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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the "Board") of directors (the "Directors") of King Stone Energy Group Limited (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2021 with comparative figures for the corresponding year in 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	**2021** *HK$'000*	2020 *HK$'000*
REVENUE	*5*	**85,978**	51,268
Cost of sales		**(62,463)**	(36,711)
Gross profit		**23,515**	14,557
Other income and gains, net	*6*	**18,893**	20,722
Selling and distribution expenses		**(3)**	(25)
Administrative expenses		**(37,845)**	(38,288)
Impairment losses of financial assets, net	*8*	**(2,684)**	(207,562)
Other expenses, net		**(25,463)**	(27,616)
Finance costs, net	*7*	**(51,634)**	(45,935)
Share of losses of associates		**(323)**	(15,053)
LOSS BEFORE TAX	*8*	**(75,544)**	(299,200)

	Notes	2021 HK$'000	2020 HK$'000
LOSS BEFORE TAX	8	**(75,544)**	(299,200)
Income tax	9	**(991)**	(897)
LOSS FOR THE YEAR		**(76,535)**	(300,097)
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		**(5,555)**	(6,172)
Share of movements in the exchange fluctuation reserves of associates		**–**	1,158
Release of exchange fluctuation reserves upon disposal and deemed disposal of associates		**2,402**	–
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(3,153)**	(5,014)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods – Fair value gain of equity investments at fair value through other comprehensive income, net of income tax of nil		**2,294**	855
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX		**(859)**	(4,159)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(77,394)**	(304,256)
Loss for the year attributable to:			
Shareholders of the Company		**(42,860)**	(268,935)
Non-controlling interests		**(33,675)**	(31,162)
		(76,535)	(300,097)
Total comprehensive loss for the year attributable to:			
Shareholders of the Company		**(38,054)**	(265,655)
Non-controlling interests		**(39,340)**	(38,601)
		(77,394)	(304,256)
LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	10		
			(Restated)
Basic and diluted		**(HK5.5 cents)**	(HK37.0 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**38,293**	32,986
Right-of-use assets		**6,931**	3,719
Goodwill		**21,389**	20,543
Other intangible assets		**59,874**	78,201
Investments in associates	*11*	**–**	18,633
Equity investments at fair value through other comprehensive income		**81**	1,962
Lease, factoring and trade receivables	*12*	**1,057**	18,762
Prepayments, deposits and other receivables		**41,349**	41,452
Total non-current assets		**168,974**	216,258
CURRENT ASSETS			
Contract assets	*13*	**11,566**	9,095
Inventories		**11,374**	10,732
Lease, factoring and trade receivables	*12*	**103,518**	105,825
Loan receivables		**–**	–
Prepayments, deposits and other receivables	*14*	**92,333**	64,203
Restricted cash		**2,351**	2,269
Cash and cash equivalents		**82,976**	57,382
Total current assets		**304,118**	249,506
CURRENT LIABILITIES			
Trade payables	*15*	**7,291**	1,149
Other payables and accruals		**32,702**	35,583
Other loans		**362,234**	286,627
Liability component of convertible notes		**–**	49,328
Derivative components of convertible notes		**–**	2,458
Lease liabilities		**1,817**	1,543
Income tax payables		**16,877**	16,134
Total current liabilities		**420,921**	392,822

	Note	2021 HK$'000	2020 HK$'000
NET CURRENT LIABILITIES		**(116,803)**	(143,316)
TOTAL ASSETS LESS CURRENT LIABILITIES		**52,171**	72,942
NON-CURRENT LIABILITIES			
Other payables		**916**	827
Bank loan		**4,001**	–
Lease liabilities		**5,301**	2,320
Deferred tax liabilities		**559**	–
Total non-current liabilities		**10,777**	3,147
Net assets		**41,394**	69,795
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	*16*	**2,777,494**	2,728,501
Reserves		**(2,565,917)**	(2,527,863)
		211,577	200,638
Non-controlling interests		**(170,183)**	(130,843)
Total equity		**41,394**	69,795

NOTES:

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Hong Kong and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at 17th Floor, V Heun Building, 138 Queen's Road Central, Central, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in (i) the mining and sale of silver in the mainland ("Mainland China") of the People's Republic of China (the "PRC"); (ii) the extraction, production and sale of oil and gas in the United States of America (the "USA"); (iii) the provision of asset financing services in the PRC; (iv) the provision of tourism agency services in the PRC; (v) the operation of photovoltaic power businesses in Hong Kong and Mainland China; and (vi) the trading of various commodities in Hong Kong and Mainland China.

The immediate holding company of the Company is Belton Light Limited, which is incorporated in the British Virgin Islands, and, in the opinion of the Directors, 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 PRESENTATION

At 31 December 2021, the Group had net current liabilities of HK$116.8 million. In assessing the Group's ability to operate as a going concern, a cash flow projection has been prepared by management, which, inter alia, takes into account the historical operating performance of the Group and the following:

- any material cash outflow before 31 December 2022 in settlement of other loans of HK$31.3 million borrowed by a subsidiary of the Company (the "Subsidiary"), together with related accrued interests and overdue penalties of HK$314.2 million, which are included in the Group's current liabilities, is not expected to take place;

- the Company and other subsidiaries of the Group did not provide any guarantee over the other loans indebted by the Subsidiary and have no legal obligation, commitment and/or intention to inject capital or provide financial assistance to the Subsidiary to settle the above liabilities;

- gross proceeds of HK$98.9 million were raised from the rights issue and placing of new shares of the Group subsequent to the reporting period as further detailed in note 17 to this announcement; and

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

The Directors believe that, taking into account the above factors, the Group will have sufficient working capital to continue as a going concern which assumes, inter alia, the realisation of assets and satisfaction of liabilities in the normal course of business.

2.2 BASIS OF PREPARATION

This announcement 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 consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments and derivative financial instruments which have been measured at fair value. The financial statements are presented in Hong Kong dollar ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The financial information relating to the years ended 31 December 2021 and 2020 included in this preliminary announcement of annual results for the year ended 31 December 2021 does not constitute the Company's statutory annual consolidated financial statements for those years, but in respect of the year ended 31 December 2020, 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 Companies Ordinance is as follows:

The financial statements for the year ended 31 December 2021 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course. The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on the financial statements for the year ended 31 December 2020. 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 Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

(d) the "Tourism" segment engages in the provision of tourism agency services in the PRC;

(e) the "Photovoltaic" segment engages in the operation of photovoltaic power businesses in Hong Kong and Mainland China; and

(f) the "trading" segment engages in the trading of commodities including medical supplies and electronic parts in Hong Kong and Mainland China.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's 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.

