exchange fluctuation reserve of an associate | **(4,330)** | – |
| | **78,335** | 4,128 |
| Less: Accumulated impairment | **(4,128)** | (4,128) |
| | **74,207** | – |

On 21 December 2022, the Company, Liyanda Limited (the "Vendor") and Mr. Li Sheng (as the guarantor, being the beneficial owner of the Vendor), independent third parties, entered into a share purchase agreement in respect of the acquisition of 21% of the entire issued share capital of South Ray Investment Limited ("South Ray") at a consideration of RMB70,000,000 which shall be settled by part of the deposit paid in prior year. The acquisition of 21% equity interest in South Ray was completed on 9 January 2023.

Given the Group does not control the majority composition of the board of directors of South Ray, the Group has no control over South Ray. However, the Directors consider that the Group have significant influence over South Ray as the Group has appointed representatives to the board of directors of South Ray. South Ray is therefore classified as an associate of the Group.

Details of each of the Group's associates at the end of the reporting period are as follows:

| **Name of entity** | **Place of incorporation/ principal place of operation** | **Proportion of ownership interest held by the Group** | | **Proportion of voting rights held by the Group** | | **Principal activity** |
|---|---|---|---|---|---|---|
| | | **30 June 2023** | 31 December 2022 | **30 June 2023** | 31 December 2022 | |
| TI Systems Limited | Hong Kong | **41.7%** | 41.7% | **41.7%** | 41.7% | Dormant |
| South Ray | British Virgin Islands | **21%** | - | **21%** | - | Investment holding |
| Hong Kong South Ray Limited# | Hong Kong | **21%** | - | **21%** | - | Investment holding |
| Ordos City Dongsheng District In Zhongyitaxi Mining Co., Ltd.*# (鄂爾多斯市東勝區中億塔西礦業有限公司) | PRC | **21%** | - | **21%** | - | Mining and processing of non-ferrous metals in the PRC |

* For identification purpose only
# Subsidiary of South Ray

## 12. Investments in Associates *(continued)*

| Name of entity | Place of incorporation/ principal place of operation | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|---|---|---|---|---|---|
| | | **30 June 2023** | 31 December 2022 | **30 June 2023** | 31 December 2022 | |
| Yongniuteqi Lilan Mining Co., Ltd.*# (翁牛特旗力蘭礦業有限公司) | PRC | **14.6%** | - | **14.6%** | - | Mining and processing of non-ferrous metals in the PRC |
| Inner Mongolia Shengdi Mining Company Limited*# (內蒙古盛地礦業有限責任公司) | PRC | **11.6%** | - | **11.6%** | - | Mining and processing of non-ferrous metals in the PRC |

* For identification purpose only
\# Subsidiary of South Ray

## 13. Lease, Factoring and Trade Receivables

| | Notes | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) |
|---|---|---|---|
| Gross lease receivable | (a) | **1,316** | 1,377 |
| Less: Unearned interest income | (a) | **(207)** | (217) |
| Net lease receivable | (a) | **1,109** | 1,160 |
| Factoring receivables | (b) | **165,887** | 173,419 |
| Management fee receivables of asset financing services | (c) | **2,597** | 2,716 |
| Trade receivables | (d) | **71,799** | 51,845 |
| | | **241,392** | 229,140 |
| Less: Allowance for credit losses | (e) | **(130,506)** | (136,137) |
| Total lease, factoring and trade receivables | | **110,886** | 93,003 |
| Portion classified as current assets | | **(110,638)** | (92,498) |
| Non-current portion | | **248** | 505 |

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

Notes:

(a) The lease receivable as at 30 June 2023 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.

As at 30 June 2023, the undiscounted lease payments receivable by the Group in future periods in respect of the finance lease and its present values are as follows:

| | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) |
|---|---|---|
| Lease receivables comprise: | | |
| Within one year | **1,053** | 826 |
| After one year but within two years | **263** | 551 |
| Gross investment in the lease | **1,316** | 1,377 |
| Less: unearned finance income | **(207)** | (217) |
| Present value of minimum lease payment receivables | **1,109** | 1,160 |
| Portion classified as current assets | **(861)** | (655) |
| Non-current portion | **248** | 505 |

(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 a fixed rate of 12% per annum, and are due for repayment between 2021 and 2025. Each of these factoring receivables is secured by at least one receivable owned by a debtor to the customer.

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

Notes: *(continued)*

(b) *(continued)*

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

| | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) |
|---|---|---|
| Billed: | | |
| Within one month | **18** | 29 |
| One to two months | **18** | 1,823 |
| Two to three months | **18** | 8,943 |
| Over three months | **35,154** | 25,922 |
| | **35,208** | 36,717 |
| Unbilled | **3,660** | 3,829 |
| | **38,868** | 40,546 |

(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.

