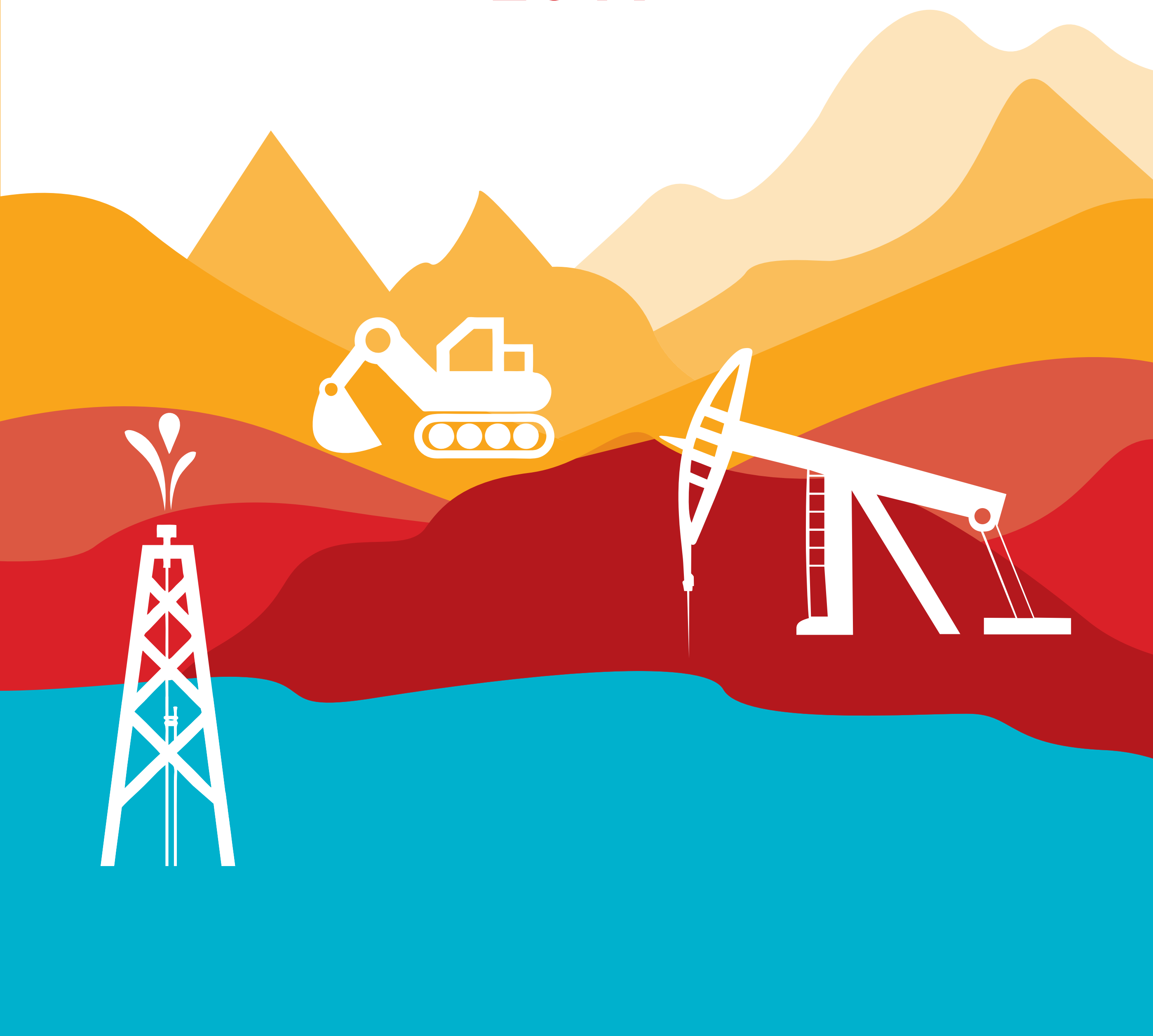
金山能源集團有限公司
KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00663)

INTERIM REPORT 2019



Corporate Information

Board of Directors

Executive Directors

Ms. Gloria Chang Wong *(Chairman)*
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

6th Floor, Bank of China Building
2A Des Voeux Road Central,
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$0.2 million for the six months ended 30 June 2019 (the "Period") (six months ended 30 June 2018: HK$1.9 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 2018	–	–
Actual output during the Period (million tons)	–	–
	–	–
As at 30 June 2019		
Probable ore reserves (million tons)	0.69	6.07

Note: The above information are extracted from the technical report issued by SRK Consulting China Limited dated 31 May 2018 after deduction of actual output up to 30 June 2019 (if any) 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	(3,901.95)	(103.29)	(44.75)
Probable reserves	(11,749.87)	(311.03)	(134.75)
Possible reserves	(23,427.88)	(620.17)	(268.68)
	(39,079.70)	(1,034.49)	(448.18)
Proved reserves	13,084.94	346.38	146.92
Probable reserves	7,871.35	208.37	90.27
Possible reserves	7,914.53	209.50	90.78
	28,870.82	764.25	327.97
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 2018	(186.17)	(7.93)	(2.00)
Actual output during the Period	(62.00)	(2.86)	(1.00)
	(1,572.55)	(58.90)	(18.73)
As at 30 June 2019			
Proved reserves	11,512.39	287.48	128.19
Probable reserves	7,871.35	208.37	90.27
Possible reserves	7,914.53	209.50	90.78
	27,298.27	705.35	309.24

