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
2018

Corporate Information

Board of Directors

Executive Directors

Ms. Gloria Chang Wong *(Chaiman)*
Mr. Zong Hao *(Chief Executive Officer)*
Mr. Xu Zhuliang
Mr. Benjamin Clark Danielson
Ms. He Qing

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

Ms. Gloria Chang Wong *(Chairman)*
Mr. Chiu Sui Keung
Mr. Lu Binghui

Authorised Representatives

Mr. Zong Hao
Mr. Lee Tao Wai

Company Secretary

Mr. Lee Tao Wai

Auditor

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$1.9 million during the six months ended 30 June 2018 (six months ended 30 June 2017: HK$1 million).

Fujian Leixin Silver Mines

Fu'an Silver Mine (the West Mine)

Name	Fu'an City Leixin Mining Company Limited
Location	Fu'an City, Fujian
Licensed area	2.1442 km^2
Mining rights validity	2010–2020
Designed capacity	198,000 tons per annum

Zherong Silver Mine (the East Mine)

Name	Zherong County Leixin Mining Company Limited
Location	Zherong County, Fujian
Licensed area	4.97 km^2
Exploration rights validity	2017–2018*
Designed capacity	660,000 tons per annum

* The Group is in the process of renewing the exploration permit.

	The West Mine	The East Mine
As at 31 May 2018		
Probable ore reserves (million tons)	0.69	6.07
Ore grade (g/t Ag)	210.4	122.1
Actual output in the 6-month period ended 30 June 2018 (million tons)	–	–
	(–)	–
As at 30 June 2018		
Probable ore reserves (million tons)	0.69	6.07

Note: The above information are extracted from technical report issued by SRK Consulting China Limited dated 31 May 2018 after deduction of actual output up to 30 June 2018 based on Leixin's record.

Operating Mines *(continued)*

Craton Oil and Gas Fields

	Natural gas (million cubic feet)	**Natural gas liquid (NGL)** (thousand bbl)	**Oil** (thousand bbl)
As at 1 January 2015			
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
	67,950.52	1,789.74	776.15
Adjustments based on acreage held			
Proved reserves	(3,861.23)	(102.21)	(44.28)
Probable reserves	(11,709.23)	(309.96)	(134.28)
Possible reserves	(23,252.95)	(615.54)	(266.68)
	(38,823.41)	(1,027.71)	(445.24)
Proved reserves	13,125.66	347.46	147.39
Probable reserves	7,911.99	209.44	90.74
Possible reserves	8,089.46	214.13	92.78
	29,127.11	772.03	330.91
Actual output in 2015	(688.36)	(23.62)	(8.52)
Actual output in 2016	(389.71)	(14.08)	(4.49)
Actual output in 2017	(246.31)	(10.41)	(2.72)
Actual output in the 6-month ended 30 June 2018	(102.52)	(4.12)	(1.01)
	(1,426.90)	(52.23)	(16.74)
As at 30 June 2018			
Proved reserves	11,698.76	295.23	130.65
Probable reserves	7,911.99	209.44	90.74
Possible reserves	8,089.46	214.13	92.78
	27,700.21	718.80	314.17

Note: The above information are extracted from the reserve report issued by Cawley Gillespie & Associates Inc. on 3 March 2015 after adjustments based on acreage held and deduction of actual output up to 30 June 2018 based on Craton's record.

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 2018 with comparative figures for the corresponding period in 2017 are as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June **2018** **HK$'000** **(unaudited)**	 2017 HK$'000 (unaudited)
REVENUE	4(a)	**10,032**	9,685
Cost of sales		**(3,824)**	(3,520)
Gross profit		**6,208**	6,165
Other income and gains, net	5	**15,826**	13,007
Administrative expenses		**(33,916)**	(31,341)
Other expenses, net		**(5,960)**	–
Finance costs	6	**(27,731)**	(29,043)
Share of loss of an associate		**(419)**	(403)
Loss before tax	7	**(45,992)**	(41,615)
Income tax	8	**(267)**	(1,133)
Loss for the period		**(46,259)**	(42,748)

	Note	For the six months ended 30 June	
		2018	2017
		HK$'000	HK$'000
		(unaudited)	(unaudited)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(3,167)**	9,851
Share of movement in exchange fluctuation reserve of an associate		**(34)**	13
Changes in fair value of available-for-sale investments, net of income tax of nil		**–**	(2,655)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**(3,201)**	7,209
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Net gain on equity investments designated at fair value through other comprehensive income, net of income tax of nil		**1,261**	–
Other comprehensive income/(loss) for the period, net of income tax		**(1,940)**	7,209
Total comprehensive loss for the period		**(48,199)**	(35,539)
Loss for the period attributable to:			
Shareholders of the Company		**(31,684)**	(26,928)
Non-controlling interests		**(14,575)**	(15,820)
		(46,259)	(42,748)
Total comprehensive loss for the period attributable to:			
Shareholders of the Company		**(33,833)**	(22,264)
Non-controlling interests		**(14,366)**	(13,275)
		(48,199)	(35,539)
Loss per share attributable to shareholders of the Company			
Basic and diluted	9	**(HK$0.005)**	(HK$0.004)

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**42,015**	42,574
Prepaid land premiums		**844**	889
Intangible assets		**225,161**	227,784
Investment in an associate		**258**	265
Available-for-sale investments		**–**	7,181
Equity investments designated at fair value through other comprehensive income		**3,773**	–
Lease, factoring and trade receivables	10	**194,160**	174,617
Prepayments, deposits and other receivables	11	**104,475**	98,744
Total non-current assets		**570,686**	552,054
CURRENT ASSETS			
Inventories		**546**	1,203
Lease, factoring and trade receivables	10	**24,077**	20,826
Prepayments, deposits and other receivables	11	**66,929**	7,651
Restricted cash		**374**	379
Cash and cash equivalents		**264,233**	368,949
Total current assets		**356,159**	399,008
CURRENT LIABILITIES			
Trade payables	12	**1,132**	1,361
Other payables and accruals		**20,870**	19,572
Other loans		**201,583**	177,292
Income tax payables		**15,900**	17,050
Total current liabilities		**239,485**	215,275
NET CURRENT ASSETS		**116,674**	183,733

