



金山能源集團有限公司  
**KING STONE ENERGY GROUP LIMITED**

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)



**INTERIM REPORT 2016**

## Corporate Information

### Board of Directors

#### **Executive Directors**

Mr. Zhang Wanzhong *(Chairman)*  
Mr. Zong Hao *(Chief Executive Officer)*  
Mr. Xu Zhuliang  
Mr. Benjamin Clark Danielson

#### **Independent Non-Executive Directors**

Mr. Chiu Sui Keung  
Mr. Lu Binghui  
Mr. Lee Ping  
Mr. Liu Shengming

### Audit Committee

Mr. Chiu Sui Keung *(Chairman)*  
Mr. Lu Binghui  
Mr. Lee Ping

### Remuneration Committee

Mr. Chiu Sui Keung *(Chairman)*  
Mr. Xu Zhuliang  
Mr. Lu Binghui

### Nomination Committee

Mr. Zhang Wanzhong *(Chairman)*  
Mr. Chiu Sui Keung  
Mr. Lu Binghui

### Authorised Representatives

Mr. Zhang Wanzhong  
Mr. Zong Hao

### Company Secretary

Mr. Lee Tao Wai

### Auditors

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

### Legal Adviser

Michael Li & Co.  
19/F, Prosperity Tower  
39 Queen's Road Central  
Central, Hong Kong

### Registered Office & Principal Place Of Business in Hong Kong

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

### Share Registrar

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

### Company Website

<http://www.663hk.com>

### Stock Code

00663

## Operating Mines

### Capital Expenditure

The capital expenditure for development and mining production activities was approximately HK\$0.6 million during the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$50 million).

### Fujian Leixin Silver Mines

#### *Fu'an Silver Mine (the West Mine)*

<b>Name</b>	Fu'an City Leixin Mining Company Limited
<b>Location</b>	Fu'an City, Fujian
<b>Licensed area</b>	2.1 km <sup>2</sup>
<b>Mining rights validity</b>	2010–2020
<b>Designed capacity</b>	198,000 tons per annum
<b>Status</b>	Operating

#### *Zherong Silver Mine (the East Mine)*

<b>Name</b>	Zherong County Leixin Mining Company Limited
<b>Location</b>	Zherong County, Fujian
<b>Licensed area</b>	4.97 km <sup>2</sup>
<b>Exploration rights validity</b>	2015–2016
<b>Designed capacity</b>	660,000 tons per annum
<b>Status</b>	Under construction

## Operating Mines *(continued)*

### Fujian Leixin Silver Mines *(continued)*

	The West Mine	The East Mine
<b>As at 30 November 2013</b>		
Inferred resources (million tons)	1.71	1.73
Indicated resources (million tons)	0.87	6.35
Probable ore reserves (million tons)	0.82	5.95
Ore grade (g/t)	211.4	128.6
Silver metal (tons)	173	765
<b>Actual output in year 2013 (million tons)</b>		
Actual output in year 2013 (million tons)	–	–
Actual output in year 2014 (million tons)	0.01	–
Actual output in year 2015 (million tons)	0.06	–
Actual output in the 6-month period ended 30 June 2016 (million tons)	–	–
	0.07	–
<b>As at 30 June 2016</b>		
Inferred resources (million tons)	1.64	1.73
Indicated resources (million tons)	0.80	6.35
Probable ore reserves (million tons)	0.75	5.95

Note: The above information are extracted from technical report issued by SRK Consulting China Limited dated 10 March 2014 after deduction of actual output up to 30 June 2016 based on Leixin's record.

## Operating Mines *(continued)*

### Craton Oil and Gas Fields

	<b>Natural gas</b> (million cubic feet)	<b>Natural gas liquid (NGL)</b> (thousand bbl)	<b>Oil</b> (thousand bbl)
<b>As at 1 January 2015</b>			
Proved reserves	16,986.89	449.67	191.67
Probable reserves	19,621.22	519.40	225.02
Possible reserves	31,342.41	829.67	359.46
	<b>67,950.52</b>	<b>1,798.74</b>	<b>776.15</b>
Actual output in year 2015	688.36	23.62	8.52
Actual output in the 6-month period ended 30 June 2016	220.20	7.60	2.64
	908.56	31.22	11.16
<b>As at 30 June 2016</b>			
Proved reserves	16,078.33	418.45	180.51
Probable reserves	19,621.22	519.40	225.02
Possible reserves	31,342.41	829.67	359.46
	<b>67,041.96</b>	<b>1,767.52</b>	<b>764.99</b>

Note: The above information are extracted from reserve report issued by Cawley, Gillespie & Associates Inc. on 3 March 2015 after deduction of actual output up to 30 June 2016 based on Craton's record.

The unaudited consolidated results of King Stone Energy Group Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2016 with comparative figures for the corresponding period in 2015 are as follows:

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

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
<b>CONTINUING OPERATIONS</b>			
REVENUE	4	6,347	18,305
Cost of sales		(7,911)	(21,972)
Gross loss		(1,564)	(3,667)
Other income and gain, net	4	8,120	16,281
Selling and distribution expenses		(26)	(607)
Administrative expenses		(34,887)	(39,173)
Finance costs	5	(21,501)	(18,026)
Loss before tax from continuing operations	6	(49,858)	(45,192)
Income tax	7	(1,017)	14,373
Loss for the period from continuing operations		(50,875)	(30,819)
<b>DISCONTINUED OPERATION</b>			
Profit for the period from a discontinued operation	8	-	2,372,190
Profit/(loss) for the period		(50,875)	2,341,371