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 2019 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 Period with comparative figures for the corresponding period in 2018 are as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
REVENUE	4	**15,073**	10,032
Cost of sales		**(9,537)**	(3,824)
Gross profit		**5,536**	6,208
Other income and gain, net	5	**2,933**	15,826
Selling and distribution expenses		**(44)**	–
Administrative expenses		**(23,917)**	(33,916)
Other expenses, net		**32,608**	(5,960)
Finance costs	6	**(25,613)**	(27,731)
Share of losses of associates		**(1,016)**	(419)
Loss before tax	7	**(9,513)**	(45,992)
Income tax	8	**(280)**	(267)
Loss for the period		**(9,793)**	(46,259)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,101**	(3,167)
Share of movements in exchange fluctuation reserves of associates		**(24)**	(34)

	Note	Six months ended 30 June **2019** **HK$'000** **(unaudited)**	 2018 HK$'000 (unaudited)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**1,077**	(3,201)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods – Fair value gain/(loss) of equity investments at fair value through other comprehensive income, net of income tax of nil		**(372)**	1,261
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX		**705**	(1,940)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(9,088)**	(48,199)
Profit/(loss) for the period attributable to:			
Shareholders of the Company		**4,730**	(31,684)
Non-controlling interests		**(14,523)**	(14,575)
		(9,793)	(46,259)
Total comprehensive income/(loss) for the period attributable to:			
Shareholders of the Company		**4,739**	(33,833)
Non-controlling interests		**(13,827)**	(14,366)
		(9,088)	(48,199)
Earnings/(loss) per share attributable to shareholders of the Company			
Basic and diluted	9	**HK$0.001**	(HK$0.005)

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**28,321**	30,706
Right-of-use assets		**1,548**	–
Prepaid land premiums		**–**	779
Goodwill		**–**	–
Intangible assets		**142,197**	142,223
Investments in associates		**50,938**	51,954
Equity investments at fair value through other comprehensive income		**1,580**	1,952
Lease, factoring and trade receivables	10	**12,210**	16,068
Prepayments, deposits and other receivables	11	**104,449**	97,863
Total non-current assets		**341,243**	341,545
CURRENT ASSETS			
Inventories		**154**	154
Lease, factoring and trade receivables	10	**191,122**	177,320
Prepayments, deposits and other receivables	11	**6,666**	46,836
Restricted cash		**2,162**	360
Cash and cash equivalents		**219,881**	188,435
Total current assets		**419,985**	413,105
CURRENT LIABILITIES			
Trade payables	12	**794**	525
Other payables and accruals		**13,909**	22,479
Other loans		**244,958**	219,864
Income tax payables		**15,602**	16,824
Total current liabilities		**275,263**	259,692
NET CURRENT ASSETS		**144,722**	153,413

	Note	30 June 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**485,965**	494,958
NON-CURRENT LIABILITIES			
Other payables		**706**	666
Deferred tax liabilities		**2,361**	2,306
Total non-current liabilities		**3,067**	2,972
Net assets		**482,898**	491,986
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	13	**2,703,301**	2,703,301
Reserves		**(2,166,966)**	(2,171,705)
		536,335	531,596
Non-controlling interests		**(53,437)**	(39,610)
Total equity		**482,898**	491,986

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to shareholders of the Company						
	Share capital HK$'000 (unaudited)	Equity investment revaluation reserve HK$'000 (unaudited)	Exchange fluctuation 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 2019	2,703,301	(1,620)	(26,787)	(2,143,298)	531,596	(39,610)	491,986
Profit/(loss) for the period	-	-	-	4,730	4,730	(14,523)	(9,793)
Other comprehensive income/(loss) for the period:							
– Exchange differences on translation of foreign operations	-	-	405	-	405	696	1,101
– Share of movements in exchange fluctuation reserves of associates	-	-	(24)	-	(24)	-	(24)
– Fair value loss of equity investments at fair value through other comprehensive income	-	(372)	-	-	(372)	-	(372)
Total comprehensive income/(loss) for the period	-	(372)	381	4,730	4,739	(13,827)	(9,088)
At 30 June 2019	2,703,301	(1,992)*	(26,406)*	(2,138,568)*	536,335	(53,437)	482,898

* These reserve accounts comprise the consolidated negative reserves of HK$2,166,966,000 (31 December 2018: HK$2,171,705,000) in the condensed consolidated statement of financial position as at 30 June 2019.

For the six months ended 30 June 2018

	Attributable to shareholders of the Company						
	Share capital HK$'000 (unaudited)	Equity investment revaluation reserve HK$'000 (unaudited)	Exchange fluctuation 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)
– Fair value gain of equity investments at fair value through other comprehensive income	–	1,261	–	–	1,261	–	1,261
Total comprehensive income/(loss) for the period	–	1,261	(3,410)	(31,684)	(33,833)	(14,366)	(48,199)
Transfer of equity investment revaluation reserve upon disposal of equity investments at fair value through other comprehensive income	–	(1,060)	–	1,060	–	–	–
At 30 June 2018	2,703,301	201	(18,959)	(2,031,674)	652,869	10,236	663,105

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cash Flows From Operating Activities		
Cash flows generated from/(used in) operations	**31,028**	(97,140)
Income tax paid	**(1,457)**	(1,185)
Net cash flows from/(used in) used in operating activities	**29,571**	(98,325)
Cash Flows From Investing Activities		
Interest received	**2,722**	843
Purchases of items of property, plant and equipment	**(151)**	(1,872)
Proceeds from disposal of items of property, plant and equipment	**555**	–
Proceeds from disposal of equity investments at fair value through other comprehensive income	**–**	4,669
Additions to intangible assets	**(90)**	–
Investment in an associate	**–**	(400)
Deposit paid for acquisition of an entity	**(569)**	(5,758)
Net cash flows from/(used in) investing activities	**2,467**	(2,518)
Net increase/(decrease) in cash and cash equivalents	**32,038**	(100,843)
Cash and cash equivalents at beginning of period	**188,435**	368,949
Effect of foreign exchanges rates changes	**(592)**	(3,873)
Cash and cash equivalents at end of period	**219,881**	264,233

Notes to Unaudited Interim Condensed Consolidated Financial Information

1. Corporate Information

King Stone Energy Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and 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 6th Floor, Bank of China Building, 2A Des Voeax Road Central, Central, Hong Kong.