	Note	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**687,360**	735,787
NON-CURRENT LIABILITIES			
Other payables		**625**	580
Deferred tax liabilities		**23,630**	23,903
Total non-current liabilities		**24,255**	24,483
Net assets		**663,105**	711,304
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	13	**2,703,301**	2,703,301
Reserves		**(2,050,432)**	(2,016,599)
		652,869	686,702
Non-controlling interests		**10,236**	24,602
Total equity		**663,105**	711,304

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to shareholders of the Company						
	Share capital HK$'000 (unaudited)	Exchange fluctuation reserve HK$'000 (unaudited)	Equity investment revaluation reserve HK$'000 (unaudited)	Accumulated losses HK$'000 (unaudited)	Total HK$'000 (unaudited)	Non-controlling interests HK$'000 (unaudited)	Total equity HK$'000 (unaudited)
At 1 January 2018	2,703,301	(15,549)*	-*	(2,001,050)*	686,702	24,602	711,304
Loss for the period	-	-	-	(31,684)	(31,684)	(14,575)	(46,259)
Other comprehensive income/(loss) for the period:							
– Exchange differences on translation of foreign operations	-	(3,376)	-	-	(3,376)	209	(3,167)
– Share of movement in exchange fluctuation reserve of an associate	-	(34)	-	-	(34)	-	(34)
– Net gain on equity investments designated at fair value through other comprehensive income	-	-	1,261	-	1,261	-	1,261
Total comprehensive income/(loss) for the period	-	(3,410)	1,261	(31,684)	(33,833)	(14,366)	(48,199)
Transfer of fair value reserve of equity investments designated at fair value though other comprehensive income	-	-	(1,060)	1,060	-	-	-
At 30 June 2018	2,703,301	(18,959)*	201*	(2,031,674)*	652,869	10,236	663,105

* These reserve accounts comprise the consolidated negative reserves of HK$2,050,432,000 (31 December 2017: HK$2,016,599,000) in the condensed consolidated statement of financial position as at 30 June 2018.

For the six months ended 30 June 2017

	Attributable to shareholders of the Company						
	Share capital HK$'000 (unaudited)	Exchange fluctuation reserve HK$'000 (unaudited)	Available-for-sale investment revaluation reserve HK$'000 (unaudited)	Accumulated losses HK$'000 (unaudited)	Total HK$'000 (unaudited)	Non-controlling interests HK$'000 (unaudited)	Total equity HK$'000 (unaudited)
At 1 January 2017	2,703,301	(31,965)	1,035	(1,940,820)	731,551	66,936	798,487
Loss for the period	–	–	–	(26,928)	(26,928)	(15,820)	(42,748)
Other comprehensive income/(loss) for the period:							
– Exchange in differences on translation of foreign operations	–	7,306	–	–	7,306	2,545	9,851
– Share of movement in exchange fluctuation reserve of an associate	–	13	–	–	13	–	13
– Changes in fair value of available-for-sale investments	–	–	(2,655)	–	(2,655)	–	(2,655)
Total comprehensive income/(loss) for the period	–	7,319	(2,655)	(26,928)	(22,264)	(13,275)	(35,539)
At 30 June 2017	2,703,301	(24,646)	(1,620)	(1,967,748)	709,287	53,661	762,948

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cash Flows From Operating Activities		
Cash used in operations	**(97,140)**	(22,073)
Income tax paid	**(1,185)**	(514)
Net cash flows used in operating activities	**(98,325)**	(22,587)
Cash Flows From Investing Activities		
Interest received	**843**	148
Purchase of items of property, plant and equipment	**(1,872)**	(739)
Proceeds from disposal of items of property, plant and equipment	**–**	35
Proceeds from disposal of equity investments designated at fair value through other comprehensive income	**4,669**	–
Acquisition of and additions to intangible assets	**–**	(263)
Investment in an associate	**(400)**	(6,000)
Deposit paid for acquisition of an entity	**(5,758)**	–
Net cash flows used in investing activities	**(2,518)**	(6,819)
Net decrease in cash and cash equivalents	**(100,843)**	(29,406)
Cash and cash equivalents at beginning of period	**368,949**	301,665
Effect of foreign exchanges rates changes	**(3,873)**	4,106
Cash and cash equivalents at end of period	**264,233**	276,365

Notes to Unaudited Interim Condensed Consolidated 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 in the mainland ("Mainland China") of the People's Republic of China (the "PRC"); (ii) oil and gas extraction, production and sale in the United States of America (the "USA"); and (iii) the provision of asset financing and factoring services in Mainland China.

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 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

This unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). It is unaudited but has been reviewed by the Audit Committee of the Company.

The unaudited interim condensed consolidated financial statements does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

The accounting policies and basis of preparation adopted in the preparation of this unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, except for the adoption of the new and revised HKFRSs as disclosed in note 2.2 below.

The financial information relating to the year ended 31 December 2017 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 these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered its consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

2.1 Basis of Preparation *(continued)*

The Company's auditor has reported on the Company's consolidated financial statements for the year ended 31 December 2017. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2.2 Changes in accounting policies and disclosures

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and Amendments to HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on this unaudited interim condensed consolidated financial statements.

The nature and the impact of the changes are described below:

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9, therefore the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for 2018. The impacts relating to the classification and measurement and the impairment requirements are summarised as follows:

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

HKFRS 9 Financial Instruments *(continued)*

(i) Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss or amortised cost. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

– Debt instruments at amortised cost that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

– Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its quoted equity instruments as equity instruments at fair value through other comprehensive income. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's quoted equity instruments were classified as available-for-sale financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and applied to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

The adoption of HKFRS 9 has had no significant impact on the Group's unaudited interim condensed consolidated financial statements on classification and measurement of its financial assets.

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

HKFRS 9 Financial Instruments *(continued)*

(ii) Impairment

HKFRS 9 requires an impairment on trades receivables, deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses on its lease, factoring and trade receivables. The Group applied general approach and recorded twelve-month expected losses on its deposits and other receivables.