	Notes	For the six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale equity investments:			
Changes in fair value		<b>(6,795)</b>	29,994
Reclassification adjustments for gains included in profit or loss – gain on disposal	4	–	(13,552)
		<b>(6,795)</b>	16,442
Exchange differences on translation of foreign operations		<b>(4,513)</b>	(1,263)
Reclassification of translation reserve to profit or loss on disposal of subsidiaries		–	(240,404)
Other comprehensive loss for the period		<b>(11,308)</b>	(225,225)
<b>Total comprehensive income/(loss) for the period</b>		<b>(62,183)</b>	2,116,146
Profit/(loss) for the period attributable to:			
Shareholders of the Company			
Continuing operations		<b>(37,540)</b>	(48,890)
Discontinued operation		–	2,342,266
		<b>(37,540)</b>	2,293,376
Non-controlling interests		<b>(13,335)</b>	47,995
		<b>(50,875)</b>	2,341,371
<b>Total comprehensive income/(loss) for the period attributable to:</b>			
Shareholders of the Company		<b>(46,741)</b>	2,081,558
Non-controlling interests		<b>(15,442)</b>	34,588
		<b>(62,183)</b>	2,116,146
Earnings/(loss) per share attributable to shareholders of the Company			
Basic and diluted	9		
For profit/(loss) for the period		<b>(HK\$0.008)</b>	HK\$0.686
For loss for the period from continuing operations		<b>(HK\$0.008)</b>	(HK\$0.015)

## Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		83,053	86,534
Prepaid land premiums		960	1,015
Mining and exploration rights		297,012	303,719
Other intangible assets		10,886	10,842
Available-for-sale equity investments		13,104	19,899
Lease, factoring and trade receivables	10	135,185	–
Prepayments and deposits	11	1,987	5,201
Total non-current assets		542,187	427,210
<b>CURRENT ASSETS</b>			
Inventories		3,452	3,520
Lease, factoring and trade receivables	10	15,821	3,739
Prepayments, deposits and other receivables	11	199,856	98,672
Restricted cash		366	374
Cash and cash equivalents		339,682	203,322
Total current assets		559,177	309,627
<b>CURRENT LIABILITIES</b>			
Trade payables	12	4,544	5,487
Other payables and accruals		95,878	82,620
Income tax payable		9,022	10,009
Total current liabilities		109,444	98,116
<b>NET CURRENT ASSETS</b>		<b>449,733</b>	211,511



	Note	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>991,920</b>	638,721
<b>NON-CURRENT LIABILITIES</b>			
Other payables		493	472
Deferred tax liabilities		50,208	50,341
Total non-current liabilities		50,701	50,813
Net assets		941,219	587,908
<b>EQUITY</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	13	2,703,301	2,287,807
Other reserves		(1,879,746)	(1,833,005)
<b>Non-controlling interests</b>		<b>823,555</b>	454,802
		<b>117,664</b>	133,106
Total equity		941,219	587,908

## Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Note	Attributable to shareholders of the Company						
		Issued capital	Exchange fluctuation reserve	Available-for-sale investment reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 January 2016		2,287,807	(15,038)	11,469	(1,829,436)	454,802	133,106	587,908
Loss for the period		-	-	-	(37,540)	(37,540)	(13,335)	(50,875)
Other comprehensive loss								
-Fair value change of available-for-sale equity investments		-	-	(6,795)	-	(6,795)	-	(6,795)
-Exchange differences on translation of foreign operations		-	(2,406)	-	-	(2,406)	(2,107)	(4,513)
Total comprehensive loss for the period		-	(2,406)	(6,795)	(37,540)	(46,741)	(15,442)	(62,183)
Issue of new shares	13(b)	415,494	-	-	-	415,494	-	415,494
At 30 June 2016		2,703,301	(17,444)*	4,674*	(1,866,976)*	823,555	117,664	941,219

For the six months ended 30 June 2015

Attributable to shareholders of the Company							
		Exchange	Available-	Accumulated	Total	Non-	Total
	Issued	fluctuation	for-sale	losses		controlling	equity
Notes	capital	reserve	reserve			interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2015	2,108,700	223,677	7,850	(3,849,564)	(1,509,337)	155,619	(1,353,718)
Profit for the period	-	-	-	2,293,376	2,293,376	47,995	2,341,371
Other comprehensive income/(loss)							
-Fair value change of available-for-sale equity investments	-	-	16,442	-	16,442	-	16,442
-Exchange differences on translation of foreign operations	-	(1,357)	-	-	(1,357)	94	(1,263)
-Reclassification of exchange fluctuation reserve to profit or loss on disposal of subsidiaries	14	(226,903)	-	-	(226,903)	(13,501)	(240,404)
Total comprehensive income/(loss) for the period	-	(228,260)	16,442	2,293,376	2,081,558	34,588	2,116,146
Disposal of subsidiaries	14	-	-	-	-	113,523	113,523
At 30 June 2015	2,108,700	(4,583)	24,292	(1,556,188)	572,221	303,730	875,951

\* These reserve accounts comprise the consolidated negative reserves of HK\$1,879,746,000 (31 December 2015: HK\$1,833,005,000) in the condensed consolidated statement of financial position.

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
<b>Cash Flows From Operating activities</b>			
Cash used in operations		(324,034)	(46,660)
Income tax paid		(16)	-
<b>Net cash flows used in operating activities</b>		<b>(324,050)</b>	<b>(46,660)</b>
<b>Cash Flows From Investing activities</b>			
Interest received		50	2,729
Purchase of items of property, plant and equipment		(605)	(24,574)
Additions to mining and exploration rights		(580)	-
Acquisition of an intangible asset		(107)	(1,281)
Disposal of available-for-sale equity investments		-	17,488
Decrease in loan receivables included in prepayments, deposits and other receivables		50,011	-
Disposal of subsidiaries	14	-	(3,607)
<b>Net cash flows from/(used) in investing activities</b>		<b>48,769</b>	<b>(9,245)</b>
<b>Cash Flows From Financing activities</b>			
Issued of shares	13	417,000	-
Share issue expenses	13	(1,506)	-
Increase in other borrowings included in other payables		-	27,305
<b>Net cash flows from financing activities</b>		<b>415,494</b>	<b>27,305</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>140,213</b>	<b>(28,600)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>203,322</b>	<b>156,072</b>
<b>Effect of foreign exchanges rates changes</b>		<b>(3,853)</b>	<b>(2,530)</b>
<b>Cash and cash equivalents at end of period</b>		<b>339,682</b>	<b>124,942</b>

## Notes to Condensed Financial Statements

### 1. Corporate Information

King Stone Energy Group Limited (the “Company”) is a limited liability company incorporated in Hong Kong and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Unit 7603, 76/F, The Center, 99 Queen’s Road 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, (ii) oil and gas extraction, production and sale and (iii) provision of asset financing service.