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in (i) the mining and sale of silver in the mainland ("Mainland China") of the People's Republic of China (the "PRC"); (ii) the oil and gas extraction, production and sale in the United States of America (the "USA"); (iii) the provision of asset financing services in the PRC; and (iv) the trading of liquefied natural gas ("LNG") in the PRC.

The immediate holding company of the Company is Belton Light Limited, which is incorporated in the British Virgin Islands, and, in the opinion of the directors, 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 information of the Group for the six months ended 30 June 2019 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It is unaudited but has been reviewed by the Audit Committee of the Company.

The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2018, 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 HKICPA, 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 2018 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 consolidated financial statements. Further information relating to these statutory consolidated financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered its consolidated financial statements for the year ended 31 December 2018 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 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following new and revised HKFRSs effective as of 1 January 2019:

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019, Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of accumulated losses at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

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

(a) *(continued)*

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, buildings and vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on the straight-line basis over the lease term.

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

(a) *(continued)*

As a lessee – Leases previously classified as operating leases *(continued)*

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and presented separately in the condensed consolidated statement of financial position as at 30 June 2019.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the condensed consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the condensed consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	HK$'000 (Unaudited)
Assets	
Increase in right-of-use assets	1,879
Decrease in prepaid land premiums	(779)
Decrease in prepayments, deposits and other receivables	(1,100)
Increase in total assets	–

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

(a) *(continued)*

As a lessee – Leases previously classified as operating leases *(continued)*

The Group's operating lease commitments as at 31 December 2018, which amounted to HK$2,023,000 as disclosed in the Company's consolidated financial statements for the year ended 31 December 2018, related to either short-term leases or those leases with a remaining lease term ending on or before 31 December 2019. Accordingly, no additional right-of-use assets and lease liabilities were recognised as at 1 January 2019 in respect of these operating lease arrangements.

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon the adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on the straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed lease payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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

(a) *(continued)*

Summary of new accounting policies *(continued)*

Lease liabilities *(continued)*

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and the movements during the period are as follows:

	Land HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2019	779	1,100	1,879
Depreciation charge	(32)	(300)	(332)
Exchange realignment	1	–	1
At 30 June 2019	748	800	1,548

The Group recognised rental expenses of HK$1,286,000 on short term leases for the period.

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

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The Group adopted the interpretation from 1 January 2019 retrospectively. The interpretation did not have significant impact on the Group's condensed consolidated interim financial information.

3. Operating Segment Information

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

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

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

(c) the "Asset financing" segment engages in the provision of finance leasing and factoring services in the PRC; and

(d) the "LNG" segment engages in the trading of LNG in the PRC.

3. Operating Segment Information *(continued)*

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 losses of associates, foreign exchange differences and corporate and other unallocated income/expenses are excluded from such measurement.

Segment assets exclude investments in associates, equity investments 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.

	Silver mining		Oil and gas		Asset financing		LNG		Total	
	Six months ended 30 June 2019 HK$'000 (unaudited)	Six months ended 30 June 2018 HK$'000 (unaudited)	**Six months ended 30 June 2019 HK$'000 (unaudited)**	Six months ended 30 June 2018 HK$'000 (unaudited)	**Six months ended 30 June 2019 HK$'000 (unaudited)**	Six months ended 30 June 2018 HK$'000 (unaudited)	**Six months ended 30 June 2019 HK$'000 (unaudited)**	Six months ended 30 June 2018 HK$'000 (unaudited)	**Six months ended 30 June 2019 HK$'000 (unaudited)**	Six months ended 30 June 2018 HK$'000 (unaudited)
Segment revenue– Sales to external customers (note 4)	**–**	1,309	**1,876**	2,611	**6,140**	6,112	**7,057**	–	**15,073**	10,032
Segment results	**(27,710)**	(29,850)	**(1,045)**	10,674	**2,261**	(1,381)	**(1,022)**	–	**(27,516)**	(20,557)
Reconciliation:										
Share of losses of associates									**(1,016)**	(419)
Foreign exchange differences, net									**(2,755)**	(5,960)
Corporate and other unallocated expenses, net									**21,774**	(19,056)
Loss before tax									**(9,513)**	(45,992)
Income tax									**(280)**	(267)
Loss for the period									**(9,793)**	(46,259)

3. Operating Segment Information *(continued)*

	Silver mining		Oil and gas		Asset financing		LNG		Total	
	30 June 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)	**30 June 2019 HK$'000 (unaudited)**	31 December 2018 HK$'000 (audited)	**30 June 2019 HK$'000 (unaudited)**	31 December 2018 HK$'000 (audited)	**30 June 2019 HK$'000 (unaudited)**	31 December 2018 HK$'000 (audited)	**30 June 2019 HK$'000 (unaudited)**	31 December 2018 HK$'000 (audited)
Segment assets	**152,799**	154,952	**19,775**	20,392	**211,784**	201,349	**1,784**	3,911	**386,142**	380,604
Reconciliation:										
Investments in associates									**50,938**	51,954
Equity investments at fair value through other comprehensive income									**1,580**	1,952
Restricted cash									**2,162**	360
Cash and cash equivalents									**219,881**	188,435
Corporate and other unallocated assets									**100,525**	131,345
Total assets									**761,228**	754,650
Segment liabilities	**248,190**	222,851	**3,022**	2,914	**3,481**	3,775	**171**	799	**254,864**	230,339
Reconciliation:										
Corporate and other unallocated liabilities									**23,466**	32,325
Total liabilities									**278,330**	262,664