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

| | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) |
|---|---|---|
| Over three months | **486** | 508 |

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

Notes: *(continued)*

(d) The Group's trading terms with its customers from the silver, oil and gas, photovoltaic power and trading business 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 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) |
|---|---|---|
| Billed: | | |
| Within one month | **23,312** | 37,518 |
| One to two months | **2,359** | 163 |
| Two to three months | **4,867** | 146 |
| Over three months | **39,915** | 12,994 |
| | **70,453** | 50,821 |

(e) During the six months ended 30 June 2023, impairment loss of HK$322,000 under expected loss model was recognised (six months ended 30 June 2022: no impairment loss was recognised as certain lease and factoring customers have fully repaid their outstanding balances).

## 14. Trade Payables

An ageing analysis of the trade payables as at 30 June 2023 and 31 December 2022, based on the invoice date, is as follows:

| | **30 June 2023 HK$'000 (unaudited)** | 31 December 2022 HK$'000 (audited) |
|---|---|---|
| Less than six months | **8,004** | 14,672 |
| Six months to one year | **13,664** | 626 |
| Over one year | **510** | 269 |
| | **22,178** | 15,567 |

The trade payables are non-interest-bearing and with average credit period of 60 days.

## 15. BANK AND OTHER LOANS

**(a)** On 6 June 2023, the Group newly drawdown of approximately HK$990,000 under a banking facilities, which was subject to Hong Kong Interbank Offered Rate plus 3% per annum and were due on 7 May 2027. and was secured by (i) one solar photovoltaic system of the Group with an aggregate net carrying amount of approximately HK$1,342,000; (ii) 100% equity interest in a wholly-owned subsidiary of the Company; (iii) a corporate guarantee provided by the Company; and (iv) a personal guarantee provided by a director of the Company. The proceeds were used to finance the installation of solar plants.

**(b)** An other loan from a former shareholder of a subsidiary of the Company of RMB20,000,000 (equivalent to approximately HK$21,568,000 (31 December 2022: RMB20,000,000 (equivalent to approximately HK$22,562,000)), which was unsecured, interest-free, repayable on 1 January 2016, and subject to an overdue penalty of 0.5% per day on the loan principal; and another loan of another subsidiary of RMB5,500,000 (equivalent to approximately HK$5,931,000) (31 December 2022: RMB5,500,000 (equivalent to approximately HK$6,205,000)), which was unsecured, bore interest at 15% per annum, was repayable on 1 January 2016, and was subject to an overdue penalty of 1% per day on the overdue balance.

The above other loans had been overdue for repayment since 1 January 2016 and remained outstanding up to the date of this announcement.

## 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 2023 (the "Period") (six months ended 30 June 2022: 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 operation of photovoltaic power businesses in Hong Kong and the PRC; (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.

## Business Review *(continued)*

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

*West Mine (continued)*

Due to the restrictive measures imposed by the local government in the PRC throughout 2022 as a result of the outbreak of the Omicron variant, the allocation of manpower for ore mining and processing and respective logistics of the silver mining business became difficult and the operations for ore mining in the West Mine was suspended for several months. As the major customers of Fu'an Leixin which were primarily ore processing factories and smelters were also located in the PRC, they were also impacted by the restrictive measures and their operations were also limited and/or temporarily suspended.

Following the relaxation of the restrictive measures, the production of the West Mine has resumed in the third quarter of 2022. In midst of the uncertainty and the changing outlook of the mining industry following the recent lifting of the restrictive measures, to ensure that the ores produced by the West Mine would be sold, the Company has reassessed its strategy and have opted to adopt a more prudent approach to enter into sales contract with its customers for its ores before commencing production. As the operations gradually resume, customers have been more cautious when placing orders and contractual negotiations have been more time-consuming than expected.

The mining permit for the West Mine was issued by Department of Land and Resources in Fujian Province and has expired in December 2020 and has been retained its current status for two years up to 9 December 2022. Fu'an Leixin has submitted the documents for extension of the mining permit for the West Mine and is preparing the documents as requested by the relevant government officers of Ningde City, Fujian Province, the PRC (the "Ningde Government"). Upon further discussion with the relevant government authorities during the Period, similar to the East Mine (as further discussed below), a Safety Report (as defined below) is required to be issued as part of the conditions for the renewal of the mining permit for the West Mine. In addition, there were other new conditions that were requested, including but not limited to (i) carrying out improvement and resumption work on the conditions of the mine dumping facilities and the mining area roads in the West Mine; and (ii) preparing and submitting a reserve report of the West Mine to the government authorities for approval. Fu'an Leixin will continue to liaise with the relevant government officers in relation to the renewal of the mining permit.