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

### 2. Basis of Preparation and Changes to the Group’s Accounting Policies

#### 2.1 Basis of Preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). They are unaudited but have been reviewed by the Audit Committee of the Company.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s 2015 annual financial statements.

The accounting policies and method of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2015, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA as disclosed in note 2.2 below.

The financial information relating to the year ended 31 December 2015 that is included in the condensed consolidated statement of financial position as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

## 2. Basis of Preparation and Changes to the Group's Accounting Policies *(continued)*

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

The Company has delivered its consolidated financial statements for the year ended 31 December 2015 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 auditors have reported on the Company's consolidated financial statements for the year ended 31 December 2015. The auditors' report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

### 2.2 *Changes in accounting policies and disclosures*

The Group has adopted the following revised HKFRSs for the first time for the current period's condensed consolidated financial statements:

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

The adoption of these revised HKFRSs has had no significant financial effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these interim condensed consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

### 3. Operating Segment Information

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

- (a) the “Coal” operating segment engages in the mining and sale of coal in the People’s Republic of China (the “PRC”) (disposed of during 2015 and classified as a discontinued operation, details of which were set out in notes 8 and 14 to the interim condensed consolidated financial statements);
- (b) the “Silver” operating segment engages in the mining and sale of silver in the PRC;
- (c) the “Oil and gas” operating segment engages in oil and gas exploration, production and sale, in the United States of America (the “USA”);
- (d) the “Asset financing” operating segment engages in the provision of sale-leaseback and factoring services in the PRC; and
- (e) the “Others” operating segment engages in business other than the four mentioned above in the PRC or overseas.

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

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

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

Intersegment sales and transfers, if any, are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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

	Continuing operations								Discontinued operation				Total	
	Silver		Oil and gas		Asset financing		Others		Subtotal		Coal		Total	
	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	
<b>Segment revenue- Sales to external customers</b>	<b>2,579</b>	9,278	<b>3,734</b>	8,573	<b>34</b>	454	-	-	<b>6,347</b>	18,305	-	7,289	<b>6,347</b>	25,574
<b>Segment results</b>	<b>(26,016)</b>	21,534	<b>(5,475)</b>	(7,465)	<b>(61)</b>	(302)	<b>(9,355)</b>	(7)	<b>(40,907)</b>	13,760	-	(133,670)	<b>(40,907)</b>	(119,910)
<i>Reconciliation:</i>														
Share of loss of a joint venture									-	-	-	(1,193)	-	(1,193)
Corporate and other unallocated income/(expenses)									<b>(8,951)</b>	(58,952)	-	2,507,053	<b>(8,951)</b>	2,448,101
Profit/(loss) before tax									<b>(49,858)</b>	(45,192)	-	2,372,190	<b>(49,858)</b>	2,326,998
Income tax									<b>(1,017)</b>	14,373	-	-	<b>(1,017)</b>	14,373
Profit/(loss) for the period									<b>(50,875)</b>	(30,819)	-	2,372,190	<b>(50,875)</b>	2,341,371
	<b>30 June 2016</b>	31 December 2015	<b>30 June 2016</b>	31 December 2015	<b>30 June 2016</b>	31 December 2015	<b>30 June 2016</b>	31 December 2015	<b>30 June 2016</b>	31 December 2015	<b>30 June 2016</b>	31 December 2015	<b>30 June 2016</b>	31 December 2015
	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
<b>Segment assets</b>	<b>349,978</b>	358,834	<b>51,108</b>	52,788	<b>153,207</b>	59,719	<b>69,722</b>	-	<b>624,015</b>	471,341	-	-	<b>624,015</b>	471,341
<i>Reconciliation:</i>														
Available-for-sale equity investments													<b>13,104</b>	19,899
Restricted cash													<b>366</b>	374
Cash and cash equivalents													<b>339,682</b>	203,322
Corporate and other unallocated assets													<b>124,197</b>	41,901
Total assets													<b>1,101,364</b>	736,837
<b>Segment liabilities</b>	<b>(86,949)</b>	(71,597)	<b>(7,505)</b>	(13,220)	<b>(3,902)</b>	(823)	<b>(2,231)</b>	(137)	<b>(100,587)</b>	(85,777)	-	-	<b>(100,587)</b>	(85,777)
<i>Reconciliation:</i>														
Corporate and other unallocated liabilities													<b>(59,588)</b>	(63,152)
Total liabilities													<b>(160,145)</b>	(148,929)



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

	Continuing operations										Discontinued operation			
	Silver		Oil and gas		Asset financing		Others		Subtotal		Coal		Total	
	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
<b>Other segment information:</b>														
Depreciation	1,442	2,257	1,415	6,493	4	4	235	413	3,096	9,167	-	19,044	3,096	28,211
Amortisation of prepaid land premiums	33	34	-	-	-	-	-	-	33	34	-	137	33	171
Amortisation of mining rights	548	6,597	-	-	-	-	-	-	548	6,597	-	1,706	548	8,303
Capital expenditure	524	3,105	81	22,217	-	7	-	224	605	25,553	-	24,989	605	50,542

#### **Geographical information**

(a) Revenue from external customers

	For the six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
In the PRC	2,613	17,001
In the USA	3,734	8,573
	<b>6,347</b>	25,574

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

#### **Geographical information** *(continued)*

(b) Non-current assets

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
In the PRC	<b>344,857</b>	353,806
In the USA	<b>47,037</b>	48,285
Others	<b>17</b>	19
	<b>391,911</b>	402,110

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

During the six months ended 30 June 2016, the Group has acquired additional property, plant and equipment of HK\$605,000 (Period ended 30 June 2015: HK\$87,220,000). During the six months ended 30 June 2015, the Group has disposed of certain property, plant and equipment of HK\$1,205,000.