	Silver mining		Oil and gas		Asset financing		LNG		Total	
	Six months ended 30 June 2019 HK$'000 (unaudited)	Six months ended 30 June 2018 HK$'000 (unaudited)	**Six months ended 30 June 2019 *HK$'000* (unaudited)**	Six months ended 30 June 2018 *HK$'000* (unaudited)	**Six months ended 30 June 2019 *HK$'000* (unaudited)**	Six months ended 30 June 2018 *HK$'000* (unaudited)	**Six months ended 30 June 2019 *HK$'000* (unaudited)**	Six months ended 30 June 2018 *HK$'000* (unaudited)	**Six months ended 30 June 2019 *HK$'000* (unaudited)**	Six months ended 30 June 2018 *HK$'000* (unaudited)
Other segment information:										
Share of losses of associates:										
Unallocated assets									**1,016**	419
Depreciation of items of property, plant and equipment:										
Segment assets	**429**	500	**731**	1,082	**10**	5	**423**	–	**1,593**	1,587
Unallocated assets									**329**	84
									1,922	1,671
Depreciation of right-of-use assets:										
Segment assets	**32**	–	**–**	–	**–**	–	**–**	–	**32**	–
Unallocated assets									**300**	–
									332	–
Amortisation of prepaid land premiums	**–**	33	**–**	–	**–**	–	**–**	–	**–**	33
Amortisation of intangible assets	**–**	–	**35**	53	**–**	–	**–**	–	**35**	53
Loss/(gain) on disposal of property, plant and equipment	**(2)**	–	**–**	–	**–**	–	**67**	–	**65**	–
Capital expenditure*	**117**	1,570	**124**	292	**–**	10	**–**	–	**241**	1,872

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

3. Operating Segment Information *(continued)*

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Mainland China	**13,197**	7,421
USA	**1,876**	2,611
	15,073	10,032

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June 2019	31 December 2018
	HK$'000	HK$'000
	(unaudited)	(audited)
Mainland China	**195,852**	198,620
USA	**18,749**	19,436
Others	**8,403**	7,606
	223,004	225,662

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

3. Operating Segment Information *(continued)*

Information about major customers

The revenue generated from sales to each of the customers which individually contributed more than 10% of the Group's total revenue during the period is set out below:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Customer A from the silver mining segment	**N/A***	1,309
Customer B from the oil and gas segment	**N/A***	2,122
Customer C from the asset financing segment	**3,381**	3,643
Customer D from the asset financing segment	**1,569**	1,676
Customer E from the LNG segment	**6,252**	N/A*

* 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

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Sales of goods	**8,933**	3,920
Interest income of asset financing service	**5,189**	5,313
Management fee income of asset financing service	**951**	799
	15,073	10,032

4. Revenue *(continued)*

Notes:

(a) Disaggregation of revenue
Six months ended 30 June 2019

Segments	Silver mining HK$'000 (unaudited)	Oil and gas HK$'000 (unaudited)	Asset financing HK$'000 (unaudited)	LNG HK$'000 (unaudited)	Total HK$'000 (unaudited)
Type of goods or services:					
Revenue from contracts with customers					
– Sale of goods	–	1,876	–	7,057	8,933
Revenue from another source					
– Provision of asset financing service	–	–	6,140	–	6,140
Total revenue	–	1,876	6,140	7,057	15,073
Geographical markets:					
Mainland China	–	–	–	7,057	7,057
USA	–	1,876	–	–	1,876
Total revenue from contracts with customers	–	1,876	–	7,057	8,933
Revenue from another source					
– Provision of asset financing service	–	–	6,140	–	6,140
Total revenue	–	1,876	6,140	7,057	15,073
Timing of revenue recognition:					
Goods transferred at a point in time	–	1,876	–	7,057	8,933
Total revenue from contracts with customers	–	1,876	–	7,057	8,933
Revenue from another source					
– Provision of asset financing service	–	–	6,140	–	6,140
Total revenue	–	1,876	6,140	7,057	15,073

4. Revenue *(continued)*

Notes: (continued)

(a) ***Disaggregation of revenue*** *(continued)*
Six months ended 30 June 2018

Segments	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:				
Revenue from contracts with customers				
– Sale of goods	1,309	2,611	–	3,920
Revenue from another source				
– Provision of asset financing service	–	–	6,112	6,112
Total revenue	1,309	2,611	6,112	10,032
Geographical markets:				
Mainland China	1,309	–	–	1,309
USA	–	2,611	–	2,611
Total revenue from contracts with customers	1,309	2,611	–	3,920
Revenue from another source				
– Provision of asset financing service	–	–	6,112	6,112
Total revenue	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
Total revenue from contracts with customers	1,309	2,611	–	3,920
Revenue from another source				
– Provision of asset financing service	–	–	6,112	6,112
Total revenue	1,309	2,611	6,112	10,032

5. Other Income and Gain, net

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Other income, net		
Bank interest income	**155**	143
Interest income of a loan receivable	**2,567**	700
Trading income, net*	**–**	227
Income from waiver of management fee#	**–**	14,469
Others	**211**	48
	2,933	15,587
Gain		
Gain on disposal of items of property, plant and equipment	**–**	239
Other income and gain, net	**2,933**	15,826

* During the period ended 30 June 2018, the Group entered into contracts to buy and sell a commodity with total purchase and sales amounts of HK$314,727,000 and HK$314,954,000, respectively.