The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group's principal activities which are in the scope of HKFRS 15 consist of mining and sale of silver, oil and gas extraction, production and sale, and provision of asset financing services. After assessment, the accounting policy adopted under HKAS 18 for revenue recognition of sale of goods based on the time of transfer of the significant risks and rewards of ownership will still be an appropriate method under HKFRS 15. In respect of interest income and management fee income, the Group will continue to recognise revenue on accrual basis using the effective interest method and time proportion basis over the service period, respectively, under HKFRS 15. Accordingly, there is no significant impact on the Group's financial position and financial performance but result in more disclosures in the financial statements upon adoption of HKFRS 15.

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

3. Operating Segment Information

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

(a) the "Silver mining" segment engages in the mining and sale of silver in Mainland China;

(b) the "Oil and gas" segment engages in oil and gas exploration, production and sale in the USA; and

(c) the "Asset financing" segment engages in the provision of finance leasing and factoring services in Mainland China.

Management monitors the results of the Group's 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 an associate, foreign exchange differences, net, and corporate and other unallocated income/(expenses) are excluded from such measurement.

Segment assets exclude investment in an associate, equity investments designated at fair value through other comprehensive income, 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.

3. Operating Segment Information *(continued)*

	Silver mining		Oil and gas		Asset financing		Total	
	For the six months ended 30 June 2018 HK$'000 (unaudited)	For the six months ended 30 June 2017 HK$'000 (unaudited)	**For the six months ended 30 June 2018 HK$'000 (unaudited)**	For the six months ended 30 June 2017 HK$'000 (unaudited)	**For the six months ended 30 June 2018 HK$'000 (unaudited)**	For the six months ended 30 June 2017 HK$'000 (unaudited)	**For the six months ended 30 June 2018 HK$'000 (unaudited)**	For the six months ended 30 June 2017 HK$'000 (unaudited)
Segment revenue– Sales to external customers	**1,309**	–	**2,611**	3,521	**6,112**	6,164	**10,032**	9,685
Segment results	**(29,850)**	(31,557)	**10,674**	(4,493)	**(1,381)**	3,133	**(20,557)**	(32,917)
Reconciliation:								
Share of loss of an associate							**(419)**	(403)
Foreign exchange differences, net							**(5,960)**	9,074
Corporate and other unallocated expenses							**(19,056)**	(17,369)
Loss before tax							**(45,992)**	(41,615)
Income tax							**(267)**	(1,133)
Loss for the period							**(46,259)**	(42,748)

3. Operating Segment Information *(continued)*

	Silver mining		Oil and gas		Asset financing		Total	
	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)	**30 June 2018 HK$'000 (unaudited)**	31 December 2017 HK$'000 (audited)	**30 June 2018 HK$'000 (unaudited)**	31 December 2017 HK$'000 (audited)	**30 June 2018 HK$'000 (unaudited)**	31 December 2017 HK$'000 (audited)
Segment assets	**247,114**	250,098	**25,627**	26,567	**226,488**	197,614	**499,229**	474,279
Reconciliation:								
Investment in an associate							**258**	265
Available-for-sale investments							**–**	7,181
Equity instruments at fair value through other comprehensive income							**3,773**	–
Restricted cash							**374**	379
Cash and cash equivalents							**264.233**	368,949
Corporate and other unallocated assets							**158,978**	100,009
Total assets							**926,845**	951,062
Segment liabilities	**(205,328)**	(180,171)	**(3,174)**	(14,673)	**(5,164)**	(1,398)	**(213,666)**	(196,242)
Reconciliation:								
Corporate and other unallocated liabilities							**(50,074)**	(43,516)
Total liabilities							**(263,740)**	(239,758)

3. Operating Segment Information *(continued)*

	Silver mining		Oil and gas		Asset financing		Total	
	For the six months ended 30 June 2018 HK$'000 (unaudited)	For the six months ended 30 June 2017 HK$'000 (unaudited)	**For the six months ended 30 June 2018 HK$'000 (unaudited)**	For the six months ended 30 June 2017 HK$'000 (unaudited)	**For the six months ended 30 June 2018 HK$'000 (unaudited)**	For the six months ended 30 June 2017 HK$'000 (unaudited)	**For the six months ended 30 June 2018 HK$'000 (unaudited)**	For the six months ended 30 June 2017 HK$'000 (unaudited)
Other segment information:								
Depreciation:								
Segment assets	**500**	611	**1,082**	1,768	**5**	4	**1,587**	2,383
Unallocated assets							**84**	237
							1,671	2,620
Amortisation of prepaid land premiums	**33**	32	**–**	–	**–**	–	**33**	32
Amortisation of intangible assets	**–**	–	**53**	83	**–**	8	**53**	91
Gain on disposal of property, plant and equipment								
Segment assets	**–**	(29)	**–**	–	**–**	–	**–**	(29)
Unallocated assets							**(239)**	–
							(239)	(29)
Capital expenditure*	**1,570**	656	**292**	347	**10**	–	**1,872**	1,003

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Geographical information

Revenue from external customers

Revenue information of each reportable segment by location of customers is disclosed in note 4(a) to this interim condensed consolidated financial statements.

3. Operating Segment Information *(continued)*

Geographical information *(continued)*

Non-current assets

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Mainland China	**243,494**	245,986
USA	**24,784**	25,519
Others	**–**	7
	268,278	271,512

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 2018, the Group acquired additional property, plant and equipment in a total cost of HK$1,872,000 (Period ended 30 June 2017: HK$739,000) and disposed of equity investments at fair value through other comprehensive income with a then carrying amount of HK$3,609,000 (Period ended 30 June 2017: Nil).