#### **Information about major customers**

During the period, the Group had transactions with three (Period ended 30 June 2015: Two) individual external customers which each contributed more than 10% of the Group's total revenue. The revenue generated from sales to each of these customers is set out follows:

	<b>For the six months ended 30 June</b>	
	<b>2016 HK\$'000 (unaudited)</b>	2015 HK\$'000 (unaudited)
Customer A	<b>2,579</b>	9,278
Customer B	<b>3,061</b>	6,907
Customer C	<b>673</b>	N/A*

\* Less than 10% of the Group's total revenue

#### 4. Revenue, Other income and Gain, Net

Revenue represents (i) invoiced value of silver ore by-product and oil and gas sold to customers, net of sales tax, value-added tax and government surcharges, severance taxes, ad valorem taxes and allowances for returns and trade discounts; and (ii) interest income generated from the asset financing service, net of value-added tax and government surcharges.

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

	For the six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
<b>Other income</b>		
Bank interest income	50	110
Other interest income	-	2,619
Trading income, net	8,070	-
	8,120	2,729
<b>Gain</b>		
Gain on disposal of available-for-sale investment	-	13,552
Other income and gain, net	8,120	16,281

#### 5. Finance Costs

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

	For the six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Interest and penalty on overdue other loans	21,501	18,026

## 6. Loss Before Tax from Continuing Operations

Loss before tax from continuing operations is arrived at after charging:

	For the six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Depreciation	3,096	9,167
Amortisation of prepaid land premiums	33	34
Amortisation of mining rights	548	6,597
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	17,186	16,565
Pension scheme contributions (defined contribution scheme)	172	806
	17,358	17,371
Minimum lease payments under operating leases	2,559	2,860

## 7. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2016 as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 June 2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Deferred – Mainland China	1,017	(14,373)

## 8. Discontinued Operation

The Company entered into a disposal agreement with Jumbo Talent Group Limited (the "Purchaser", an independent third party) on 2 April 2015 and a supplemental agreement with the Purchaser and Eerduosi Hengtai Coal Company Limited ("Hengtai") on 26 June 2015 (collectively the "Disposal Agreements"), pursuant to which, the Group sold its entire equity interest in Magic Field International Limited ("Magic Field", a then wholly-owned subsidiary of the Group) and certain loans receivables to the Purchaser at a cash consideration of HK\$1, details of which were set out in note 14 to the condensed financial statements. The transaction was completed on 26 June 2015.

The Group's mining and sale of coal operation was solely undertaken by Magic Field and its subsidiaries. Accordingly, the mining and sale of coal operation of the Group was discontinued upon the completion of the transaction.

## 8. Discontinued Operation *(continued)*

- (a) The results of a discontinued operation dealt with in the interim condensed consolidated financial statements for the six months ended 30 June 2015 are summarised as follows:

	Note	For the six months ended 30 June 2015 HK\$'000 (unaudited)
Revenue		7,269
Cost of sales		(32,791)
Gross loss		(25,522)
Other income		4,786
Selling and distribution expenses		(1,067)
Administrative expenses		(10,662)
Other expenses		(2,000)
Finance costs		(37,931)
Share of loss of a joint venture		(1,193)
Loss before tax		(73,589)
Income tax		-
Loss for the period		(73,589)
Gain on disposal of a discontinued operation, net of income tax of nil	14	2,445,779
Profit for the period from a discontinued operation		2,372,190
Attributable to:		
Shareholders of the Company		2,342,266
Non-controlling interests		29,924
		2,372,190

## 8. Discontinued Operation *(continued)*

- (b) The net cash flows of a discontinued operation dealt with in the interim condensed consolidated financial statements for the six months ended 30 June 2015 are as follows:

	For the six months ended 30 June 2015 HK\$'000 (unaudited)
Operating activities	(39,204)
Investing activities	24,989
Financing activities	13,308
Net cash outflow attributable to a discontinued operation	(907)

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

	For the six months ended 30 June 2015 HK\$'000 (unaudited)
Basic and diluted	0.701

During the six months ended 30 June 2015, the calculation of the basic earnings per share amount from a discontinued operation is based on the profit for the period from a discontinued operation attributable to shareholders of the Company of HK\$2,342,266,000, and the weighted average number of 3,342,055,568 ordinary shares in issue during the period (note 9).

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2015 in respect of dilution as the warrants of the Company outstanding during such period have no dilutive effect on the basic earnings per share amounts presented for such period.

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

The calculations of basic earnings/(loss) per share amounts are based on the unaudited loss for the period attributable to shareholders of the Company of HK\$37,540,000 (Period ended 30 June 2015: unaudited profit of HK\$2,293,376,000) and the unaudited loss for the period from continuing operations attributable to shareholders of the Company of HK\$37,540,000 (Period ended 30 June 2015: HK\$48,890,000), and the weighted average number of ordinary shares of 4,954,806,949 (Period ended 30 June 2015: 3,342,055,568) in issue during the period.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 June 2016 and 2015 in respect of dilution as the warrants of the Company outstanding during such periods have no dilutive effect on the basic earnings/(loss) per share amounts presented for such periods.

## 10. Lease, Factoring And Trade Receivables

	Notes	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Gross lease receivable	(a)	49,889	-
Less: Unearned finance income		(4,621)	-
Net lease receivable	(a)	45,268	-
Factoring receivable	(b)	105,006	-
Trade receivables	(c)	732	3,739
Total lease, factoring and trade receivables		151,006	3,739
Portion classified as current assets		(15,821)	(3,739)
Non-current portion		135,185	-

Notes:

- (a) The balance represents a finance lease receivable of RMB38,800,000 (HK\$45,268,000) provided by the Group in its ordinary course of business to a lessee, a company with a director who is also a director of the Company, and principally engaged in coal mining business, in connection with the finance lease of certain plant and equipment. The lease receivable bears interest at a floating rate of three-year lending rate promulgated by the People's Bank of China plus 20% margin and is repayable in July 2019.