During the period ended 30 June 2018, the directors of Craton Alpha LLC, a subsidiary of the Company, 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:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest and other borrowing costs on overdue other loans	**3,523**	4,209
Penalty on overdue other loans	**22,090**	23,522
	25,613	27,731

7. Loss Before Tax

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

	Six months ended 30 June	
	2019 **HK$'000** **(unaudited)**	2018 HK$'000 (unaudited)
Cost of inventories sold	**8,261**	3,824
Depreciation of items of property, plant and equipment	**1,922**	1,671
Depreciation of right-of-use assets	**332**	–
Amortisation of prepaid land premiums	**–**	33
Amortisation of intangible assets	**35**	53
Lease expenses on short-term leases/minimum lease payments under operating leases for buildings	**1,286**	2,162
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**11,693**	11,668
Pension scheme contributions (defined contribution schemes)	**392**	301
	12,085	11,969
Foreign exchange loss, net	**2,755**	5,960
Reversal of impairment of a loan receivable	**(35,731)**	–

8. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2019 as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 June 2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2019 **HK$'000** **(unaudited)**	2018 HK$'000 (unaudited)
Current – Mainland China	**224**	218
Deferred – Mainland China	**56**	49
	280	267

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

The calculation of the basic earnings per share amount (Period ended 30 June 2018: loss per share amount) is based on the unaudited profit for the period attributable to shareholders of the Company of HK$4,730,000 (Period ended 30 June 2018: a loss for the period of HK$31,684,000), and the weighted average number of ordinary shares of 7,010,055,568 (Period ended 30 June 2018: 7,010,055,568) in issue during the period.

No adjustment has been made to the basic profit/(loss) per share amounts presented for each of the six months ended 30 June 2019 and 2018 for a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

10. Lease, Factoring and Trade Receivables

	Notes	**30 June 2019 HK$'000 (unaudited)**	31 December 2018 HK$'000 (audited)
Gross lease receivables	(a)	**28,999**	41,307
Less: Unearned interest income		**(1,100)**	(1,871)
Net lease receivables	(a)	**27,899**	39,436
Factoring receivables	(b)	**173,554**	152,454
Management fee receivables of asset financing services	(c)	**1,291**	1,031
Trade receivables	(d)	**840**	730
Impairment		**(252)**	(263)
Total lease, factoring and trade receivables		**203,332**	193,388
Portion classified as current assets		**(191,122)**	(177,320)
Non-current portion		**12,210**	16,068

Notes:

(a) The balance as at 30 June 2019 represented two (31 December 2018: two) lease receivables with an aggregate original principal amount of RMB58,000,000 (31 December 2018: RMB58,000,000) 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$735,000 (Period ended 30 June 2018: HK$794,000) was recognised in profit or loss in respect of the lease receivables.

The lease receivables as at 30 June 2019 and 31 December 2018 are not past due based on the due date.

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

Notes: *(continued)*

(a) *(continued)*

At 30 June 2019, the Group's total future minimum lease receivables under the lease receivables and their present value were as follows:

	30 June 2019		31 December 2018	
	Gross investment in the finance leases HK$'000 (unaudited)	**Present value of minimum lease receivables HK$'000 (unaudited)**	Gross investment in the finance lease HK$'000 (audited)	Present value of minimum lease receivables HK$'000 (audited)
Amounts receivable:				
Within one year	**16,463**	**15,689**	24,583	23,368
In the second year	**12,536**	**12,210**	8,362	7,807
In the third year	**–**	**–**	8,362	8,261
Total minimum lease receivables	**28,999**	**27,899**	41,307	39,436
Future interest income	**(1,100)**		(1,871)	
Total net lease receivables	**27,899**		39,436	
Portion classified as current assets	**(15,689)**		(23,368)	
Non-current portion	**12,210**		16,068	

(b) The Group's factoring receivables arose from three (31 December 2018: two) factoring services provided by the Group in its ordinary course of business. Two of 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 and 0% margin, due in 2019 and 2020, respectively and a factoring receivable of HK$21,026,000, which is due from a company which has a director who was a former director of the Company, bears interest at a floating rate of the three-year lending rate promulgated by the People's Bank of China plus 20% margin, due in 2021. Each of these factoring receivables is secured by at least one receivable owed by a debtor to the customer. During the period, interest income of HK$4,454,000 (Period ended 30 June 2018: HK$4,519,000) in total was recognised in profit or loss in respect of these factoring receivables.

The factoring receivables as at 30 June 2019 and 31 December 2018 are neither past due nor impaired based on the due date.

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

Notes: *(continued)*

(c) Management fee receivables arose from the provision of finance leasing and factoring services mentioned in notes (a) and (b) above. The management fee is charged at 1% per annum of the loan principal or RMB1,000 per transaction, and management fee income of HK$951,000 (Period ended 30 June 2018: HK$799,000) in total was recognised in profit or loss during the period.

An ageing analysis of the management fee receivables as at 30 June 2019 and 31 December 2018, based on the invoice date and net of provisions, is as follows:

	30 June 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
Within one month	**1,064**	1,031
Over three months	**227**	–
	1,291	1,031

The management fee receivables were neither past due nor impaired based on due date.

(d) The Group's trading terms with its customers from the silver, oil and gas, and LNG 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, are all aged within one month as at 30 June 2019 and 31 December 2018. 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 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
Receivable on commodity trading	(a)	–	37,275
Prepayments		4,428	6,833
Deposit for acquisition of an entity	(b)	97,294	96,734
Other deposits		378	1,221
Other receivables		9,876	3,497
Impairment		(861)	(861)
Total prepayments, deposit and other receivables		111,115	144,699
Portion classified as current assets		(6,666)	(46,836)
Non-current portion		104,449	97,863

Notes:

(a) The receivable on commodity trading as at 31 December 2018 arose from selling copper to an independent third party. The amount was unsecured, interest-free and repayable within 90 days after the relevant transaction.