	Silver mining		Oil and gas		Asset financing		Tourism		Photovoltaic		Trading		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue-Sales to external customers *(note 5)*	**12,813**	14,460	**2,811**	1,659	**7,950**	6,971	**545**	1,513	**28,374**	6,416	**33,485**	20,249	**85,978**	51,268
Segment results	**(65,939)**	(67,698)	**(286)**	(4,243)	**44,300**	(157,881)	**(749)**	319	**3,080**	4,734	**(1,802)**	(6)	**(21,396)**	(224,775)
Reconciliation:														
Share of losses of associates													**(323)**	(15,053)
Foreign exchange differences, net													**7,166**	11,176
Impairment losses of financial assets, net													**(45,382)**	(49,074)
Corporate and other unallocated expenses, net													**(15,609)**	(21,474)
Loss before tax													**(75,544)**	(299,200)
Income tax													**(991)**	(897)
Loss for the year													**(76,535)**	(300,097)

	Silver mining		Oil and gas		Asset financing		Tourism		Photovoltaic		Trading		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:														
Share of losses of associates:														
Unallocated assets													**323**	15,053
Depreciation of items of property, plant and equipment:														
Segment assets	**1**	8	**960**	1,080	**14**	25	**25**	41	**1,338**	893	**–**	2	**2,338**	2,049
Unallocated assets													**116**	152
													2,454	2,201
Depreciation of right-of-use assets:														
Segment assets	**10**	123	**–**	–	**–**	–	**–**	–	**120**	87	**74**	28	**204**	238
Unallocated assets													**1,817**	1,947
													2,021	2,185
Amortisation of other intangible assets	**–**	–	**39**	53	**–**	–	**–**	–	**–**	–	**–**	–	**39**	53
Impairment of items of property, plant and equipment	**1,187**	1,347	**–**	1,585	**–**	–	**–**	–	**–**	–	**–**	–	**1,187**	2,932
Impairment of other intangible assets	**20,998**	23,310	**–**	175	**–**	–	**–**	–	**–**	–	**–**	–	**20,998**	23,485
Impairment losses/(reversal of impairment losses) of financial assets:														
Segment assets	**249**	–	**–**	–	**(43,333)**	158,488	**386**	–	**–**	–	**–**	–	**(42,698)**	158,488
Unallocated assets													**45,382**	49,074
													2,684	207,562
Gain on disposal of items of property, plant and equipment	**2**	–	**–**	4	**–**	–	**–**	–	**1,312**	–	**–**	–	**1,314**	4
Gain on disposal of right-of-use assets:														
Segment assets	**1**	2	**–**	–	**–**	–	**–**	–	**16**	–	**–**	–	**17**	2
Unallocated assets													**–**	200
													17	202
Gain on disposal of an associate:														
Unallocated assets													**4,619**	–
Loss on deemed disposal of an associate:														
Unallocated assets													**3,191**	–

Geographical information

Revenue from external customers

	2021	2020
	HK$'000	*HK$'000*
Mainland China	**25,072**	29,395
Hong Kong	**58,095**	20,214
USA	**2,811**	1,659
	85,978	51,268

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

Information about major customers

A summary of the revenue generated from sales to each of the customers which individually contributed 10% or more of the Group's total revenue during the year is set out below:

	2021	2020
	HK$'000	*HK$'000*
Customer A from the photovoltaic segment	**N/A***	6,416
Customer B from the photovoltaic segment	**23,962**	N/A*
Customer C from the silver mining segment	**N/A**	7,806
Customer D from the silver mining segment	**12,813**	N/A*
Customer E from the trading segment	**N/A***	20,214
Customer F from the trading segment	**33,485**	N/A*

* The corresponding revenue of these customers is not disclosed as they individualy did not contribute 10% or more of the Group's total revenue for the relevant year.

5. REVENUE

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

	2021	2020
	HK$'000	*HK$'000*
Sales of goods	**49,109**	36,333
Sales of electricity with tariff adjustment*	**4,411**	6,416
Design and installation service income	**23,856**	–
Operation and maintenance service income	**107**	–
Interest income of asset financing service	**6,762**	5,380
Management fee income of asset financing service	**1,188**	1,591
Commission income	**545**	1,548
	85,978	51,268

* Tariff adjustment represents subsidies from government authorities in respect of the Group's photovoltaic power operations.

6. OTHER INCOME AND GAINS, NET

An analysis of the Group's other income and gains, net is as follows:

	2021	2020
	HK$'000	*HK$'000*
Other income, net		
Bank interest income	**103**	39
Trading income, net*	**1,845**	2
Subsidy income	**107**	853
Write-back of an other loan#	**–**	5,621
Write-back of an other payable	**–**	636
Management fee income	**645**	512
Others	**928**	682
	3,628	8,345

	2021	2020
	HK$'000	*HK$'000*
Gains, net		
Gain on disposal of items of property, plant and equipment	**1,314**	4
Gain on disposal of right-of-use assets	**17**	202
Gain on disposal of an associate *(note 11(a))*	**4,619**	–
Fair value gain of the derivative components of convertible notes	**2,149**	995
Foreign exchange gains, net	**7,166**	11,176
	15,265	12,377
Other income and gains, net	**18,893**	20,722

* During the year, the Group entered into contracts to buy and sell commodities with total purchase and sales amounts of HK$9,412,502,000 (2020: HK$26,708,000) and HK$9,414,347,000 (2020: HK$26,710,000), respectively, and the associated net trading income amounted to HK$1,845,000 (2020: HK$2,000).

In prior years, several lenders have filed legal claims against a subsidiary of the Group for recovery of several overdue loans, together with the accrued interests and overdue penalties. Pursuant to the court judgement of the second instance in respect of a claim for one of the loans with a principal amount of RMB5,000,000 (approximately HK$5,621,000), together with the related accrued interests and overdue penalties in a total amount of HK$4,725,000 (note 7), the Group was held not liable to pay the claim made by the lender. Accordingly, the other loan and related accrued interests and overdue penalties were written back during the year ended 31 December 2020 in other income and gains, net and finance costs, net, respectively.

7. FINANCE COSTS, NET

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

	2021	2020
	HK$'000	*HK$'000*
Interest and other borrowing costs on overdue other loans	**4,648**	4,350
Penalties on overdue other loans	**44,117**	43,298
Interest on other loans	**1,239**	–
Interest on lease liabilities	**241**	231
Interest on convertible notes	**634**	1,400
Imputed interest on convertible notes	**755**	1,381
Reversal of accrued interest and penalty on an other loan pursuant to the outcome of a court judgement *(note 6)*	**–**	(4,725)
	51,634	45,935

8. LOSS BEFORE TAX

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

	2021	2020
	HK$'000	*HK$'000*
Cost of inventories sold	**38,661**	34,688
Cost of services provided	**21,467**	–
Depreciation of items of property, plant and equipment*	**2,454**	2,201
Depreciation of right-of-use assets	**2,021**	2,185
Amortisation of other intangible assets*	**39**	53
Impairment of items of property, plant and equipment#	**1,187**	2,932
Impairment of other intangible assets#	**20,998**	23,485
Impairment losses/(reversal of impairment losses) of financial assets, net:		
Lease, factoring and trade receivables	**(44,702)**	147,832
Deposits and other receivables	**47,386**	59,730
	2,684	207,562
Loss on deemed disposal of an associate# *(note 11(b))*	**3,191**	–

* Depreciation of items of property, plant and equipment and amortisation of other intangible assets of HK$2,296,000 (2020: HK$1,970,000) and HK$39,000 (2020: HK$53,000) are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income, respectively.