Information about major customers

During the period, the Group had transactions with four (Period ended 30 June 2017: four) 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 as follows:

	For the six months ended 30 June	
	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Customer A from the silver mining segment	**1,309**	N/A*
Customer B from the oil and gas segment	**2,122**	3,018
Customer C from the asset financing segment	**3,643**	3,341
Customer D from the asset financing segment	**1,676**	1,818
Customer E from the asset financing segment	**N/A***	1,005

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

4. Revenue

Revenue represents (i) the net invoiced value of goods sold, after allowances for returns and trade discounts; and (ii) interest income and management fee income generated from asset financing service, net of value-added tax and government surcharges.

(a) Disaggregation of revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers:

For the six months ended 30 June 2018

Segment	Silver mining HK$'000 (Unaudited)	Oil and gas HK$'000 (Unaudited)	Asset financing HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Type of goods or services:				
Sales of goods	1,309	2,611	–	3,920
Interest income of asset financing service	–	–	5,313	5,313
Management fee income of asset financing service	–	–	799	799
Total revenue from contracts with customers	1,309	2,611	6,112	10,032
Geographical markets:				
Mainland China	1,309	–	6,112	7,421
USA	–	2,611	–	2,611
Total revenue from contracts with customers	1,309	2,611	6,112	10,032
Timing of revenue recognition:				
Goods transferred at a point in time	1,309	2,611	–	3,920
Services transferred over time	–	–	6,112	6,112
Total revenue from contracts with customers	1,309	2,611	6,112	10,032

4. Revenue *(continued)*

(a) Disaggregation of revenue *(continued)*

For the six months ended 30 June 2017

Segment	Silver mining HK$'000 (Unaudited)	Oil and gas HK$'000 (Unaudited)	Asset financing HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Type of goods or services:				
Sales of goods	–	3,521	–	3,521
Interest income of asset financing service	–	–	5,156	5,156
Management fee income of asset financing service	–	–	1,008	1,008
Total revenue from contracts with customers	–	3,521	6,164	9,685
Geographical markets:				
Mainland China	–	–	6,164	6,164
USA	–	3,521	–	3,521
Total revenue from contracts with customers	–	3,521	6,164	9,685
Timing of revenue recognition:				
Goods transferred at a point in time	–	3,521	–	3,521
Services transferred over time	–	–	6,164	6,164
Total revenue from contracts with customers	–	3,521	6,164	9,685

4. Revenue *(continued)*

(b) Contract balances

An analysis of contract balances as at the end of the reporting period is as follows:

	30 June 2018 HK$'000 (unaudited)	30 June 2017 HK$'000 (unaudited)
Lease, factoring and trade receivables (note 10)	**218,237**	195,443

None of the Group's revenue recognised during the period ended 30 June 2018 and 2017 related to performance obligations satisfied in previous period.

(c) Unsatisfied performance obligations

For the provision of finance leasing and factoring services, the Group recognises revenue according to the accounting policies as set out in note 2.2 above. The Group has elected the practical expedient for not to disclose the remaining performance obligation for these types of contracts.

Sale of goods were made in a short period of time and the performance obligation was satisfied in one year or less at the end of the reporting period.

5. Other Income and Gains, Net

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Other income		
Bank interest income	**143**	148
Other interest income	**700**	–
Trading income, net*	**227**	2,525
Write-off of other liabilities, net	**–**	1,231
Income from waiver of management fee#	**14,469**	–
Others	**48**	–
	15,587	3,904
Gains, net		
Gain on disposal of items of property, plant and equipment	**239**	29
Foreign exchange differences, net	**–**	9,074
	239	9,103
Other income and gain, net	**15,826**	13,007

* During the period , the Group entered into contracts to buy and sell a commodity with total purchase and sales amounts of HK$314,727,000 (Period ended 30 June 2017: HK$172,180,000) and HK$314,954,000 (Period ended 30 June 2017: HK$174,705,000), respectively.

At 30 June 2018, the Group did not hold similar contracts for the purchase and sale of the commodity (31 December 2017: Nil). Details of receivables arising from the trading of the commodity are set out in note 11(b) to the unaudited interim condensed consolidated financial statements.

During the period, the directors of Craton Alpha LLC, a subsidiary of the Company, have agreed and waived the management fee of HK$14,469,000 accrued to them since 2016.

6. Finance Costs

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest and other borrowing costs on overdue other loans	**4,209**	7,177
Penalty on overdue other loans	**23,522**	21,866
	27,731	29,043

7. Loss Before Tax

Loss before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of inventories sold	**3,824**	3,520
Depreciation	**1,671**	2,620
Amortisation of prepaid land premiums	**33**	32
Amortisation of intangible assets	**53**	91
Minimum lease payments under operating leases for buildings	**2,162**	2,392
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**11,668**	14,607
Pension scheme contributions (defined contribution scheme)	**301**	268
	11,969	14,875
Foreign exchange differences, net	**5,960**	(9,074)

8. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2018 as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 June 2017: 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	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current – Mainland China	**218**	1,077
Deferred – Mainland China	**49**	56
	267	1,133

9. Loss per Share Attributable to Shareholders of the Company

The calculation of basic loss per share amount is based on the unaudited loss for the period attributable to shareholders of the Company of HK$31,684,000 (Period ended 30 June 2017: HK$26,928,000), and the weighted average number of ordinary shares of 7,010,055,568 (Period ended 30 June 2017: 7,010,055,568) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2018 and 2017 for a dilution as the Group had no potential dilutive ordinary shares in issue during these periods.

10. Lease, Factoring and Trade Receivables

	Notes	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Gross lease receivable	(a)	**51,424**	34,226
Less: Unearned finance income		**(3,055)**	(1,360)
Net lease receivable	(a)	**48,369**	32,866
Factoring receivables	(b)	**167,827**	160,302
Management fee receivables of asset financing services	(c)	**1,536**	1,517
Trade receivables	(d)	**505**	758
Total lease, factoring and trade receivables		**218,237**	195,443
Portion classified as current assets		**(24,077)**	(20,826)
Non-current portion		**194,160**	174,617

Notes:

(a) The balance as at 30 June 2018 represented two (31 December 2017: one) lease receivables with an aggregate principal amount of RMB58,000,000 (31 December 2017: RMB38,000,000) provided by the Group in its ordinary course of business to the lessees in connection with finance lease arrangements of certain plant and equipment. The lease receivables bear interest at a floating rate of three-year lending rate promulgated by the People's Bank of China plus 20% margin and are repayable in 2 to 3 years. During the period, interest income of HK$794,000 (Period ended 30 June 2017: HK$981,000) was recognised in profit or loss in respect of the lease receivable.