*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 continued 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.

## Business Review *(continued)*

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

*East Mine (continued)*

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. During the Period, upon further discussion with the relevant government authorities, a Safety Report is required to be issued on the Project as part of the conditions for the renewal of the exploration license and the Group has reached out to the relevant parties to facilitate the process (as further discussed below).

Upon completing the renewal of the exploration license, the Company shall continue 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.

*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.

## Business Review *(continued)*

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

*Update on the possible construction of a reservoir close to the West Mine and the East Mine (continued)*

Due to the modification of the Project from water conservancy project to flood control project, the government authorities have further requested for more information and documents in relation to the renewal of the licenses and permit. In late 2022, the Company has completed the safety assessment and issued the report as requested by the relevant government authorities in Ningde City for the renewal of the exploration license and the relevant government authorities have verbally requested the entity responsible of the Project to provide an additional report to conclude that the Project and the East and West Mine will not mutually affect each other (the "Safety Report"). However, the entity responsible for the Project has informed the Fu'an Lexin and Zherong Lexin would only provide the Safety Report until a formal written request has been provided by the relevant government authorities.

During the Period, the Company has continued to reach out to the relevant government authorities and the responsible entity of the Project from time to time in relation to the issuance of the Safety Report. In order to speed up and streamline the process of the renewal of the exploration licenses for the East Mine and the mining license for the West Mine, the Company has engaged a PRC legal advisor to coordinate with the responsible entity of the Project to assist in obtaining the Safety Report. Based on the discussion with the PRC legal advisor, it is estimated that the Safety Report may be obtained by the end of December 2023.

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 and the renewal of licenses and permits as and when appropriate.

### *(2) Photovoltaic power business*

*The PRC*

The Group commenced its photovoltaic power business after the 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)*

*Hong Kong*

To pursue the photovoltaic power business in Hong Kong, the Group has completed acquisitions of 100% of the issued share capital in SinoPower Solar Investment Co. Limited ("SPSI") in June 2021. The Group has also set up two non-wholly owned subsidiaries, namely King Stone Solar Farm Limited and Solar Farm Investment Limited, with other independent third party solar energy projects developers in Hong Kong 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 in Hong Kong by the Group. In particular, the FiT scheme has been adopted for the entire lifespan 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 calculated at HK$18.0 per watt multiplied by the Kilo Watts ("kW") capacity with the maximum consideration of HK$75,000,000. As at date of this announcement, projects of an aggregate power generation capacity of approximately 3,000 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 5,100 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, has slightly improved mainly due to the social distancing restrictions imposed in response to the COVID-19 pandemic being gradually lifted in Hong Kong and mainland China since February 2023.

## 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.

## Business Review *(continued)*

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

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.

*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 2023, the total outstanding lease and factoring receivables (including management fee receivables) before impairment were approximately HK$169.6 million (31 December 2022: HK$177.3 million). As at 30 June 2023, the receivables balance before impairment of the Group's five largest customers of asset financing segment of approximately HK$163.9 million (31 December 2022: HK$171.5 million) accounted for 96.6% (31 December 2022: 96.7%) 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$101.6 million (31 December 2022: HK$106.3 million) accounted for 59.9% (31 December 2022: 60.0%) 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).

## Business Review *(continued)*

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

*Internal control systems (continued)*

Finance leasing *(continued)*

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.

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.

## Business Review *(continued)*

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

*Internal control systems (continued)*

Business factoring *(continued)*

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.

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 through its subsidiary namely King Stone Group Trading Company Limited and several subsidiaries of the Company in the PRC. 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$59.8 million for the Period (six months ended 30 June 2022: HK$49.6 million), representing an increase of 20.6% compared with last comparable period. The increase in revenue was mainly due to increase in revenue generated from silver mining business, photovoltaic power business and trading of commodities during the Period.

There was revenue of approximately HK$4.1 million (six months ended 30 June 2022: HK$0.1 million) and cost of sales of approximately HK$1.4 million (six months ended 30 June 2022: HK$0.4 million) from silver mining business during the Period.