\# These items are included in "Other expenses, net" in the consolidated statement of profit or loss and other comprehensive income.

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2020: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2021	2020
	HK$'000	*HK$'000*
Current – Hong Kong	**–**	–
Current – Mainland China	**428**	890
Current – Overseas	**4**	7
Deferred	**559**	–
	991	897

10. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the year attributable to shareholders of the Company of HK$42,860,000 (2020: HK$268,935,000), and the weighted average number of ordinary shares of 780,362,861 (2020: 726,780,899, as restated) in issue during the year, as adjusted to reflect the effect of a share consolidation during the year (note 16(b)).

No adjustment has been made to the basic loss per share amounts presented for each of the years ended 31 December 2021 and 2020 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2021; and, in respect of the year ended 31 December 2020, the impact of the convertible notes outstanding during that year had an anti-dilutive effect on the basic loss per share amount presented.

11. INVESTMENTS IN ASSOCIATES

(a) On 31 December 2020, the Group entered into a share transfer agreement with an independent third party for the disposal of the Group's entire 19.5% equity interest in 海南深耕海洋發展有限公司 ("Hainan Shengeng") for a cash consideration of RMB21 million, which has been received by the Group in March 2021. The disposal transaction was completed on 20 June 2021 and resulted in a gain on disposal of an associate of HK$4,619,000.

(b) During the year, the Group's equity interest in One Asia Securities Co., Limited ("OAS") was diluted from 35.76% to 0.18% upon the placing of 90,750,000 new shares by OAS to a new investor which is independent of the Group, and this resulted in a loss on deemed disposal of HK$3,191,000 recognised by the Group in profit or loss for the year ended 31 December 2021.

12. LEASE, FACTORING AND TRADE RECEIVABLES

	Notes	**2021** ***HK$'000***	2020 *HK$'000*
Gross lease receivables	*(a)*	**1,794**	17,449
Less: Unearned interest income		**(301)**	(104)
Net lease receivables	*(a)*	**1,493**	17,345
Factoring receivables	*(b)*	**197,533**	253,514
Management fee receivables of asset financing services	*(c)*	**3,443**	1,591
Trade receivables	*(d)*	**19,054**	9,494
		221,523	281,944
Impairment		**(116,948)**	(157,357)
Total lease, factoring and trade receivables		**104,575**	124,587
Portion classified as current assets		**(103,518)**	(105,825)
Non-current portion		**1,057**	18,762

Notes:

(a) The lease receivable as at 31 December 2021 related to a finance lease arrangement of certain plant and equipment provided by the Group in its ordinary course of business to lessee. The lease receivable bears interest at a fixed rate of 12% per annum and is repayable in 3 years. During the year, interest income of HK$114,000 (2020: HK$517,000) in total was recognised in profit or loss in respect of the lease receivables.

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its customers are as follows:

	2021	2020
	HK$'000	*HK$'000*
Amounts receivable:		
Within one year	**598**	17,449
After one year but within two years	**598**	–
After two years but within three years	**598**	–
Total minimum lease receivables	**1,794**	17,449
Future interest income	**(301)**	(104)
Total net lease receivables	**1,493**	17,345
Portion classified as current assets	**(436)**	(17,345)
Non-current portion	**1,057**	–

(b) The Group's factoring receivables arose from factoring services provided by the Group in its ordinary course of business. These factoring receivables bear interest at floating rates of the three-year lending rate promulgated by the People's Bank of China plus margin of up to 20% or at a fixed rate of 12% per annum, and are due for repayment between 2021 and 2023. Each of these factoring receivables is secured by at least one receivable owed by a debtor to the customer. During the year, interest income of HK$6,648,000 (2020: HK$4,863,000) in total was recognised in profit or loss in respect of these factoring receivables.

An ageing analysis of the factoring receivables as at 31 December 2021 and 31 December 2020, based on the invoice date and net of provisions, is as follows:

	2021	2020
	HK$'000	*HK$'000*
Not yet due	**29,689**	100,634
Within one month	**245**	666
One to two months	**245**	–
Two to three months	**245**	544
Over three months	**52,266**	1,801
	82,690	103,645

(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$1,188,000 (2020: HK$1,591,000) in total was recognised in profit or loss during the year.

An ageing analysis of the management fee receivables as at 31 December 2021 and 31 December 2020, based on the invoice date and net of provisions, is as follows:

	2021	2020
	HK$'000	*HK$'000*
Within one month	**31**	154
One to two months	**31**	–
Two to three months	**31**	156
Over three months	**1,551**	415
	1,644	725

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

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

	2021	2020
	HK$'000	*HK$'000*
Billed:		
Within one month	**14,501**	8,658
One to two months	**22**	–
Two to three months	**25**	–
Over three months	**13**	–
Unbilled	**4,239**	836
	18,800	9,494

13. CONTRACT ASSETS

The Group's contract assets represented central government renewable energy subsidies for the Group's photovoltaic businesses that are to be billed and settled upon registering into the Renewable Energy Tariff Subsidy Catalogues (the "Subsidy Catalogues"). Despite that the Group has obtained the approval for the registration into the Subsidy Catalogues from a relevant government authority in July 2021, the registration has not been completed as at 31 December 2021. In the opinion of the directors, the registration procedures of the Subsidy Catalogues for the Group's photovoltaic businesses are administrative in nature and the Group will comply with the related procedures stipulated by the current government policy in Mainland China and all other attaching conditions, if any.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		2021	2020
	Notes	***HK$'000***	*HK$'000*
Prepayments		**8,161**	56,493
Deposits for acquisition of entities	*(a)*	**106,307**	102,974
Other receivables	*(b)*	**77,080**	–
Other trading receivables	*(c)*	**45,644**	–
Others		**9,834**	8,072
		247,026	167,539
Impairment		**(113,344)**	(61,884)
Total prepayments, deposits and other receivables		**133,682**	105,655
Portion classified as current assets		**(92,333)**	(64,203)
Non-current portion		**41,349**	41,452

Notes:

(a) The balance mainly represented deposits of HK$104.8 million paid for a potential acquisition of an entity in prior years, which will be refunded, together with interest of 3.0% per annum, if the acquisition is not proceeded. These deposits are secured by the entire issued share capital of a wholly-owned subsidiary and 80% issued share capital of an indirectly-owned subsidiary of the target company. As at 31 December 2021, in view of the uncertainty as to the ultimate materialisation of the acquisition and the financial position of the payees, impairment losses of HK$64.1 million (2020: HK$61.9 million) has been made.

(b) Other receivables represented payments made to suppliers of commodities traded by the Group. As at 31 December 2021, impairment of HK$24.5 million has been recognised against these other receivables based on the ECL assessment performed.