At 30 June 2018, the Group's total future minimum lease receivables under the lease receivable and their present value were as follows:

	30 June 2018		31 December 2017	
	Gross investment in finance leases HK$'000 (unaudited)	Present value of minimum lease receivables HK$'000 (unaudited)	Gross investment in a finance lease HK$'000 (audited)	Present value of minimum lease receivables HK$'000 (audited)
Amounts receivable:				
Within one year	**21,231**	**19,321**	17,113	16,029
In the second year	**17,141**	**16,335**	17,113	16,837
In the third year	**13,052**	**12,713**	–	–
Total minimum lease receivables	**51,424**	**48,369**	34,226	32,866
Future interest income	**(3,055)**		(1,360)	
Total net lease receivables	**48,369**		32,866	

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

Notes: *(continued)*

(b) The Group's factoring receivables arose from three (31 December 2017: two) factoring services provided by the Group in the ordinary course of business of the Group. These factoring receivables bear interest at a floating rate of the three-year lending rate promulgated by the People's Bank of China plus 20% margin, due in 2019 to 2021 and each is secured by a receivable owed by a debtor to the customer. During the period, interest income of HK$4,519,000 (Period ended 30 June 2017: HK$4,177,000) in total was recognised in profit or loss in respect of these factoring receivables.

The factoring receivables as at 30 June 2018 and 31 December 2017 are neither past due nor impaired based on the due date.

(c) Management fee receivables arose from the provision of finance leasing and factoring services to the three related companies mentioned in notes (a) and (b) above. The management fee is charged at 1% per annum of the loan principal and management fee income of HK$799,000 (Period ended 30 June 2017: HK$1,008,000) in total was recognised in profit or loss during the period.

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

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Within one month	**562**	1,023
Over three months	**974**	494
	1,536	1,517

The management fee receivables were neither past due nor impaired and shall be settled at the end of the factoring contracts.

(d) The Group's trading terms with its customers from the 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.

The trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is aged within one month as at 30 June 2018 and 31 December 2017. These receivables were neither past due nor impaired and related to customers with no recent history of default.

11. Prepayments, Deposits And Other Receivables

	Notes	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Prepayments		**5,428**	6,167
Deposits		**620**	515
Deposit for acquisition of an entity	(a)	**101,765**	96,007
Other receivables		**3,724**	3,706
Receivable on commodity trading	(b)	**23,690**	–
Loan receivable	(c)	**36,177**	–
Total prepayments, deposit and other receivables		**171,404**	106,395
Portion classified as current assets		**(66,929)**	(7,651)
Non-current portion		**104,475**	98,744

Notes:

(a) The amount as at 30 June 2018 and 31 December 2017 represented a deposit paid to an independent third party for a potential acquisition of an entity, which is secured by shares of the target company and its subsidiary. Such deposit will be refunded, together with an interest of 3.0% per annum if the acquisition is not proceeded.

(b) Receivable on commodity trading as at 30 June 2018 arose from selling copper to an independent third party. The amount is unsecured, interest-free and repayable in 90 days after the relevant transaction.

(c) The amount as at 30 June 2018 represented a loan receivable of JPY500,000,000 advanced to an independent third party, which is a target company in respect of a potential acquisition of the Group. The amount is secured by shares of the target company and certain receivables, bears interest at the rate of 8% per annum and repayable in 6 months.

12. Trade Payables

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

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Less than six months	**822**	893
Six months to one year	**–**	–
More than one year	**310**	468
	1,132	1,361

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

13. Share Capital

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Issued and fully paid:		
7,010,055,568 ordinary shares	**2,703,301**	2,703,301

14. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2018 (31 December 2017: Nil).

15. Commitments

(a) Operating Lease Commitments

The Group leases certain of its office premises and a director's quarter under operating lease arrangements. Leases are negotiated for terms ranging from one to three years.

At 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Within one year	**2,118**	2,354
In the second to fifth years, inclusive	**275**	601
	2,393	2,955

(b) Capital Commitments

At 30 June 2018, in addition to the operating lease commitments detailed in note 14(a) above, the Group had a capital commitment of HK$1,777,000 (31 December 2017: HK$1,801,000) in respect of the acquisition of a 30% equity interest in Liaoyuan under a disposal agreement entered into with Jumbo Talent Group Limited ("Jumbo Talent", an independent third party) on 2 April 2015 and a supplemental agreement entered into with Jumbo Talent and Eerduosi Hengtai Coal Company Limited on 26 June 2015, which is contracted, but not provided for.

16. Related Party Disclosures

(a) Other than the balances and transactions detailed elsewhere in this interim condensed financial statements, the Group did not have other significant related party balances as at the end of the reporting period and related party transactions during the reporting period.

(b) Compensation of Key Management Personnel of the Group

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Short term employee benefits	**4,865**	4,181
Post-employment benefits	**–**	9
Total compensation paid to key management personnel	**4,865**	4,190

17. Comparative amounts

Certain comparative amounts have been reclassified to conform to the current period'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 2018 (the "Period") (six months ended 30 June 2017: 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 (the "US"), mining of silver minerals and provision of asset financing in the People's Republic of China (the "PRC").

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 US. 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 US. Each well normally has a production life of over 10 years.

The Group had entered into over 400 lease agreements (the "Lease Agreements") with mineral owners. Pursuant to the Lease Agreements, the Group is entitled to explore and produce oil and gas in a total area of about 1,900 acres at East Texas, the US (the "Mining Area"). Royalty fees are payable by the Group to the owners of the Mining Area based on total production from the Mining Area. The Lease Agreements contain provisions that the lease shall remain in force for a primary term, typically three years from the date of the Lease Agreement, and as long thereafter as oil and/or gas is being produced in economic quantities (i.e. value of sales exceed costs) or operations are being conducted at the relevant Mining Area. Such Lease Agreements are classified as "held by production".