(b) The amount as at 30 June 2019 and 31 December 2018 represented a deposit paid to an independent third party for a potential acquisition of an entity. Such deposit will be refunded, together with an interest of 3.0% per annum if the acquisition is not proceeded.

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 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
Less than six months	**578**	220
Six months to one year	**–**	–
Over one year	**216**	305
	794	525

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

13. Share Capital

	30 June 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
Issued and fully paid:		
7,010,055,568 ordinary shares	**2,703,301**	2,703,301

14. Capital Commitment

At 30 June 2019, the Group had a capital commitment of HK$1,706,000 (31 December 2018: HK$1,707,000) in respect of the acquisition of a 30% equity interest in an entity established in the PRC (the "Entity"), which is contracted. but not provided for, Pursuant to the relevant disposal agreements in connection with the disposal of a subsidiary of the Group to an independent third party (the "Purchaser") which was completed on 26 June 2015:

(i) the disposed subsidiary and its subsidiaries would undergo an equity interest restructuring (the "Equity Interest Restructuring") pursuant to which the Purchaser and another third party (the "Third Party") would complete the transfer of the 30% equity interest in the Entity to the Group at a consideration of RMB1.5 million and charge the coal mining right owned by the Entity to the Group within 10 years after the completion of the disposal agreements (the "Deadline");

(ii) after the Equity Interest Restructuring. the Third Party would repurchase the Group's 30% equity interest in the Entity at a consideration of HK$114 million (RMB100 million) by the Deadline; and

(iii) if the Purchaser and the Third Party cannot complete the Equity Interest Restructuring and the charge of the Entity's coal mining rights by the Deadline. the Purchaser or the Third Party would pay a sum of RMB100 million to the Company within 2 business days after the Deadline.

15. Related Party Disclosures

(a) Other than the balances and transactions detailed elsewhere in this interim condensed consolidated financial information, the Group did not have 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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Short term employee benefits	**4,680**	4,865
Post-employment benefits	**–**	–
Total compensation paid to key management personnel	**4,680**	4,865

Interim Dividend

The Board has resolved not to declare an interim dividend in respect of the Period (six months ended 30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in exploring and drilling natural gas and oil in the USA, mining of silver minerals, provision of asset financing and factoring services and trading of LNG in the PRC during the Period.

(1) Oil and gas exploration and production

The Group currently operates an upstream oil and gas exploration and production ("Oil and gas E&P") project in East Texas, the USA. The Group completed drilling of the first well and the second well (the "Operating Wells") which have started production since July 2014 and March 2015 respectively. The oil and gas produced from the Operating Wells are sold to oil and gas storage and transportation companies in East Texas, the USA. Each well normally has a production life of over 10 years.

The Group had entered into over 400 lease agreements (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 1,845 acres at East Texas, the USA (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 of 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".

The Operating Wells have been drilled within the Mining Area under the Lease Agreements which covers an area of approximately 1,628.1 acres with lease expiration dates between 2015 and 2019. The remaining Mining Area of approximately 329.6 acres are under Lease Agreements with lease expiration dates after 2018. As the remaining Mining Area of approximately 217 acres 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)*

(1) 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 the necessary drilling permit for that particular new well being obtained. 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. There was no new well drilled during the Period and the Group has been exploring other energy related projects in the USA.

(2) 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 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. The safety production permit of the West Mine which expired in June 2019 has been renewed during the Period. Meanwhile, the Group has examined the equipment and strengthen the production safety management in order to comply with more stringent rules in respect of safety production imposed on the West Mine by the relevant government bodies before resumption of mining and production at the West Mine. The Group will use its best endeavours to resume mining at the West Mine as soon as possible and is also exploring other revenue stream generated from this segment.

Business Review *(continued)*

(2) ***Silver Mining*** *(continued)*

The East Mine

The East Mine is designed to have a 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 and worked for renewal of such license pursuant to the requirements by the relevant government bodies during the Period. As at the date of this report, such renewal application is still being processed. The Group is still coordinating and working with the certain relevant government bodies about such renewal given more stringent rules and regulations in respect of environmental protection. Barring any unforeseen circumstances, there is no legal impediment for such renewal process pursuant to the legal opinion advised by the PRC legal adviser.

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 the application for the mining license, such as commissioning a geologist report and preparation of other relevant documents. Under normal circumstances, the time for applying for 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. Given that the Group has to comply with more stringent rules and regulations on the mines, it is expected that infrastructure construction of the East Mine will begin by the second half year of 2020. It will take about two years to complete the construction and trial production, and the mining production will begin in 2023.

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.

Business Review *(continued)*

(2) *Silver Mining* *(continued)*

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 occurring below that elevation. However, given that the Project has not yet been concretely implemented, and the design, approval, and construction time of the reservoir are not finalised, the impact of the Project on the Group is considered to be limited due to the following reasons: (i) the amount of resources at the East Mine and the West Mine below 185 metres above sea level is limited; and (ii) there are no ore below 185 metres above sea level based on the latest feasibility study.

The Group has been in discussions with the relevant bodies at Ningde Government in relation to the impact of the Project on the Group. 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 in respect of the Project from the relevant governmental bodies. The Group will continue to follow up with the relevant governmental bodies and further announcement(s) will be made by the Company if there is any material update on the Project as and when appropriate.

(3) *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

Business Review *(continued)*

(3) Asset Financing (continued)

(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.