For the photovoltaic power generation business, (i) Chengde Shuntian produced and sold approximately 2,600 mW of electricity and recorded revenue from photovoltaic power generation of approximately HK$2.0 million (six months ended 30 June 2022: HK$1.3 million) in the PRC during the Period. The related cost of sales was approximately HK$1.5 million (six months ended 30 June 2022: HK$0.8 million); (ii) SPSI and other two subsidiaries produced and sold approximately 670,000 kWh 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$1.7 million (six months ended 30 June 2022: HK$0.6 million) in Hong Kong. The related cost of sales was approximately HK$1.1 million (six months ended 30 June 2022: HK$0.5 million); (iii) SPSI also sold solar energy projects to EPI and generated revenue of approximately HK$13.7 million (six months ended 30 June 2022: HK$11.6 million) during the Period. The related cost of sales was approximately HK$11.1 million (six months ended 30 June 2022: HK$9.4 million); (iv) King Stone Green Energy Technology Company Limited ("KSGE"), which is responsible for providing consultancy services for solar energy projects to the clients, recorded revenue of approximately HK$1.3 million (six months ended 30 June 2022: nil) during the Period.

For tourism business, the Group recorded revenue of approximately HK$541,000 (six months ended 30 June 2022: HK$36,000) 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 656 Bbl of oil, approximately 45 million cubic feet of natural gas, and approximately 1,878 Bbl of natural gas liquids during the Period (six months ended 30 June 2022: approximately 683 Bbl of oil, approximately 48 million cubic feet of natural gas, and approximately 2,058 Bbl of natural gas liquids). The revenue was approximately HK$1.7 million during the Period (six months ended 30 June 2022: HK$2.8 million). Cost of sales for Oil and gas E&P was approximately HK$1.0 million during the Period (six months ended 30 June 2022: 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 margin of 41.2% (six months ended 30 June 2022: gross loss margin of 39.3%) during the Period.

## Financial Review *(continued)*

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

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 2022: HK$0.9 million). There was no cost of sales in this segment.

The Group also recorded revenue from trading of various commodities of approximately HK$34.6 million (six months ended 30 June 2022: HK$32.2 million) and cost of sales of approximately HK$34.0 million (six months ended 30 June 2022: HK$31.5 million).

### *Other income and gains, net*

Other income and gains, net was approximately HK$1.0 million during the Period (six months ended 30 June 2022: HK$1.1 million) which was mainly due to the decrease of the management fee income of approximately HK$0.1 million as compared with the corresponding period in 2022.

### *Selling and administrative expenses*

Selling and administrative expenses were approximately HK$28.0 million during the Period as compared to approximately HK$21.2 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.

### *Impairment losses/(reversal of impairment losses) under expected credit loss model, net and other expenses, net*

The breakdown of impairment losses/(reversal of impairment losses) of financial assets and other expenses, net are as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| Impairment losses/(reversal of impairment losses) of financial assets: | | |
| Lease, factoring and trade and other receivables | **983** | (25,612) |
| | **983** | (25,612) |
| Foreign exchange loss, net | **4,036** | 7,417 |
| Others | **263** | 267 |
| Total | **5,282** | (17,928) |

## Financial Review *(continued)*

### *Finance costs, net*

Finance costs, net were approximately HK$5.0 million during the Period (six months ended 30 June 2022: HK$24.7 million) which was mainly due to the significant decrease in interest/penalties on the overdue of other loans of approximately HK$19.5 million recognized during the Period upon the internal review conducted by the PRC legal adviser on the Group's outstanding and overdue liabilities and legal proceedings of one of the outstanding and overdue liabilities of the Group on 30 December 2022.

Further details of the restructuring process has been set out in the Company's annual report 2022 – notes to the consolidated financial statements – note 32(b).

### *Share of losses of associates*

During the Period, the Group shared the losses of South Ray Investment Limited (which has been acquired in January 2023 as detailed below), an associate in which indirectly owns the mining right of a mine in Ongniud Bannar, Chifeng City, Inner Mongolia, the PRC., of approximately HK$1.3 million. There was no share of losses of associates recognised during the corresponding period in 2022.

### *Income tax expense/(credit)*

Income tax expense was approximately HK$0.5 million (six months ended 30 June 2022: income tax credit of HK$0.4 million) during the Period. It mainly represented provision for profit tax arising from photovoltaic business in Hong Kong and PRC of approximately HK$0.4 million (six months ended 30 June 2022: nil) 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;

(iii) conditional upon the Share Consolidation becoming effective, the rights issue (the "Rights 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.

## Financial Review *(continued)*

### ***Fund raising exercises*** *(continued)*

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 Rights 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 2023, approximately HK$45.0 million and HK$18.3 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$35.0 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 December 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 Rights Issue and the Placing during the Period. As at 30 June 2023, the current ratio of the Group, measured as total current assets to total current liabilities, was 1.56:1 (31 December 2022: 1.68:1). As at 30 June 2023, the cash and cash equivalents of the Group were approximately HK$52.1 million (31 December 2022: HK$79.8 million).