At present, the Operating wells have been drilled within the Mining Area under Lease Agreements which covers an area of approximately 1,628.1 acres with lease expiration dates between 2015 and 2019. The remaining approximately 329.6 acres Mining Area are under Lease Agreements expiring after 2018. As the remaining approximately 329.6 acres of the Mining Area is of non-contiguous nature, it would be uneconomical for the Group to drill wells on them without first leasing additional acreage. Accordingly, the Group currently does not expect any production from these Mining Area. It is also the Group's commercial decision not to renew them. With the relatively low price level of oil and gas, it is more economical and in the interests of the Group to let the Lease Agreements expire upon the end of the lease term if there is no immediate concrete production plan in those acreages.

Business Review *(continued)*

Oil and gas exploration and production (continued)

Due to the drop in oil and gas prices in the past years, the Group did not consider it commercially viable to increase the production from the Mining Area by drilling additional wells. Notwithstanding this, the Group is entitled to drill additional wells at the Mining Area subject to obtaining the necessary drilling permit for that particular new well. The Group expects that six additional new wells can be drilled for production in the acreage where the Operating Wells are located. The cost to drill an additional well and build related infrastructures is estimated to be around US$4.5 to US$5.0 million (equivalent to approximately HK$35.1 to HK$39.0 million) and it takes about three months from the application of drilling permit, commencement of drilling to commencement of production.

Silver Mining

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

The West Mine

The overall production capacity of mining and processing at the West Mine is 100,000 tonnes per annum, or 300 tonnes per day. During the Period, the Group has conducted certain preliminary preparations for the resumption of production at the West Mine including but not limited to the maintenance and repairing of equipment and facility of mining system and ore processing plant, as well as associated tailing storage facility. The Group continues to perform mining system checking, training, overall examination, safety production assessment, and trial production at the West Mine.

It was originally scheduled that the ore mining at the West Mine would be resumed in August 2018. However, certain government bodies inspected the mines in Ningde City (including the West Mine) in middle August 2018 and requested the Group to repair and upgrade several safety production and environmental facilities before resuming production at the West Mine. It is expected that barring any unforeseen circumstances, the above works will be completed in 4th quarter this year and ore mining at the West Mine will be resumed by the end of this year. The Group is still discussing with the relevant government bodies about the above requirements and uses its best endeavour to resume production at the West Mine as soon as possible.

Business Review *(continued)*

Silver Mining *(continued)*

The East Mine

The East Mine is planned to have a designed production capacity of 330,000 tonnes per annum (i.e. approximately 1,000 tonnes per day) with an expected life of 19 years. The exploration license for the East Mine held by the Group covers an area of 4.97 square kilometers and was valid from October 2012 to April 2018. The Group has submitted an application to the relevant authorities for renewal of the exploration license in March 2018. It is expected that the renewal will be completed by the end of this year.

Meanwhile, the first-stage general exploration work on the mining area at the East Mine has been completed. The Company is in the process of preparing for the application of the mining license, such as commissioning a geologist report and preparation of other relevant documents. Under normal circumstances, the time for applying and obtaining a mining license is approximately 12 to 18 months. The Group intends to carry out infrastructure construction at the East Mine once the mining license is obtained. It is expected that infrastructure construction of the East Mine will begin by the end of 2019. It will take about two years to complete the construction period and trial production, and the mining production will begin in 2022.

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

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

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

The Group has been in discussions with the relevant bodies at Ningde Government in relation to the impact of the Project on the Group. The Group and the relevant governmental bodies have also discussed the possible compensation to the Group and agreed to engage an independent expert to perform an overall assessment of the impact of the Project on the Group. The Group has also enquired the governmental bodies about the proposed timetable of the Project, compensation benchmark and its related laws, regulations and policies. As at the date of this report, there are no material and official updates from the relevant governmental bodies. The Group continues to follow up with the relevant governmental bodies for the implementation of the Project including determination of the compensation proposal, and further announcement(s) will be made by the Company if there is any material update on the Project as and when appropriate.

Business Review *(continued)*

Asset Financing

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

(i) the relevant Asset Financing Subsidiary purchases assets specified by its client (being the lessee) and leases the assets to the client in return for leasing income which is determined based on the purchase price of the relevant assets plus interest. At the expiry of the lease term, the client shall have the right to acquire the assets at a nominal consideration;

(ii) the client sells its own assets to the relevant Asset Financing Subsidiary and leases back such assets from the relevant Asset Financing Subsidiary. Leasing income is earned for this sale and leaseback arrangement based on the purchase price of the relevant assets plus interest; and

(iii) the relevant Asset Financing Subsidiary provides factoring services to client which sells its receivable balances to the relevant Asset Financing Subsidiary. The relevant Asset Financing Subsidiary charges arrangement fee for the factoring services and interest on the receivable balances during the period from the factoring to the final settlement of the receivable balances by the debtors. In certain cases, the receivables are secured by assets of the debtors.

The Group has been conducting its asset financing business prudently in order to manage its exposures to credit risk. The Group is in discussions with a number of potential customers with a view to expanding the client base for the finance leasing and business factoring businesses and generating more recurring income for the Group. The target customers of the Group for this segment are mainly state-owned enterprises, listed companies, companies with AA credit rating, and sizeable and reputable private enterprises. The Group currently sources its customers by referrals from parties with which the Group has business relationship, bankers and/or the connection of the sales staff.

During the Period, the Asset Financing Subsidiaries entered into certain asset financing and factoring arrangements with an aggregate principal amount of RMB40 million (equivalent to approximately HK$46.4 million) on 28 May 2018 and 26 June 2018 respectively (please refer to the announcements of the Company dated 28 May 2018 and 26 June 2018 for further details).

Financial Review

Revenue and cost of sales

The Group recorded a total revenue of approximately HK$10 million for the Period (six months ended 30 June 2017: HK$9.7 million), representing an increase of 3% compared with last comparable period.