On 6 June 2016, Qingrui Business Factoring Company Limited, one of the Asset Financing Subsidiaries, entered into a factoring agreement in the principal sum of RMB90 million (equivalent to approximately HK$105 million) for a term of 3 years as disclosed in the announcement of the Company dated 12 September 2016. On 4 June 2019, Qingrui Business Factoring Company Limited entered into a supplemental agreement to extend the expiry date of the factoring agreement from 5 June 2019 to 5 June 2020. The rate of interest applicable to the facilities shall be at a floating rate in accordance with the lending rate promulgated by the People's Bank of China.

On 1 August 2019, Qingrui Business Factoring Company Limited also entered into a factoring arrangement with revolving facilities in the principal sum of RMB50 million (equivalent to approximately HK$56.5 million) for a term of 3 years. Details of the above were set out in the announcement of the Company dated 1 August 2019.

(4) Trading of LNG

The Group acquired 51% equity interest of Shaanxi Wanxi Logistics Co., Ltd ("Shaanxi Wanxi") in November 2018 and commenced business of trading of LNG in the PRC through Shaanxi Wanxi. Shaanxi Wanxi currently holds a Hazardous Chemical Products Operating Permit which is valid for a period of 3 years up to 8 July 2022. LNG were sold to certain LNG distributors during the Period.

Financial Review

Revenue and cost of sales

The Group recorded a total revenue of approximately HK$15.1 million for the Period (six months ended 30 June 2018: HK$10 million), representing an increase of 51% compared with last comparable period. The increase in revenue was mainly due to revenue generated from trading of LNG by Shaanxi Wanxi commenced in the fourth quarter last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

Revenue and cost of sales *(continued)*

For the oil and gas E&P in the USA, the Group, net to its ownership interests, has produced approximately 998 Bbl of oil, approximately 62 million cubic feet of natural gas, and approximately 2,859 Bbl of natural gas liquids (six months ended 30 June 2018: 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). The net average selling prices of oil, natural gas and natural gas liquids during the Period were US$53.60 per Bbl (six months ended 30 June 2018: US$61.85 per Bbl), US$2.78 per thousand cubic feet (six months ended 30 June 2018: US$1.81 per thousand cubic feet) and US$4.52 per Bbl (six months ended 30 June 2018: US$20.76 per Bbl) respectively, all of which in aggregate generated revenue of approximately HK$1.9 million during the Period (six months ended 30 June 2018: HK$2.6 million).

Cost of sales for oil and gas E&P was approximately HK$1.6 million during the Period (six months ended 30 June 2018: HK$2.2 million) which primarily consisted of depreciation and amortisation, related labour cost for the production, taxes, supplies, utilities and other incidental expenses. The USA oil and gas E&P recorded a gross profit margin of 13% (six months ended 30 June 2018: 15%) during the Period.

There was no revenue generated from silver mining business during the Period. In 2018, the Group sold silver concentrates from ore processing and generated revenue of approximately HK$1.3 million. Silver ores sales volume was approximately 0.36 ton and the average selling price of silver ores was approximately RMB3.11 per gram. Cost of sales was HK$0.5 million (six months ended 30 June 2018: HK$1.6 million) which mainly represented depreciation during the Period.

The Group 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 2018: HK$6.1 million).

The Group also recorded revenue of approximately HK$7.1 million from trading of LNG (six months ended 30 June 2018: nil). Related cost of sales was HK$7.4 million (six months ended 30 June 2018: nil) during the Period. Such business recorded a gross loss margin of 4% during the Period.

Other income and gain

Other income and gain were approximately HK$2.9 million during the Period (six months ended 30 June 2018: HK$15.8 million), which mainly represented interest income from a loan to a third party, Kumi Umi Energy Co. Lid ("KUE"), of approximately HK$2.6 million (six months ended 30 June 2018: HK$0.7 million). In 2018, there was income from waiver of management fee of approximately HK$14.5 million. There was no such income during the Period.

Financial Review *(continued)*

Selling and administrative expenses

Selling and administrative expenses were approximately HK$24.0 million during the Period as compared to approximately HK$33.9 million for the corresponding period of last year. Administrative expenses mainly comprised staff cost for administrative and finance functions including legal and professional fee incurred for operation, depreciation and other incidental administrative expenses. The decrease was mainly due to costs saving measures implemented during the Period.

Other income/(expenses), net

Other income, net was approximately HK$32.6 million during the Period (six months ended 30 June 2018: expenses of HK$6.0 million). It mainly represented reversal of impairment loss on loan to KUE, which has been fully impaired in 2018 but fully collected during the Period, of approximately HK35.7 million (representing JPY 500 million) during the Period.

Finance costs

Finance costs were approximately HK$25.6 million during the Period (six months ended 30 June 2018: HK$27.7 million) which mainly represented interest and penalty expenses for borrowings raised for silver mining business.

Share of losses of associates

During the Period, it mainly represented share of loss of an associate which is principally engaged in securities trading in Japan of approximately HK$1 million (six months ended 30 June 2018: nil).

Income tax

Income tax, which mainly represented tax on profits from asset financing business, was approximately HK$0.3 million during the Period (six months ended 30 June 2018: HK$0.3 million).

Fund raising exercises

The Company did not have any equity fund raising activity during the Period.

Update on use of proceeds

As stated in the previous announcements of the Company and annual report of the Company for the year ended 31 December 2018, 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 potential mergers and acquisition of mineral resources company and assets. The net proceeds were utilized as follows: (i) RMB85.5 million (equivalent to approximately HK$102.4 million) was paid as earnest money for the potential acquisition of lead and zinc mines in the PRC; (ii) JPY 500 million (equivalent to approximately HK$36.2 million), which has been fully collected during the Period, was paid to KUE under a loan agreement; (iii) approximately HK$55.6 million was paid for acquisitions of Shaanxi Wanxi and two associates in 2018; and (iv) RMB30 million (equivalent to HK$34 million) was paid under the business factoring agreement entered in August 2019 as stated above.