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

Notes: *(continued)*

(a) *(continued)*

At 30 June 2016, the Group's total future minimum lease receivables under the lease receivable and their present value were as follows:

	30 June 2016		31 December 2015	
	Gross investment in finance lease HK\$'000 (unaudited)	Present value of minimum lease receivables HK\$'000 (unaudited)	Gross investment in finance lease HK\$'000 (audited)	Present value of minimum lease receivables HK\$'000 (audited)
Amount receivable:				
Within one year	16,630	15,089	-	-
In second year	16,630	15,089	-	-
In third year	16,629	15,090	-	-
	<b>49,889</b>	<b>45,268</b>	-	-

- (b) The Group's loan receivable of RMB90,000,000 (HK\$105,006,000) arose from factoring service provided in ordinary course of business to a company based in the PRC, which bears interest at a floating rate of three-year lending rate promulgated by the People's Bank of China plus 20% margin, due in June 2019 and is secured by a receivable.

The aged analysis of the factoring receivable as at 30 June 2016, based on the due date and net of impairment, is neither past due nor impaired.

- (c) The Group's trading terms with its customers from silver and oil and gas segments are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by the management.

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

	30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
Within one month	732	1,414
One to six months	-	2,325
	<b>732</b>	3,739



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

Notes: *(continued)*

(c) *(continued)*

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

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Neither past due nor impaired	<b>732</b>	1,414
Past due for less than three months	-	2,325
	<b>732</b>	3,739

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 11. Payments, Deposit And Other Receivables

Included in the other receivables of the Group as at 30 June 2016 is an aggregate amount of approximately HK\$188,406,000 (2015: Nil) arising from sales of nickel, of which HK\$155,562,000 (2015: Nil) are amounts due from two companies with a director which is also a director of the Company. The amounts due from these two companies are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers by the Group.

## 12. Trade Payables

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

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Less than six months	<b>3,419</b>	4,581
Six months to one year	<b>1,041</b>	625
More than one year	<b>84</b>	281
	<b>4,544</b>	5,487

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

### 13. Share Capital

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Issued and fully paid: 7,010,055,568 (2015: 4,010,055,568) ordinary shares	<b>2,703,301</b>	2,287,807

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

	Notes	<b>Number of ordinary shares in issue</b>	Share capital HK\$'000
At 1 January 2015		3,342,055,568	2,108,700
Issue of new shares	(a)	668,000,000	179,107
At 31 December 2015 and 1 January 2016		<b>4,010,055,568</b>	<b>2,287,807</b>
Issue of new shares	(b)	<b>3,000,000,000</b>	<b>415,494</b>
At 30 June 2016		<b>7,010,055,568</b>	<b>2,703,301</b>

Notes:

- (a) On 4 August 2015, the Company and a third party placing agent (the "2015 Placing Agent") entered into a placing agreement, whereby the Company has conditionally agreed to place (the "2015 Placing"), through the 2015 Placing Agent, on a best effort basis, of up to 668,000,000 placing shares to not less than six placees at the placing price of HK\$0.275 per placing share. On 24 August 2015, the 2015 Placing was completed and the Company's issued shares increased from 3,342,055,568 shares to 4,010,055,568 shares. The net proceeds from the 2015 Placing, after deducting relevant expenses incurred in relation to the 2015 Placing, of approximately HK\$179 million would be used to finance part of a possible investment project in relation to stone paper business.
- (b) On 6 November 2015 and 25 January 2016, the Company and a third party placing agent (the "2016 Placing Agent") entered into a placing agreement and a supplemental agreement, respectively, whereby the Company has conditionally agreed to place (the "2016 Placing"), through the 2016 Placing Agent, on a best effort basis, of up to 3,000,000,000 placing shares to not less than six placees at the placing price of HK\$0.139 per placing share. On 4 May 2016, the 2016 Placing was completed and the Company's issued shares increased by 3,000,000,000 ordinary shares from 4,010,055,568 shares to 7,010,055,568 shares. The net proceeds from the 2016 Placing, after deducting relevant expenses incurred in relation to the 2016 Placing, of approximately HK\$415,494,000 would be used to finance part of a possible investment project in relation to stone paper business and general working capital.

## 14. Disposal of Subsidiaries

Pursuant to the Disposal Agreements, it was agreed that:

- (i) The Company agreed to transfer its entire equity interests of Magic Field and its subsidiaries (the "Disposal Group"), and certain loans receivables of HK\$180 million (RMB145 million) from the Disposal Group (the "Sale Loans") to the Purchaser at the aggregate consideration of HK\$1 in cash;
- (ii) The Company would carry out a debt restructuring as part of the conditions precedent of the Disposal Agreements (the "Debt Restructuring"), pursuant to which Shanxi Hengchuang Industrial Co., Ltd had to waive a loan of HK\$75 million (RMB60 million) owed by a subsidiary of the Company, and the Purchaser agreed to and accepted the liabilities of the Company of HK\$200 million due to Molto Fortune Limited;
- (iii) The Disposal Group would undergo an equity interest restructuring (the "Equity Interest Restructuring") pursuant to which the Purchaser and Hengtai would complete the transfer of the 30% equity interest in Inner Mongolia Liaoyuan Coal Mining Company Limited ("Liaoyuan") to the Group at a consideration of HK\$1.9 million (RMB1.5 million) and charge the coal mining right owned by Liaoyuan to the Group within 10 years after the completion of the Disposal Agreements (the "Deadline");
- (iv) After the Equity Interest Restructuring, Hengtai would repurchase the Group's 30% equity interest in Liaoyuan at a consideration of HK\$125 million (RMB100 million) by the Deadline; and
- (v) If the Purchaser and Hengtai could not complete the Equity Interest Restructuring and the charge of Liaoyuan's coal mining rights by the Deadline, the Purchaser or Hengtai would pay a sum of HK\$125 million (RMB100 million) to the Company within 2 business days after the Deadline.

On 26 June 2015, all the conditions precedent of the Disposal Agreements had been fulfilled and the Disposal Group has been disposed of, although the Equity Interest Restructuring and the charge of Liaoyuan's coal mining right to the Group has not been completed as at that date and up to the date of this report.