For the oil and gas E&P in the US, the Group, net to its ownership interests, has produced approximately 1,007.7 Bbl of oil, approximately 102.5 million cubic feet of natural gas, and approximately 4,121.6 Bbl of natural gas liquids (six months ended 30 June 2017: approximately 1,441 Bbl of oil, approximately 133.3 million cubic feet of natural gas, and approximately 5,574 Bbl of natural gas liquids). The net average selling prices of oil, natural gas and natural gas liquids during the Period were US$61.85 per Bbl (six months ended 30 June 2017: US$35.57 per Bbl), US$1.81 per million cubic feet (six months ended 30 June 2017: US$2.36 per million cubic feet) and US$20.76 per Bbl (six months ended 30 June 2017: US$16.34 per Bbl) respectively, all of which in aggregate generated revenue of approximately HK$2.6 million during the Period (six months ended 30 June 2017: HK$3.5 million). Cost of sales for oil and gas E&P was approximately HK$2.2 million during the Period (six months ended 30 June 2017: HK$3.1 million) which primarily consisted of depreciation and amortisation, related labour cost for the production, taxes, supplies, utilities and other incidental expenses. The US oil and gas E&P recorded a gross profit margin of 15% (six months ended 30 June 2017: 11%) during the Period.

For silver mining business, the Group sold silver concentrates from ore processing and generated revenue of approximately HK$1.3 million (six months ended 30 June 2017: nil). Silver ores sales volume was approximately 0.36 tons and the average selling price of silver ores was approximately RMB3.11 per gram. Related cost of sales was HK$1.6 million which mainly represented depreciation during the Period. The silver mining business recorded a gross loss margin of 24% during the Period.

The Group also recorded revenue of approximately HK$6.1 million from provision of asset financing service representing interest income and management fee income during the Period (six months ended 30 June 2017: HK$6.2 million).

Other income and gains

Other income and gains were approximately HK$15.8 million during the Period (six months ended 30 June 2017: HK$13 million), which mainly represented income from waiver of management fee of approximately HK$14.5 million (six months ended 30 June 2017: nil) and other interest income arising from a loan to KUE (as defined below) of HK$0.7 million (six months ended 30 June 2017: nil).

Administrative expenses

Administrative expenses were approximately HK$33.9 million during the Period as compared to approximately HK$31.3 million 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. There was no material fluctuation during the Period.

Financial Review *(continued)*

Finance costs

Finance costs were approximately HK$27.7 million during the Period (six months ended 30 June 2017: HK$29 million) which mainly represented interest and penalty expenses for borrowings raised for silver mining business.

Share of loss of an associate

Share of loss of an associate, namely TI Systems Limited which is principally engaged in development of e-payment system, of approximately HK$0.4 million (six months ended 30 June 2017: HK$0.4 million) was recognised in the income statement during the Period. As at 30 June 2018, the investment in associate was approximately HK$0.3 million (31 December 2017: HK$0.3 million).

Income tax

Income tax, which mainly represented tax on profits of the interest income from asset financing business, was approximately HK$0.3 million during the Period (six months ended 30 June 2017: HK$1.1 million).

Fund raising exercises

The Company has no equity fund raising activity during the Period.

Update on use of proceeds

As stated in the previous announcements of the Company, the Board resolved to re-allocate the net proceeds of approximately HK$299 million from the two placing exercises completed by the Company in 2015 and 2016 from stone paper business to possible mergers and acquisition of mineral resources company and assets. Deposit of approximately HK$101.8 million was paid as earnest money for the possible acquisition of lead and zinc mines in the PRC and approximately HK$36.2 million was paid under a loan agreement in relation to possible acquisition of solar energy project in Japan as detailed in section headed "Significant investments, material acquisitions and disposal". Taking into account of the latest development of the Group and potential investment opportunities, the remaining net proceeds in aggregate of HK$161 million will be applied for (i) possible capital injection of a joint venture company of RMB39 million (equivalent to approximately HK$45.2 million) as detailed in section headed "Future Outlook" by the end of this year; (ii) other potential mergers and acquisition of approximately HK$50 million if opportunities arise in future; and (iii) general working capital of approximately HK$65.8 million including but not limited to payment of operating expenses of the Group and development of the existing businesses of the Group by the end of 2019.

Details of the above were disclosed in the announcements of the Company dated 6 November 2015, 25 January 2016, 29 July 2016, 8 October 2016 and 4 December 2017 and the circulars of the Company dated 7 December 2015 and 3 March 2016.

Financial Review *(continued)*

Liquidity and Financial Review

The Group mainly financed its day to day operations by internally generated cash flow during the Period.

As at 30 June 2018, the current ratio of the Group, measured as total current assets to total current liabilities, was 1.49:1 (31 December 2017: 1.85:1).

As at 30 June 2018, the cash and cash equivalents of the Group were approximately HK$264.2 million (31 December 2017: HK$368.9 million). During the Period, the Group recorded a net cash outflow from its operating activities of approximately HK$98.3 million (six months ended 30 June 2017: HK$22.6 million).

As at 30 June 2018, there was no outstanding interest-bearing bank loan (31 December 2017: Nil).

As at 30 June 2018, there were other loans of approximately HK$201.6 million (31 December 2017: HK$177.3 million) comprising loan principal of approximately HK$47.3 million (31 December 2017: HK$48 million) and overdue interest/penalty of approximately HK$154.3 million (31 December 2017: HK$129.3 million). All other loans were denominated in Renminbi. Other loans of approximately HK$34.9 million (31 December 2017: HK$35.4 million) were interest-free and subject to overdue penalties ranging from 0.05% to 0.5% per day and HK$12.4 million (31 December 2017: HK$12.6 million) bore a fixed interest rate of 15% per annum subject to an overdue penalty of 1% on the overdue balances. As at 30 June 2018, all other loans (31 December 2017: all) were overdue.

There were certain legal proceedings which have been instituted against the Group in respect of other loans (which were included in "other loans" in the consolidated statement of financial position of the Group as at 30 June 2018) 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$11.2 million) issued in August 2017, the Group was held liable to pay a sum of approximately RMB10.4 million (equivalent to approximately HK$12.3 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$12.4 million). The Group has applied to stay the execution order and is considering for an appeal or retrial. The execution order is not yet implemented and there has been no material update as at the date of this report.