As at 31 June 2023, there was outstanding interest-bearing bank loans of principal of approximately HK$8.1 million (31 December 2022: HK$7.2 million) which was denominated in Hong Kong dollars. Bank loans comprised of i) approximately HK$5.6 million (31 December 2022: HK$5.6 million), subject to fixed interest rate of 7% per annum and was due on 31 December 2024; (ii) approximately HK$1.6 million (31 December 2022: HK$1.6 million)), subject to Hong Kong Interbank Offered Rate plus 3% per annum and was due on 30 December 2026 and; (iii) HK$0.9 million (31 December 2022: nil) were subject to Hong Kong Interbank Offered Rate plus 3% per annum and was due on 7 May 2027. The bank loan was secured by (i) several solar energy projects of the Group with an aggregate net carrying amount of approximately HK$8.8 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 2023 (31 December 2022: HK$0.5 million).

As at 30 June 2023, there were other loans of approximately HK$110.4 million (31 December 2022: HK$110.9million) comprising loan principal of approximately HK$27.5 million (31 December 2022: HK$28.8 million), commission payable of approximately HK$33.3 million (31 December 2022: HK$33.1 million), overdue interest/penalty of approximately HK$49.7 million (31 December 2022: HK$49.0 million). All other loans were denominated in Renminbi. Other loans with principal of approximately HK$21.6 million (31 December 2022: HK$22.6 million) and HK$5.9 million (31 December 2022: HK$6.2 million) were interest-free and with fixed interest rate of 15% per annum, respectively. Other loans of approximately HK$21.6 million and HK$5.9 million were subject to 4 times the one-year loan prime rate (LPR) of the PRC and 1% on the overdue balance, respectively. For the commission payable of approximately HK$33.3 million (31 December 2022: HK$33.1 million), bear fixed interest rate of 15% per annum. As at 30 June 2023, other loans of approximately HK$110.4 million (31 December 2022: HK$110.9 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 2023) 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.

## Financial Review *(continued)*

### ***Liquidity and Financial Review*** *(continued)*

(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 2023. 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 0.5 as at 30 June 2023 (31 December 2022: 0.4).

## Material Acquisitions and Disposals

Acquisition of 21% equity interest in South Ray Investment Limited

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) (the "MOU") in respect of the proposed acquisition of 51% of issued share capital of South Ray Investment Limited ("South Ray") which indirectly owns a mining right of the mine in Ongniud Bannar, Chifeng City, Inner Mongolia, the PRC. The mining permit is valid from February 2015 up to February 2024 and covers an area of 7.151 square kilometers. Earnest money of RMB85.5 million (equivalent to approximately HK$96.5 million) have been paid by the Group pursuant to the MOU.

On 21 December 2022, the Company, Liyanda Limited (the "Vendor") and Mr. Li Sheng (as the guarantor, being the beneficial owner of the Vendor) entered into an agreement in respect of the acquisition of 21% equity interest in South Ray at the consideration of RMB70 million (equivalent to approximately HK$79.0 million) which shall be settled by part of the earnest money paid. The acquisition was completed on 9 January 2023 and South Ray has became as an associate of the Company upon completion of the acquisition.

## Material Acquisitions and Disposals *(continued)*

Acquisition of 21% equity interest in South Ray Investment Limited *(continued)*
The remaining earnest money of RMB15.5 million (equivalent to approximately HK$17.5 million) will be repaid to the Group by the end of 2023. 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, 29 August 2022 and 30 December 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 2023 (31 December 2022: nil).

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

As at 30 June 2023, 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 2022: HK$1.7 million) in respect of acquisition of 30% equity interest in a former subsidiary of the Company within 10 years after completion of disposal of the former subsidiaries in June 2015 and approximately HK$1.4 million (31 December 2022: HK$1.4 million) in respect of purchase of photovoltaic projects.

As at 30 June 2023, time deposits which are restricted for use of approximately HK$0.3 million (31 December 2022: HK$0.4 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 2023 (31 December 2022: nil).

As at 30 June 2023, there was no material contingent liability of the Group (31 December 2022: nil).

## Human Resources and Share Option Scheme

As at 30 June 2023, the Group had 70 (31 December 2022: 67) employees. The total staff costs (including directors' remuneration) for the Period were approximately HK$14.1 million (six months ended 30 June 2022: HK$11.7 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 2023.

## 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 and 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. The Group is still actively seeking more opportunities in renewable energy sector in Hong Kong, the PRC and Japan.

## 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, the Company has complied with the applicable code provisions set out in the Corporate Governance 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 2023 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 of the Company 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 2023

*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.*