Financial Review *(continued)*

Update on use of proceeds (continued)

Taking into account of the latest development of the Group and potential investment opportunities, the remaining net proceeds in aggregate of HK$70.8 million will be applied for (i) other potential mergers and acquisition of approximately HK$50 million if opportunities arise in future; and (ii) general working capital of approximately HK$20.8 million including but not limited to payment of operating expenses of the Group and development of the existing businesses of the Group in 2020. Save for the proposed acquisition of lead and zinc mines in the PRC as disclosed in the paragraph headed "Significant Investments, Material Acquisitions and Disposals" below, the Group is still identifying new mergers and acquisitions opportunities and therefore the aforesaid net proceeds of HK$50 million were not yet utilised as at the date of this report.

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.

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 2019, the current ratio of the Group, measured as total current assets to total current liabilities, was 1.53:1 (31 December 2018: 1.59:1).

As at 30 June 2019, the cash and cash equivalents of the Group were approximately HK$219.9 million (31 December 2018: HK$188.4 million). During the Period, the Group recorded a net cash inflow from its operating activities of approximately HK$29.6 million (six months ended 30 June 2018: outflow of HK$98.3 million).

As at 30 June 2019, there was no outstanding interest-bearing bank loan (31 December 2018: Nil).

As at 30 June 2019, there were other loans of approximately HK$245 million (31 December 2018: HK$219.9 million) comprising loan principal of approximately HK$45.5 million (31 December 2018: HK$45.5 million) and overdue interest/penalty of approximately HK$199.5 million (31 December 2018: HK$174.3 million). All other loans were denominated in Renminbi. Other loans with principal of approximately HK$33.6 million (31 December 2018: HK$33.6 million) and HK$11.9 million (31 December 2018: HK$11.9 million) were interest-free and with fixed interest rate of 15% per annum, respectively. These other loans were subject to overdue penalties ranging from 0.05% – 0.5% per day on loan principal and 1% on the overdue balance, respectively. As at 30 June 2019, all other loans (31 December 2018: all) were overdue.

Financial Review *(continued)*

Liquidity and Financial Review *(continued)*

There were certain legal proceedings which have been instituted against the Group in respect of other loans (which were included in "other loans" in the consolidated statement of financial position of the Group as at 30 June 2019) as detailed below:

(i) Pursuant to the judgment of the second instance in respect of a claim for outstanding loan with principal amount of RMB9.5 million (equivalent to approximately HK$10.8 million) issued in August 2017, the Group was held liable to pay a sum of approximately RMB10.4 million (equivalent to approximately HK$11.9 million) to the creditor with costs incurred for this litigation. In January 2018, the court issued the execution order to freeze the assets of the Group of approximately RMB10.5 million (equivalent to approximately HK$12 million). The execution order is not yet implemented and there has been no material update as at the date of this 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$5.7 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.

(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$6.3 million) and respective accrued interest issued in March 2018, the Group was held liable to pay the claims made by the creditor. There has been no material update as at the date of this report.

Adequate accrued interest and penalties have been provided by the Group as at 30 June 2019. 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 0.49 as at 30 June 2019 (31 December 2018: 0.46).

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, 27 December 2018 and 28 June 2019) in respect of the proposed acquisition of 51% of issued share capital of South Ray Investment Limited which indirectly owns one mining permit and three exploration permits in Inner Mongolia, the PRC. The Group shall pay the earnest money in the sum of RMB70 million to the vendor and up to RMB30 million for meeting the operating expenses and/or capital expenditure of the target group subject to prior approval by the Company, which shall both be fully refundable together with interest calculated at 3% per annum if the said proposed acquisition does not proceed on or before 31 December 2019. Earnest money of RMB85.5 million was 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, 29 June 2018, 27 December 2018 and 28 June 2019.

Save for the above and the business factoring agreement entered in August 2019 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 2019, the Group had contracted capital commitments not provided for in the consolidated financial statements of RMB1.5 million (equivalent to approximately HK$1.7 million) (31 December 2018: HK$1.7 million) in respect of acquisition of 30% equity interest in a former subsidiary of the Company within 10 years after completion of disposal of the former subsidiaries in June 2015.

As at 30 June 2019, time deposits which are restricted for use of approximately HK$2.2 million (31 December 2018: 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 2019 (31 December 2018: nil).

As at 30 June 2019, there was no material contingent liability of the Group (31 December 2018: nil).

Human Resources and Share Option Scheme

As at 30 June 2019, the Group had 43 (31 December 2018: 55) employees. The total staff costs (including directors' remuneration) for the Period were approximately HK$12.1 million (six months ended 30 June 2018: HK$12 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 2019.

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. The Group is also monitoring the commodity market environment closely and formulating an appropriate strategy and timetable to expand the production by drilling additional wells when necessary. The Group will use its best endeavours to comply with more stringent rules and regulations on safety production and environmental protection in the PRC and resume mining at the West Mine as soon as possible as well as explore other revenue stream generated from silver mining segment. For assets financing and trading of LNG businesses, the Group will continue to expand its customers base for broadening its revenue base.

Meanwhile, the Group is also actively exploring other investment projects to diversify the Group's businesses. 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 2019, 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.

Other Information *(continued)*

Share Option Scheme

The Company has adopted a share option scheme which was effective from 30 May 2012 (the "Scheme"). The purpose of the Scheme is to provide 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 2019.

At 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 2019, 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/nature of interest	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 2019, 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 2019 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, 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, 23 August 2019