(c) During the year, the Group has entered into several commodity trading contracts of HK$58.6 million with trading terms of 30 days to 6 months. As at 31 December 2021, certain of these other trading receivables are overdue and impairment of HK$20.0 million has been made. Subsequent to the reporting period, HK$15.3 million has been settled by a customer.

15. 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:

	2021	2020
	HK$'000	*HK$'000*
Less than six months	**6,966**	780
Six months to one year	**32**	31
Over one year	**293**	338
	7,291	1,149

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

16. SHARE CAPITAL

	2021	2020
	HK$'000	*HK$'000*
Issued and fully paid:		
791,505,556 (2020: 7,290,055,568) ordinary shares	**2,777,494**	2,728,501

	Notes	Number of shares in issue	Share capital *HK$'000*
At 1 January 2020, 31 December 2020 and 1 January 2021		7,290,055,568	2,728,501
Issue of new ordinary shares upon exercise of convertible notes	*(a)*	625,000,000	48,993
Share consolidation	*(b)*	(7,123,550,012)	–
At 31 December 2021		791,505,556	2,777,494

Notes:

(a) On 11 February 2021, 26 February 2021 and 17 June 2021, the convertible noteholders exercised the conversion rights of all its interest in the convertible notes with an aggregate principal amount of HK$50,000,000 and accordingly, 625,000,000 new ordinary shares of the Company were allotted and issued. The then aggregate carrying amount of the liability and derivative components of the relevant convertible notes as at the date of conversion of HK$48,993,000 was transferred to the Company's share capital account.

(b) On 28 December 2021, every ten issued shares of the Company were consolidated into one consolidated share and the number of consolidated shares was rounded down to the nearest whole number by disregarding each and every fractional consolidated share which would otherwise arise.

17. EVENT AFTER REPORTING PERIOD

On 2 March 2022, the Company completed the rights issue on the basis of one rights share for every two existing shares and placing of new shares at the subscription price of HK$0.25 per share, which resulted in the issue of 378,841,666 rights shares and 16,911,112 placing shares and funds of approximately HK$98.94 million in total raised before issuance expenses.

Save as disclosed above, the Group has no other significant events after the reporting period.

18. COMPARATIVE AMOUNTS

As further explained in note 16(b) to the financial statements, the Company carried out a share consolidation during the year, therefore certain comparative amounts in respect of the loss per share amount for the prior year have been restated on the assumption that the share consolidation have been effective at the beginning of the prior year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

King Stone Energy Group Limited (the "Company", together with its subsidiaries, the "Group") is principally engaged in (1) the mining and sale of silver minerals in the People's Republic of China (the "PRC"); (2) the generation of electricity through photovoltaic power in the PRC and Hong Kong; (3) the provision of tourism agency services in the PRC; (4) the extraction, production and sale of natural gas and oil in the United States of America ("USA"); (5) the provision of asset financing and factoring services in the PRC; and (6) the trading of various commodities during the year.

(1) Silver Mining

The Group has been carrying on silver mining business in the PRC since 2013. The Group conducts its silver mining business through two silver mines in Ningde City, Fujian Province, the PRC, namely the "Western Section" located in Fu'an County of Ningde City (the "West Mine") owned by Fu'an City Leixin Mining Company Limited ("Fu'an Leixin") and the "Eastern Section" located in Zherong County of Ningde City (the "East Mine") owned by Zherong County Leixin Mining Company Limited ("Zherong Leixin").

West Mine

The West Mine covers an area of 2.1442 square kilometers with an annual production capacity of 100,000 tonnes. Based on an independent competent person's report on the latest status of the West Mine and the East Mine issued by SRK Consulting China Limited ("SRK") in May 2018 (the "Technical Report"), the probable ore reserves of the West Mine as at 31 May 2018 was approximately 693,000 tonnes with an average silver grade of 210.4 gram per tonne. The overall production capacity of mining and processing at the West Mine is 100,000 tonnes per annum, or 300 tonnes per day. Silver ore (and/or lead/zinc ore if any) mined will be processed in a processing plant which extracts silver/lead/zinc into concentrate following a processing flowsheet of crushing, grinding, floatation, and dewatering. Sales contracts are entered into between Fu'an Leixin and its customers for sales of silver/lead/zinc concentrates produced from processing of ore inventory. Customers of Fu'an Leixin are mainly smelting factories and traders of precious metals. Fu'an Leixin carries on mining business by itself and/or may subcontract part of its mining activities to sub-contractors. Fu'an Leixin has entered into framework agreements in respect of sales of silver and/or other metals concentrates with certain customers.

All the prerequisites for the full resumption of production at the West Mine has been in place since the fourth quarter of 2020. The ore production at the West Mine was approximately 17,432 tonnes during the year.

The mining permit for the West Mine was issued by Department of Land and Resources in Fujian Province and has expired in December 2020. Based on the Group's communications with the relevant government body, it was noted that (i) due to the impact of the COVID-19 pandemic, all mining licenses in Fujian province can retain their current status for a grace period of two years. In this regard, Fu'an Leixin was eligible to submit a two-year licensing extension application to the Department of Natural Resources of Fujian; and (ii) under this arrangement, Fu'an Leixin can continue its mining operations as usual pending its renewal of mining license. Fu'an Leixin has submitted the two-year licensing extension application to the relevant government body. Such application has been approved by the relevant government body and the mining permit for the West Mine has retained its current status for two years up to 9 December 2022.

East Mine

Based on the Technical Report, the probable ore reserves of the East Mine as at 31 May 2018 was approximately 6,069,000 tonnes with an average silver grade of 122.1 gram per tonne.

The exploration license, which is a pre-requisite for obtaining the mining license, for the East Mine held by the Group covers an area of 4.97 square kilometers and was valid from October 2012 to April 2018. There was no official reason given by the relevant regulatory body as to why the renewal of the exploration license has yet to be granted but the Group believes that the delay was mainly attributable to the Project (as defined below) close to the West Mine and East Mine which, to the best of the knowledge of the Group, has been suspended and is still being reviewed. Nevertheless, Zherong Leixin is still applying for such license renewal and communicating with the relevant government body. In September 2020, Zherong Leixin has received further request from the Department of Natural Resources of Fujian for provision of documents. Given the uncertainty of the development of the Project, the Group has applied for a five-year extension for the renewal of the exploration license in October 2020. Based on the latest communications with the relevant government officers, the renewal of the exploration license is still being reviewed as at date of this announcement.

The preparation work for exploration on the mining area at the East Mine including construction of electricity and water network, cleaning of mine tunnel, repairs of certain mining facilities and road at the East Mine, etc has been completed. The Company is in the process of preparing the application for the mining license, such as commissioning a geologist report and preparation of other relevant documents including a summary report of exploration work on the East Mine for past few years for submission to the relevant government authority. The Group intends to carry out infrastructure construction at the East Mine once the mining license is obtained.

Based on the previous experience of similar applications and communications with the relevant government body, the Group is not aware of any material impediment in obtaining the relevant approval for the license renewal.