## 14. Disposal of Subsidiaries *(continued)*

The assets and liabilities of the Disposal Group as at the date of disposal were as follows:

	Note	26 June 2015 HK\$'000
<hr/>		
Net assets disposed of:		
Property, plant and equipment		779,913
Prepaid land premiums		13,757
Mining rights		280,383
Investment in a joint venture		9,166
Prepayments and other receivables		168,670
Inventories		6,558
Trade receivables		10,119
Pledged deposits		3,567
Cash and cash equivalents		3,607
Trade payables		(12,320)
Other payables and accruals		(1,612,252)
Interest-bearing borrowings		(1,630,199)
Income tax payable		(224,811)
Non-controlling interests		100,022
		<hr/>
		(2,103,820)
Satisfied by cash consideration		-
<hr/>		
Excess of cash consideration over net assets disposed of		2,103,820
Reclassification of translation reserve to profit or loss on disposal of the Disposal Group		226,903
Gain on transfer of the Sale Loans and Debt Restructuring, and reversal of relevant interest expense accruals		116,303
Professional expenses on disposal of the Disposal Group		(1,247)
		<hr/>
Gain on disposal of the Disposal Group	8	2,445,779
<hr/>		

#### 14. Disposal of Subsidiaries *(continued)*

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

	26 June 2015 HK\$'000
Cash consideration	–
Cash and bank balances disposed of	(3,607)
Net outflow of cash and cash equivalents in respect of the disposal of the Disposal Group	(3,607)

#### 15. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2016 (31 December 2015: Nil).

#### 16. Operating Lease Commitments

The Group leases certain of its office premises and staff quarters under operating lease arrangements. Leases are negotiated for terms of one to three years. None of the leases includes contingent rentals.

At 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2016 HK\$'000 (unaudited)</b>	31 December 2015 HK\$'000 (audited)
Within one year	<b>4,397</b>	3,035
In the second to the fifth years, inclusive	<b>3,000</b>	88
	<b>7,397</b>	3,123

## 17. Capital Commitments

At 30 June 2016 and 31 December 2015, the Group had contracted capital commitments not provided for in the consolidated financial statements of HK\$1.9 million (note 14) in respect of acquisition of a 30% equity interest in Liaoyuan under the Disposal Agreements.

## 18. Related Party Disclosures

(a) Compensation of Key Management Personnel of the Group

	For the six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Short term employee benefits	3,035	4,081
Post-employment benefits	-	-
<b>Total compensation paid to key management personnel</b>	<b>3,035</b>	<b>4,081</b>

(b) Except for the transactions detailed elsewhere in these interim condensed financial statements, the Group did not have other significant related party disclosures during the period (Period ended 30 June 2015: Nil).

## 19. Event After the Reporting Period

Subsequent to the end of the reporting period, on 25 July 2016, a plaintiff commenced legal proceedings against a subsidiary of the Group demanding for the repayment of a loan due on 1 January 2016 with a principal amount of HK\$29,751,000 (RMB25,500,000) owed by the Group and accrued interest and penalty of approximately HK\$14,300,000 (RMB12,257,000). Up to the date of this report, no judgement has been made by the court yet. In the opinion of the directors of the Company, adequate provision of approximately HK\$21,861,000 (RMB18,737,000) has been made for the overdue interest and penalty in "Other payables and accruals" in the interim condensed consolidated financial statements.

## 20. Comparative amounts

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

## Interim Dividend

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2016 (Period ended 30 June 2015: Nil).

## Management Discussion and Analysis

### Business Review

The Group is principally engaged in exploring and drilling natural gas and oil in the United States of America ("USA"), mining of silver minerals and provision of asset financing service in the People's Republic of China ("PRC"). In the first half of 2016, in response to the continuous below-par price and demand of our products, the Group strategically deferred and reduced its mining and exploration activities in the PRC and the USA.

### *Energy Investments*

The Group is currently operating an upstream oil and gas exploration and production ("E&P") project in East Texas, the United States. Up to 30 June 2016, the Company has secured leases over 7,500 acres. According to a report issued by an independent technical expert, as of 1 January 2015, the aggregate of the total proved, probable, and possible ("3P") net reserves for natural gas amounted to approximately 67.95 billion cubic feet, the aggregate of the total 3P reserves of natural gas liquids amounted to approximately 1.80 million Bbls, and the aggregate of the total 3P reserves of oil amounted to approximately 776 thousand Bbls. There are two wells currently in production and up to 78 wells that can be further drilled when oil prices rebound.

### *Silver Mining*

The Group operates two quality silver mines namely the West Mine and the East Mine via its subsidiary, Fujian Leixin Mining Company Limited, in Fujian Province, the PRC. The West Mine has a valid mining permit with approved production capacity of 100,000 ton per annum ("tpa") and a processing plant with daily ore processing capacity of 300 tons per day is already in place. According to the JORC Standard, the indicated and inferred mineral resources of the West Mine are approximately 0.87 million tons ("Mt") and 1.71 Mt respectively and its probable reserve is approximately 0.82 Mt with ore grade of silver averaging 211.4 g/t. The East Mine is an advanced development project with a valid exploration permit. According to the JORC Standard, the indicated and inferred mineral resources of the East Mine are approximately 6.35 Mt and 1.73 Mt respectively and its probable reserve is approximately 5.95 Mt with ore grade of silver averaging 128.6 g/t. During the first half of the year, the Group strategically deferred the production plan at the West Mine given that the price of silver still maintained at relatively low level which was lower than the production cost, and is applying for the mining permit for the East Mine. Therefore the Group recorded decreases in both price and volume of sales of silver ores in order to minimise the loss arising from silver mining. Nevertheless, the Group is monitoring the trend of silver price from time to time and will resume its planned production scale of silver mining only when an uptrend of silver price has been formed.

## Management Discussion and Analysis *(continued)*

### Business Review *(continued)*

#### **Asset Financing**

To diversify the businesses of the Group, the Group carries out asset financing business through certain subsidiaries established in the PRC and provide finance leasing and business factoring services to various customers.