(ii) Pursuant to the judgment of the second instance in respect of a claim for outstanding loan with principal amount of RMB5 million (equivalent to approximately HK$5.9 million) and respective accrued interest issued in November 2017, the Group was held not to be liable to pay the claims made by the creditor. There has been no material update up to date of this report.

Financial Review *(continued)*

Liquidity and Financial Review *(continued)*

(iii) 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$6.5 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 report.

Adequate accrued interest and penalties have been provided by the Group as at 30 June 2018. 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 and other loans) as a percentage to the total equity attributable to shareholders of the Company, was 0.34 as at 30 June 2018 (31 December 2017: 0.29).

Significant Investments, Material Acquisitions and Disposals

Proposed acquisition of lead and zinc mines in the PRC

On 4 December 2017, the Company entered into a non-legally binding memorandum of understanding (as supplemented on 29 June 2018) in respect of the proposed acquisition of the entire issued share capital of South Ray Investment Limited which indirectly owns one mining permit and three exploration permits in Inner Mongolia, the PRC. The Group shall pay the earnest money in the sum of RMB70 million (equivalent to approximately HK$84 million) to the vendor and up to RMB30 million (equivalent to approximately HK$36 million) for meeting the operating expenses and/or capital expenditure of the target group subject to prior approval by the Company, which shall both be fully refundable together with interest calculated at 3% per annum if the said proposed acquisition does not proceed on or before 31 December 2018. Earnest money of approximately HK$101.8 million were paid and no formal agreement in respect of proposed acquisition was made up to date of this report. Details of the above were set out in the announcements of the Company dated 4 December 2017 and 29 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Significant Investments, Material Acquisitions and Disposals *(continued)*

Proposed acquisition of solar energy business in Japan

On 29 December 2017, the Company entered into a non-legally binding memorandum of understanding with Kumi Umi Energy Co. Ltd. ("KUE") and the shareholders of KUE in relation to the proposed subscription of 98,000 new shares of KUE with cash consideration of JPY980,000,000 (equivalent to approximately HK$67.9 million) by the Company. KUE is principally engaged in development, operation and management of middle-scale solar energy projects in Japan and currently has capacity of over 79MW under development.

On 14 February 2018, the Company has advanced a loan of JPY500 million (equivalent to approximately HK$36.2 million) with interest of 8% per annum for a term of three months to KUE for funding development cost of solar photovoltaic plants and working capital. On 18 May 2018, the loan has been extended for a further term of six months.

No formal agreement in respect of the proposed subscription was made up to the date of this report. Details of the above were set out in the announcements of the Company dated 29 December 2017 and 18 May 2018.

Save for the above and certain finance lease and factoring agreements as mentioned above, the Group had no significant investments in, nor any material acquisition and disposal of subsidiaries, associates and joint ventures during the Period.

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 30 June 2018, 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 2017: HK$1.8 million) in respect of acquisition of a 30% equity interest in a former subsidiary of the Company.

As at 30 June 2018, time deposits which are restricted for use of approximately HK$0.4 million (31 December 2017: 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 2018 (31 December 2017: nil).

As at 30 June 2018, there was no material contingent liability of the Group (31 December 2017: nil).

Human Resources and Share Option Scheme

As at 30 June 2018, the Group had 41 (31 December 2017: 51) employees. The total staff costs (including directors' remuneration) for the Period were approximately HK$12 million (six months ended 30 June 2017: HK$14.9 million). The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for employees' better personal development and growth. Pursuant to the Company's share option scheme, the Company may offer to any eligible participants including employees of the Group options to subscribe for shares in the Company. No share option was granted nor exercised during the Period. There were no outstanding share options as at 30 June 2018.

Future Outlook

Looking ahead into the second half this year, the Group remains cautious but positive with the outlook of commodity and oil and gas markets. It is expected that the production from ore mining and processing at the West Mine would be resumed by the end of this year. The Group is also monitoring the commodity market environment closely, in particular the expected market price of natural gas, and formulating an appropriate strategy and timetable to expand the production by drilling additional wells when necessary.

For assets financing business, the Group is negotiating with banks to obtain additional banking facilities and bank loans to enhance the financial capabilities of the Group in expanding the asset financing business, together with plans of expansion of manpower. With additional manpower and financial resources, the Group can undertake more active marketing such as making cold call visits to potential customers and participating in industry events to promote its services.

Currently, the Group is also in progress of entering into a joint venture agreement with several independent third parties, pursuant to which all parties agreed to jointly establish a joint venture company with a registered capital of RMB200 million (equivalent to approximately HK$232 million) in the PRC for the purpose of investment in fund in relation to investment in deep sea fish farming industry in Hainan Province, the PRC. The Group will contribute RMB39 million (equivalent to approximately HK$45.2 million) in cash representing 19.5% of the entire equity interest in the joint venture company which is expected to established in 4th quarter this year.

Other than the above proposed new investment, the Group is still exploring other investment projects including lead and zinc mines in Inner Mongolia, the PRC, solar energy projects in Japan, certain oil and gas investment projects in North America and other potential business opportunities to diversify the Group's business and broaden its revenue base. Further announcements will be made when any of the above investment opportunities materializes.

Other Information

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

As at 30 June 2018, 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 2018.

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.

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 2018, the following persons (not being Directors or chief executive of the Company) 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	3,575,318,000 (L)	51.00%
Jade Bird Energy Fund II, L. P. (note 1)	Interest in controlled corporation	3,575,318,000 (L)	51.00%
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 is wholly-owned by Jade Bird Energy Fund II, L.P.

2. Goldsino Investments Limited is wholly owned by Mr. Zhao Xu.

Save as disclosed above, as at 30 June 2018, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and chief executive of the Company) 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 2018 interim financial statements is unaudited, but has 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, 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
Zong Hao
Executive Director

Hong Kong, 27 August 2018