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 a 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 concrete 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 would be certain impact on the mining of orebodies occurring below that elevation. However, given that the Project has not yet been concretely implemented, and the design, approval, and construction time of the reservoir are not finalised, the impact of the Project on the Group is considered to be limited due to the following reasons: (i) the amount of resources at the East Mine and the West Mine below 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 and the possible compensation to the Group. To the best knowledge of the Group, there is no material progress for the Project which has been suspended and is still being reviewed.

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

(2) Photovoltaic power business

The Group commenced its photovoltaic power business in the PRC after completion of the acquisition of the 89% equity interests in Beijing Jiezhong Technology Co., Ltd ("Beijing Jiezhong") in January 2020. Chengde Shuntian Photovoltaic Power Generation Co., Ltd ("Chengde Shuntian"), which is a subsidiary of Beijing Jiezhong, is principally engaged in a 5 Mega Watts ("mW") rooftop distributed photovoltaic power generation project located in Liugou Industrial Park, Liugou Town, Chengde County, Chengde City, Hebei Province, the PRC. Photovoltaic modules were installed on 32 rooftops within the industrial park with a power generation capacity of 4.085 mW. According to national and provincial photovoltaic power generation subsidy policy, Chengde Shuntian is entitled to receive (i) national financial subsidy from 1 January 2018 until the end of the project (which is expected to maintain for at least 20 years assuming there is no change in such subsidy policy) and (ii) provincial financial subsidy from 1 January 2018 until 31 December 2020. Chengde Shuntian has sold electricity to a power generation company, which is a subsidiary of a state-owned enterprise, during the year.

It is the Group's strategy to continuously explore market opportunities in the PRC, Hong Kong and Japan to expand its photovoltaic power business. On 22 June 2021, First Gain Global Limited, an indirect wholly-owned subsidiary of the Company as purchaser, has completed an acquisition of 100% of the issued share capital in SinoPower Solar Investment Co. Limited ("SPSI") from SinoPower Holding (Hong Kong) Co. Limited as vendor, which is an independent third party of the Company, for an aggregate cash consideration of HK$8,000,000.

SPSI is an integrated project developer and investor of distribution type of solar energy projects in Hong Kong. Currently, SPSI has developed various rooftop solar energy projects with an on-grid power generation capacity of approximately 2,700 Kilo Watts ("kW") and has a pipeline of solar energy projects with power generation capacity of approximately 20 mW. It has also worked with numerous property owners and land owners in Hong Kong for renewable energy investment projects, and is recognised as one of the leading solar energy market players in Hong Kong.

Currently, SPSI receives monthly feed-in tariff ("FiT") at a standard rate of HK$4 per kWh for the solar photovoltaic system's capacity from 10kW to 200kW operated by SPSI. In particular, the FiT scheme implemented by the Government of Hong Kong to promote the distribution of renewable energies has been adopted for the entire lifetime of the solar photovoltaic system project or until end of 2033, whichever is earlier. After collecting FiT Income, SPSI will distribute the share of FiT income to the relevant landlord/incorporated owners according to the terms of the respective profit-sharing agreements.

On 30 August 2021, SPSI (as vendor), an indirect wholly-owned subsidiary of EPI (Holdings) Limited ("EPI", a company listed on the Main Board of the Stock Exchange with stock code: 689) (as purchaser) and the Company (as guarantor of SPSI) entered into an agreement in relation to the disposal of certain existing and ongoing projects of an aggregate power generation capacity of approximately 4,133 kW calculated at HK$18.0 per watt multiplied by the kW capacity with the maximum consideration of HK$75,000,000 (or such other amount as may be agreed by SPSI and the purchaser in writing). SPSI will be responsible for the provision of the operation and maintenance ("O&M") services for the projects transferred at the agreed monthly fee of HK$0.9 per kWh multiplied by actual unit of energy generated shared by the purchaser for the solar energy projects. Further details of the above transactions are set out in the announcements of the Company dated 30 August 2021 and 14 September 2021.

The Group believes that it will earn profits from engineering, procurement and construction ("EPC") of solar energy projects and monthly income from O&M for projects transferred to the purchaser under the above transactions. Subsequent to the above disposal, the Group will continue to operate and develop the remaining solar photovoltaic systems and pipelines projects of SPSI. Part of the proceeds to be received will also be re-invested in other solar photovoltaic projects in Hong Kong.

In January 2022, King Stone Group Limited, a wholly subsidiary of the Company, has set up a non-wholly owned subsidiary with Solar Farm (Asia) Limited, another solar energy projects developer in Hong Kong. SPSI is still in the process of negotiation with other potential landlords/incorporated owners for the installation of solar photovoltaic systems to increase SPSI's market share in the solar energy market in Hong Kong.

(3) Tourism business

To diversify the business portfolio of the Group, the Group strategically acquired 60% equity interest of Beijing Hai Yun De Te Tourism Investment Development Company Limited ("Beijing Hai Yun"), which is principally engaged in local tourism business in the PRC, in October 2019. In September 2020, Beijing Hai Yun has acquired 100% equity interest in Beijing Huan Yu Zun Cheng International Travel Agency Company Limited, which is a tourist agency company in the PRC holding an international tourist agency license. The tourism business, which mainly represented income from the provision of MICE Travel and hotels and tickets booking services in the PRC, was still affected by COVID-19 pandemic during the year.

(4) Oil and gas exploration and production

The Group currently operates an upstream oil and gas exploration and production ("Oil and gas E&P") project in East Texas, the USA. The Group completed drilling of the first well and the second well (the "Operating Wells") which have started production since July 2014 and March 2015 respectively. The oil and gas produced from the Operating Wells are sold to oil and gas storage and transportation companies in East Texas, the USA. Each well normally has a production life of over 10 years. The Group had entered into over 400 lease agreements with mineral owners. Pursuant to the lease agreements, the Group is entitled to explore and produce oil and gas in a total area of about 1,845 acres at East Texas, the USA (the "Mining Area"). Due to the drop in oil and gas prices in past few years, the Group did not consider it commercially viable to increase the production from the Mining Area by drilling new wells. Notwithstanding this, the Group is entitled to drill six additional wells at the Mining Area. The Group is closely monitoring oil and natural gas prices and will formulate an appropriate strategy and timetable to expand the production at the Mining Area as and when appropriate.

(5) Asset Financing

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

Business model

The business scope of the Asset Financing Subsidiaries as set out in their business licenses includes finance leasing and factoring business in the PRC and the business models of the Group's asset financing business are as follows:

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

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

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

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

Major terms of lease and factoring receivables

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

On 6 June 2016, Qingrui Commercial Factoring Company Limited ("Qingrui Factoring"), 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 Factoring 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 4 June 2020, Qingrui Factoring entered into a second supplemental agreement to extend the expiry date of the factoring agreement from 5 June 2020 to 5 June 2021. Demand letters were issued against this customer requesting repayment in April 2021 and January 2022.