Qingrui Business Factoring Limited ("Qingrui"), a wholly-owned subsidiary of the Company, entered into the factoring agreement ("Factoring Agreement") with Xinjiang Dingxin Huayu Equity Investment Company Limited ("Xinjiang Dingxin"), an independent third party, on 6 June 2016, pursuant to which Qingrui has agreed to provide account receivable factoring service with revolving facilities in the principal sum of RMB90,000,000 (equivalent to approximately HK\$105,006,000) to Xinjiang Dingxin in accordance with the terms and conditions of the Factoring Agreement.

Subject to the terms of the Factoring Agreement, the financing term shall be for a fixed term of 3 years (i.e. from 6 June 2016 to 5 June 2019). Xinjiang Dingxin shall transfer the account receivable due by the debtor (who is an independent third party) in the principal outstanding amount of RMB96,504,748.75 (equivalent to approximately HK\$112.6 million) in favour of Qingrui such that the debtor shall repay to Qingrui all outstanding sum together with accrued interest due by it to Xinjiang Dingxin on the expiry of the said financing term.

The rate of interest applicable to the facilities shall be at a floating rate in accordance with the lending rate promulgated by the People's Bank of China with a 20% margin. The management fee of the factoring services shall be 1% per annum. All interest and management fee shall be paid in advance quarterly on the 20th day of every 3rd month.

#### **Future Outlook**

In May 2016, the Company completed placing of 3,000,000,000 new shares so that the financial position of the Group was further enhanced. The Company, equipped with adequate cash resources, is evaluating variety of new investment projects, one of which is the eco-friendly stone paper business. The Company is currently awaiting certain key technology test results to be provided from the business partner and formulating the business plan. Assuming the Company has satisfied with the evaluation of the stone paper business and all the key commercial terms can be agreed with the business partner, it is expected that a formal joint venture will be set up to conduct the stone paper business by the fourth quarter this year.

Looking ahead to the rest of 2016, the Company remains positive to the economic outlook and anticipates that rebound in both energy demand and precious metal price will happen in the near future. The Company will re-adjust its production and exploration plans to tackle the economic environment change, and optimize its asset returns.



## Management Discussion and Analysis *(continued)*

### Financial Review

#### ***Continuing Operations***

##### *Revenue, cost of sales and gross loss*

The Group recorded a total revenue of approximately HK\$6.3 million for the six months ended 30 June 2016 (the "Period") (six months ended 30 June 2015: HK\$18.3 million) representing a decrease of 65% compared with last comparable period.

Revenue from selling of silver ores for the Period was approximately HK\$2.6 million (six months ended 30 June 2015: HK\$9.3 million). Silver ores sales volume was approximately 202 tons (six months ended 30 June 2015: 572 tons) and the average selling prices of silver ores during the Period were approximately RMB10,763 per ton (six months ended 30 June 2015: RMB13,022 per ton).

For the oil and gas E&P, the Group, net to its ownership interests, has produced approximately 2,636 Bbl of oil, approximately 220.2 million cubic feet of natural gas, and approximately 7,604 Bbl of natural gas liquids (six months ended 30 June 2015: 4,271 Bbl of oil, approximately 341.7 million cubic feet of natural gas, and approximately 11,635 Bbl of natural gas liquids). The net average selling prices of oil, natural gas and natural gas liquids during the Period were US\$34.44 per Bbl (six months ended 30 June 2015: US\$52.73 per Bbl), US\$1.50 per million cubic feet (six months ended 30 June 2015: US\$2.18 per million cubic feet) and US\$10.51 per Bbl (six months ended 30 June 2015: US\$12.43 per Bbl) respectively, all of which in aggregate generated revenue of approximately HK\$3.7 million during the Period (six months ended 30 June 2015: HK\$8.6 million).

The Group also recorded revenue of approximately HK\$34,000 from provision of asset financing service during the Period (six months ended 30 June 2015: HK\$454,000).

Cost of inventories sold primarily consists of depreciation and amortisation, salaries and related labour cost for the production, taxes, supplies, utilities and other incidental expenses in relation to production. During the Period, cost of sales of silver production and oil and gas E&P was approximately HK\$4.8 million (six months ended 30 June 2015: HK\$15.5 million) and HK\$3.1 million (six months ended 30 June 2015: HK\$6.5 million) respectively.

The Group recorded a gross loss of approximately HK\$1.6 million during the Period (six months ended 30 June 2015: HK\$3.7 million). The silver mining business recorded a gross loss margin of 85% while the oil and gas E&P recorded a gross profit margin of 16%.

##### *Other income and gains*

Other income and gains were approximately HK\$8.1 million, which mainly represented net trading income from short-term sale of nickel of HK\$8 million (six months ended 30 June 2015: Nil) during the Period (six months ended 30 June 2015: HK\$16.3 million). The decrease was mainly attributable to one-off gain on disposal of available-for-sale equity investments of approximately HK\$13.6 million recorded in 2015.

## Management Discussion and Analysis *(continued)*

### Financial Review *(continued)*

#### **Continuing Operations** *(continued)*

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

Selling and distribution expenses and administrative expenses were approximately HK\$26,000 and HK\$34.9 million respectively during the Period as compared to approximately HK\$607,000 and HK\$39.2 million respectively for the same 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.

##### *Finance costs*

Finance costs were approximately HK\$21.5 million during the Period (six months ended 30 June 2015: HK\$18.0 million) which mainly represented interest and penalty expenses for borrowings raised for silver mining business.

##### *Income tax*

Income tax, which represented deferred taxation, was approximately HK\$1 million (six months ended 30 June 2015: tax credit of HK\$14.4 million) during the Period. No provision for profits tax in operation in Hong Kong, the PRC and the USA was made during the Period as the Group did not generate any assessable profits (six months ended 30 June 2015: Nil).

#### **Discontinued operation**

Following the disposal of coal mining business in June 2015, there was no revenue (six months ended 30 June 2015: HK\$7.3 million), the related production cost (six months ended 30 June 2015: HK\$32.8 million) and the gain on disposal from such business recognised for the Period. Taking into account of the gain on disposal of HK\$2,445.8 million, the net profit from a discontinued operation for the six months period ended 30 June 2015 was HK\$2,372.2 million.