On 8 October 2016, Qingrui Factoring entered into two factoring agreements (as supplemented on 8 October 2019, 8 October 2020 and 8 October 2021) with a customer in respect of receivable factoring services with revolving facilities in the aggregate principal sum of RMB41 million (equivalent to approximately HK$47.8 million) for a term of 3 years as disclosed in the announcement of the Company dated 8 October 2016. The expiry date of the factoring agreements has been extended from 8 October 2019 to 7 October 2022. A demand letter was also issued against this customer requesting repayment in December 2021.

On 1 April 2021, Qingrui Factoring entered into a factoring arrangement with a customer in principal sum of RMB1.5 million (equivalent to approximately HK$1.8 million) for a term of half year with expiry date of 9 October 2021. On 25 June 2021, Qingrui Factoring entered into the factoring arrangement with the same customer in principal sum of RMB2.5 million (equivalent to approximately HK$3 million) for a term of nine months with expiry date of 24 March 2022.

On 1 November 2021, Qingrui International Finance Leasing Company Limited, also one of the Asset Financing Subsidiaries, entered into a finance leasing agreement with another customer in principal amount of RMB1.2 million (equivalent to approximately HK$1.4 million) for a term of 3 years with expiry date of 1 November 2024.

As at 31 December 2021, the total outstanding lease and factoring receivables (including management fee receivables) before impairment were approximately HK$202.5 million (2020: HK$272.5 million). As at 31 December 2021, the receivables balance before impairment of the Group's five largest customers of asset financing segment of approximately HK$197.2 million (2020: HK$253.1 million) accounted for 97.4% (2020: 92.9%) of the total lease and factoring receivables before impairment and the receivable balance before impairment of the Group's largest customer of asset financing segment of approximately HK$115.5 million (2020: HK$111.5 million) accounted for 57.1% (2020: 40.9%) of the total lease and factoring receivables before impairment.

The Group has fully recovered certain lease and factoring receivables, resulting in the recognition of reversal of impairment loss of approximately HK$49.3 million during the year. The Group is in the process of assessing the credit standing and negotiating for updated repayment schedules with other existing customers. Further actions will be taken, including but not limited to sending legal letters demanding repayment, to collect the outstanding receivables.

Internal control systems

Finance leasing

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

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

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

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

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

Business factoring

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

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

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

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

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

Actions on delinquent loans

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

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

(6) Commodities trading

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

The Group is operating business of trading of liquefied natural gas ("LNG") in the PRC through Shaanxi Beitu Logistics Co., Ltd ("Shaanxi Beitu") which currently holds a Hazardous Chemical Products Operating Permit which is required under the relevant laws and regulations for Shaanxi Beitu to operate its existing business and it is valid for a period of 3 years up to 8 July 2022. The trading of LNG business was affected as the local government would like to develop tourism industry in the region where Shaanxi Beitu is located during the year. Shaanxi Beitu is in progress of relocation to other region in which LNG enterprises are centralised around Xi'an city, the PRC.

Solid waste disposal in development phrase

King Stone New Materials (Hong Kong) Co., Ltd., a wholly-owned subsidiary of the Company, focuses on technology development, production and sales of integrated utilization of new energy, new materials and solid waste resources. It cooperates with several well-known universities and research institutes and has self developed the process technology and integrated equipment for preparing new functional materials by low temperature pyrolysis of waste tires, and has successively obtained four utility model patents for its equipment. Its subsidiary, Zhaoqing Xinshan Weili New Material Technology Co., Ltd., is planning to establish an integrated production line for low-temperature pyrolysis of waste tires with international leading technology in the Guangdong-Hong Kong-Macao Greater Bay Area. Its major products include new carbon black composite materials and modified rubber pyrolysis oil.

FINANCIAL REVIEW

Revenue and cost of sales

The Group recorded total revenue of approximately HK$86.0 million (2020: HK$51.3 million) during the year, representing an increase of 67.7% compared with last year. The increase in revenue was mainly due to increase in revenue in photovoltaic power generation business upon acquisition of 100% equity interests in SPSI in June 2021 and trading of commodities during the year.

For the silver mining business, the Group sold silver, gold, lead and zinc concentrates from ore processing at the West Mine and generated revenue of approximately HK$12.8 million (2020: HK$14.5 million). The respective cost of sales was approximately HK$5.9 million (2020: HK$12.1 million) mainly comprising of raw materials consumed, direct labour and other production cost. Gross margin was 53.8% during the year (2020: 16.5%).

For the photovoltaic power generation business, (i) Chengde Shuntian produced and sold approximately 4,700 mW of electricity and recorded revenue from photovoltaic power generation of approximately HK$3.8 million (2020: HK$6.4 million) in the PRC during the year. The related cost of sales was approximately HK$2.2 million (2020: HK$1.4 million) and gross margin was 40.9% (2020: 77.3%); (ii) SPSI (which has been acquired by the Group in late June 2021) produced and sold approximately 220,000kWh of electricity and recorded revenue from photovoltaic power generation in Hong Kong (after sharing of FiT income to the landlords incorporated owners) of approximately HK$0.6 million (2020: nil) in Hong Kong from July 2021 to December 2021. The related cost of sales was approximately HK$0.5 million (2020: nil) and gross margin was 29.7% (2020: nil); (iii) SPSI also sold solar energy projects to EPI and generated revenue of approximately HK$23.9 million during the year. The related cost of sales was approximately HK$21.4 million (2020: nil) and gross margin was 10.5%; (iv) King Stone Green Energy Technology Company Limited, which is responsible for O&M for solar energy projects of the Group, recorded revenue and cost of sales of approximately HK$0.2 million (2020: nil) and HK$0.1 million (2020: nil) respectively during the year. The gross margin was 40.0%.

For the tourism business, the Group recorded revenue of approximately HK$0.5 million (2020: HK$1.5 million) from provision of tourism agency, tickets booking services and convergence media business during the year. No respective cost of sales (2020: HK$0.6 million) and gross margin was 100% (2020: 61%) during the year.

For the oil and gas E&P in the USA, the Group, net to its ownership interests, has produced approximately 1,096 Bbl of oil, approximately 78 million cubic feet of natural gas, and approximately 3,733 Bbl of natural gas liquids (2020: approximately 1,622 Bbl of oil, approximately 88 million cubic feet of natural gas, and approximately 4,546 Bbl of natural gas liquids). The revenue was approximately HK$2.9 million during the year (2020: HK$1.7 million). Cost of sales for oil and gas E&P was approximately HK$2.1 million during the year (2020: HK$2.8 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 24.1% (2020: gross loss margin of 71.1%) during the year.

The Group also recorded revenue of approximately HK$8.0 million (2020: HK$7.0 million) from provision of asset financing business representing interest income and management fee income during the year. There was no respective cost of sales for such business during the year (2020: nil).

The Group also recorded revenue from trading of various commodities of approximately HK$33.5 million (2020: HK$20.2 million) and respective cost of sales of approximately HK$30.3 million (2020: HK$19.7 million). The gross margin was 9.6% (2020: 2.3%) during the year.