#### **Fund raising exercises**

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

On 6 November 2015, the Company entered into placing agreement (the "Placing Agreement") pursuant to which the placing agent, which is an independent third party, agreed to place up to 2,500,000,000 placing shares at a price of HK\$0.168 each on a best effort basis. The Placing Agreement has been approved by the independent shareholders on 23 December 2015. However, given the stock market volatility afterwards, on 25 January 2016, the Company entered into the supplemental agreement to revise the terms of the Placing Agreement pursuant to which the placing agent agreed to place up to 3,000,000,000 placing shares at a price of HK\$0.139 each on a best effort basis. The net proceeds from the placing are approximately HK\$415.5 million (representing a net placing price of approximately HK\$0.138 per placing share) which will be used as to 75% for the capital contribution to the joint venture to be set up for the stone paper business and as to the remaining 25% for general working capital of the Group. The placing was completed on 4 May 2016.

## Management Discussion and Analysis *(continued)*

### Financial Review *(continued)*

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

The proceeds of approximately HK\$594.5 million from both the placing completed in August 2015 and the above placing will be applied for the stone paper business and general working capital as intended. Before the proceeds from both placing exercises are to be so applied (which depend on the terms of the joint venture agreement), such proceeds have been kept by the Company for its general working capital use.

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

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

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

As at 30 June 2016, the current ratio of the Group, measured as total current assets to total current liabilities, was 5.11:1 (31 December 2015: 3.16:1).

As at 30 June 2016, the cash and cash equivalents of the Group were approximately HK\$339.7 million (31 December 2015: HK\$203.3 million). During the Period, the Group recorded a net cash outflow from its operating activities of approximately HK\$324.1 million (six months ended 30 June 2015: HK\$46.7 million).

As at 30 June 2016, there was no outstanding interest-bearing bank loan (31 December 2015: Nil).

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 represented trade payables and other payables and accruals) in a ratio to the total assets, was 0.09 as at 30 June 2016 (31 December 2015: 0.12).

### Significant Investments, Material Acquisitions and Disposals

The Group had no significant investments in, nor any material acquisition and disposal of subsidiaries, associates and joint ventures during the Period.

## Management Discussion and Analysis *(continued)*

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

As at 30 June 2016, the Group had contracted capital commitments not provided for in the consolidated financial statements of HK\$1.9 million in respect of acquisition of a 30% equity interest in Inner Mongolia Liaoyuan Coal Mining Company Limited under the disposal agreements in relation to disposal of coal mining business in 2015 (31 December 2015: HK\$1.9 million).

As at 30 June 2016, time deposits which are restricted for use of approximately HK\$0.4 million (31 December 2015: HK\$0.4 million) were placed in a bank for conducting mining businesses as required by relevant government authorities. Save as disclosed above, the Group had no other assets pledged as at 30 June 2016 (31 December 2015: nil).

As at 30 June 2016, there was no material contingent liability of the Group (31 December 2015: nil).

### Human Resources and Share Option Scheme

As at 30 June 2016, the Group had 47 employees. The total staff costs (including directors' remuneration) for the Period were approximately HK\$17.4 million (six months ended 30 June 2015: HK\$24.4 million, including a discontinued operation of HK\$7.1 million). The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for employees' better personal development and growth. Pursuant to the Company's share option scheme, the Company may offer to any eligible participants including employees of the Group options to subscribe for shares in the Company. No share option was granted nor exercised during the Period. There were no outstanding share options as at 30 June 2016.

## Other Information

### Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2016, none of the Directors and the chief executive of the Company and their respective associates had or was deemed to have any interests in the long or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which (i) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests in the long or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company.

### Share Option Scheme

The Company operated a share option scheme which was effective from 30 May 2012 (the "Scheme"). The Scheme is operated for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. No share option was granted by the Company during the Period. There were no outstanding share options as at 30 June 2016.

No time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## Other Information *(continued)*

### Persons Who Have an Interest in Shares and Underlying Shares Discloseable Under Divisions 2 and 3 of Part XV of the SFO

So far as was known to the Directors and the chief executive of the Company, as at 30 June 2016, the following persons (not being Directors or chief executive of the Company of which interests were disclosed above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Total interests in shares/underlying shares	Approximate percentage of the Company's share capital
Belton Light Limited (note 1)	Beneficial owner	3,765,555,000 (L)	53.72%
Jade Bird Energy Fund II, L. P. (note 1)	Interest in controlled corporation	3,765,555,000 (L)	53.72%
Goldsino Investments Limited (note 2)	Beneficial owner	1,081,500,000 (L)	15.43%
Mr. Zhao Xu (note 2)	Interest in controlled corporation	1,081,500,000 (L)	15.43%

Remarks: (L): Long position

Notes:

1. Belton Light Limited, which is wholly-owned by Jade Bird Energy Fund II, L.P., holds 3,435,555,000 shares and 330,000,000 warrants entitling the holder thereof to subscribe for 330,000,000 shares at a subscription price of HK\$0.310 per share (subject to adjustment) payable in cash, within 24 months from the date of issue on 19 December 2014.
2. According to the information available to the Directors, Goldsino Investments Limited is wholly owned by Mr. Zhao Xu.

Save as disclosed above, as at 30 June 2016, the Directors and the chief executive of the Company were not aware of any other person who had, or was deemed to have, interests and/or short positions in the shares or underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO.

## Other Information *(continued)*

### Purchase, Redemption or Sale of Securities

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

### Corporate Governance Code

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

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

### Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for directors' securities transactions. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

### Review by Audit Committee

The 2016 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. Lu Binghui and Mr. Lee Ping. The audit committee was established for the purposes of reviewing and providing supervision over the Group's financial reporting process, internal control and risk management systems.

On behalf of the Board  
**King Stone Energy Group Limited**  
**Zong Hao**  
*Executive Director*

Hong Kong, 31 August 2016