Other income and gains, net

Other income and gains, net was approximately HK$18.9 million during the year (2020: HK$20.7 million). It mainly represented foreign exchange gains, net of HK$7.2 million (2020: HK$11.2 million) and gain on disposal of an associate, namely Hainan Shengeng Ocean Development Co. Ltd ("Hainan Shengeng"), of HK$4.6 million (2020: nil).

Selling and distribution expenses and administrative expenses

Selling and distribution expenses of approximately HK$3,000 were recognised during the year (2020: HK$0.03 million). Administrative expenses were approximately HK$37.8 million (2020: HK$38.3 million) during the year, mainly comprising staff cost for administrative functions, legal and professional fees incurred for operation, depreciation and other administrative expenses.

Impairment losses of financial assets, net

The impairment of financial assets, net comprises of: (i) impairment of lease, factoring and trade receivables of approximately HK$4.6 million (2020: HK$147.8 million); and (ii) impairment of deposits and other receivables of approximately HK$47.7 million (2020: HK$59.7 million); (iii) reversal of impairment of lease and factoring receivables and a deposit of HK$49.6 million (2020: nil).

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses ("ECL") pursuant to HKFRS 9 Financial Instruments. The probabilities of default are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. At 31 December 2021, the probability of default applied was 0.05% to 100% (2020: 0% to 100%) and the loss given default rate was estimated to be ranged from 57.65% to 64.87% (2020: 0% to 62.52%). Impairment loss were mainly attributable to the fact that the debtors have been default in settlement of interest payments for a prolonged period. These receivables were considered credit-impaired given worsening credit environment and credit risks for customers in the period of COVID-19.

Other expenses, net

The breakdown of other expenses, net was as follows:

	2021	2020
	HK$'000	*HK$'000*
Impairment of items of property, plant and equipment	**1,187**	2,932
Impairment of other intangible assets	**20,998**	23,485
Loss on deemed disposal of an associate	**3,191**	–
Others	**87**	1,199
Total	**25,463**	27,616

The Directors had estimated the recoverable amounts of the mining assets of the silver mining business (the "Silver Mining Assets") of the Group using fair value less cost of disposal ("FV") approach, and the extracting assets (the "Extracting Assets") of the Oil and gas E&P business (the "Oil & Gas Assets") of the Group using value in use ("VIU") approach for impairment testing.

In this connection, the Company had assessed the recoverable amounts of the cash-generating units ("CGUs") and the management had derived the recoverable amounts of the Mining/Extracting Assets from the FV or VIU of the relevant CGUs. In assessing the recoverable amounts of each of the CGUs, the future cash flows of each of the silver mining and Oil and gas E&P businesses which cover the periods to utilise the remaining reserves of the mines and oil and gas fields, are discounted to the related present values using a post-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of silver, oil and gas, production cost and other expenses, capital expenditure, production plan and discount rate, respectively, which reflected the current conditions of the market and the Group and estimated trend in the future.

When evaluating the appropriate discount rate for each of the CGUs, the Capital Assets Pricing Model (the "CAPM") had been used. Under CAPM, the appropriate expected rate of return was the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the CGUs was expected to be affected by other firm specific risk factors that are independent of the general market. The cost of equity was determined by the risk-free rate, market return, and estimated beta of the CGUs and firm specific risk factors. The pre-tax discount rates was from 9% to 10% (2020: 10%) were used in assessing the FV of the CGUs of the Silver Mining Assets and from 11% to 12% (2020: 11% to 12% were used in assessing the VIU of Oil & Gas Assets, which was arrived at by weighted average of cost of equity and cost of debt after tax of the respective CGUs.

There was no material change in the valuation methodology adopted by the Group during the year.

Based on the FV assessment of the CGUs of the Silver Mining Assets, the Directors are of the opinion that an impairment loss of the Silver Mining Assets totaling HK$22.2 million (2020: HK$24.7 million) was resulted during the year, in which HK$1.2 million (2020: HK$1.3 million) was allocated to property, plant and equipment and HK$21.0 million (2020: HK$23.3 million) was allocated to intangible assets of the Group's silver mining segment, based on their relative carrying amounts amongst the Silver Mining Assets.

In addition, based on the VIU assessment of the CGUs of the Oil & Gas Assets, the Directors are of the opinion that no impairment loss of the Oil & Gas Assets (2020: HK$1.8 million) was resulted during the year. In 2020, HK$1.6 million and HK$0.2 million were allocated to property, plant and equipment and intangible assets of the Group's oil and gas segment, respectively based on their relative carrying amounts amongst the Oil & Gas Assets.

Finance costs, net

Finance costs, net were approximately HK$51.6 million (2020: HK$45.9 million), which mainly represented interest and other borrowing costs and penalties on overdue loans raised for the silver mining business of approximately HK$48.8 million (2020: HK$42.9 million) during the year.

Share of losses of associates

During the year, the Group shared the losses of One Asia Securities Limited, an associate which is principally engaged in securities trading in Japan, of approximately HK$0.3 million (2020: nil). In 2020, it represented share of loss of Hainan Shengeng of approximately HK$15.1 million.

Income tax

Income tax was approximately HK$1.0 million (2020: HK$0.9 million) during the year. It mainly represented deferred income tax arising from photovoltaic business in Hong Kong of approximately HK$0.6 million (2020: nil) during the year. In 2020, it mainly represented income tax arising from asset financing business of approximately HK$0.9 million. No provision for profit tax in Hong Kong, the USA and Singapore has been made during the current and prior years.

Loss for the year attributable to shareholders of the Company

Loss for the year attributable to shareholders of the Company was approximately HK$42.9 million (2020: HK$268.9 million). The decrease in loss for the year was mainly due to the decrease in impairment loss and increase in reversal of impairment loss of financial assets during the year.

Fund raising exercises

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

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

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

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

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

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

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

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

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

Therefore, the total number of shares taken by shareholders under the Rights Issue and the shares placed under the Placing represents the total number of 395,752,778 rights shares available for subscription under the Rights Issue raising gross proceeds of approximately HK$98.94 million and net proceeds of approximately HK$97.74 million. Details of the above were disclosed in announcements of the Company dated 16 November 2021, 2 December 2021, 28 December 2021, 31 December 2021, 27 January 2022, 21 February 2022 and 3 March 2022, circular of the Company dated 8 December 2021 and prospectus of the Company dated 26 January 2022. As at date of this announcement, the proceeds were not yet utilised.

There was no unutilised proceed brought forward from any issue of equity securities made in previous years.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly financed its day to day operations by internally generated cash flow during the year. As at 31 December 2021, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.72:1 (2020: 0.64:1). As at 31 December 2021, the cash and cash equivalents of the Group were approximately HK$83.0 million (2020: HK$57.4 million).

As at 31 December 2021, there was outstanding interest-bearing bank loan of principal of approximately HK$4 million (2020: nil) which was denominated in Hong Kong dollars. The bank loan was subject to fixed interest rate of 7% per annum and was due on 31 December 2024. The bank loan was secured by (i) several solar energy projects of the Group with an aggregate net carrying amount of approximately HK$5.3 million; (ii) 100% equity interest in a wholly subsidiary of the Company; (iii) corporate guarantee by the Company; and (iv) personal guarantee by a director of the Company. A time deposit of HK$0.5 million was also maintained for the above bank loan as at 31 December 2021.

The convertible notes in the aggregate principal amount of HK$50 million with the conversion price of HK$0.80 (adjusted upon Share Consolidation effective from 30 December 2021) each were issued on 7 August 2020 and all convertible notes have been converted into a total of 625,000,000 new ordinary shares of the Company during the year. There were no outstanding convertible notes as at 31 December 2021 (2020: HK$50 million).

As at 31 December 2021, there were other loans of approximately HK$362.2 million (2020: HK$286.6 million) comprising loan principal and commission payable of approximately HK$81.7 million (2020: HK$57.9 million), overdue interest/penalty of approximately HK$280.3 million (2020: HK$228.7 million) and non-overdue interest of approximately HK$0.2 million (2020: nil). Other loans of approximately HK$345.5 million, HK$12.2 million and HK$4.5 million were denominated in Renminbi, Hong Kong dollars and Japanese Yen respectively. Other loans with principal of approximately HK$24.5 million (2020: HK$23.8 million) and HK$6.7 million (2020: HK$6.5 million) were interest-free and with fixed interest rate of 15% per annum, respectively. Other loans of approximately HK$345.5 million were subject to an overdue penalty of 0.5% per day on loan principal and 1% on the overdue balance, respectively. Other loans of approximately HK$4.5 million were with fixed interest rate of 12% per annum and were due on 20 July 2022. Other loans of HK$12 million, which were repaid in January 2022, were with fixed interest rate of 8% per annum and were due on 31 March 2022. As at 31 December 2021, other loans of approximately HK$345.5 million (2020: 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 31 December 2021) 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$11.7 million) issued in August 2017, the Group was held liable to pay a sum of approximately RMB10.4 million (equivalent to approximately HK$12.7 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$12.9 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 announcement.

(ii) Pursuant to the judgment of the second instance in respect of a claim for outstanding loan with principal amount of RMB5.5 million (equivalent to approximately HK$6.7 million) and respective accrued interest issued in March 2018, the Group was held liable to pay the claims made by the creditor. There has been no material update as at the date of this announcement.

Adequate accrued interest and penalties have been provided by the Group as at 31 December 2021. 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 business transactions mainly in Renminbi, Hong Kong dollars, US dollars and Japanese Yen. The Group did not arrange any forward currency contracts for hedging purposes.

GEARING RATIO

The gearing ratio of the Group, measured as total debt (which represented trade payables, other payables and accruals, lease liabilities, other loans and liability component of convertible notes) in a ratio to the total equity attributable to shareholders of the Company, was 1.96 as at 31 December 2021 (2020: 1.89).

MATERIAL ACQUISITIONS AND DISPOSALS

Material Acquisitions and Disposals

(i) Proposed acquisition of lead and zinc mines in the PRC

On 4 December 2017, the Company entered into a non-legally binding memorandum of understanding (as supplemented on 29 June 2018, 27 December 2018, 28 June 2019, 27 December 2019, 26 June 2020, 22 December 2020, 25 June 2021 and 30 December 2021) 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 30 June 2022. Earnest money of RMB85.5 million was paid and no formal agreement in respect of proposed acquisition was made up to date of this announcement. Details of the above were set out in the announcements of the Company dated 4 December 2017, 29 June 2018, 27 December 2018, 28 June 2019, 27 December 2019, 26 June 2020, 22 December 2020, 25 June 2021 and 30 December 2021.

(ii) Disposal of Hainan Shengeng

On 31 December 2020, Zhuhai Jinwei Environmental Protection Technology Co., Ltd (a wholly owned subsidiary of the Company), Xi An Tong Da International Trading Limited (an independent third party which held 5.5% equity interests in Hainan Shengeng) and Hainan Shengeng entered into the disposal agreement in respect of disposal of 19.5% equity interests in Hainan Shengeng at cash consideration of RMB21 million (equivalent to approximately HK$25 million). The cash consideration of RMB21 million has been received in March 2021 and the disposal was completed during the year.

Save for the above and completion of acquisition of 100% equity interests in SPSI as mentioned before, the Group had no other material acquisition and disposal of subsidiaries, associates and joint ventures during the year.

SIGNIFICANT INVESTMENT

The Group had no significant investment of carrying value of 5% or more of the total assets as at 31 December 2021 (2020: nil).

CAPITAL COMMITMENTS, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2021, 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) (2020: HK$1.8 million) in respect of acquisition of 30% equity interest in a former subsidiary of the Company within 10 years after completion of disposal of the former subsidiaries in June 2015 and HK$4.9 million in respect of purchase of solar photovoltaic.

As at 31 December 2021, time deposits of approximately HK$2.4 million (2020: HK$2.2 million) were pledged for conducting silver mining businesses as required by relevant government authorities. Save as disclosed above and certain assets of the Group pledged for a bank loan as stated in section headed “Liquidity and Financial Review”, the Group had no other pledge of assets as at 31 December 2021.

As at 31 December 2021, the Group did not have any material contingent liabilities (2020: nil).

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2021, the Group had 54 (2020: 62) employees. The total staff costs (including directors' remuneration) for the year were approximately HK$22.6 million (2020: HK$22.3 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 its employees' to enhance their 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 year. There were no outstanding share options as at 31 December 2021.

FUTURE OUTLOOK

In recent years, governments around the world have been furthering the promotion of sustainable finance and environmental, social and governance ("ESG") policies and regulations. Investors have begun to place increasingly strong emphasis on investment factors other than commercial returns such as environmental impact and social responsibility. It is pointed out that ESG-focused companies and green investments are more defensive against the fluctuating market conditions in the pandemic and the global low interest environment, prompting investors to pay more attention to investment issues such as sustainable finance and ESG.

Therefore, while continuing to maintain and develop its existing businesses, the Group has recently actively diversified its businesses and invested in eco-friendly new energy, solid waste disposal and new materials. In respect of new energy, it mainly focuses on technology research and development, equipment and product manufacturing, project investment and operation and management in the fields of solar energy, wind energy and energy storage.

The Group has completed the acquisition of SPSI, which is principally engaged in development of solar energy projects, for the first step of entering the new energy market of Hong Kong in June 2021. Meanwhile, King Stone Energy, Inc. ("KSE Inc"), a wholly-owned subsidiary of the Group in Japan, will also further develop solar power generation projects in Japan. The Group, through KSE Inc, has also been seeking opportunities for merger and acquisition of renewable energy businesses in Japan. Among them, the Group believes that wind power generation business in Japan can generate stable cash flow under the Feed-in-Tariff Program, and make it easier to manage and control risks, which is an investment target with huge potential. The Group has been in negotiation for cooperation with a high-tech company, which is specialised in wind power generation, to jointly engage in product sales, market development, project operation and maintenance, asset management and other businesses of small to medium-sized distributed on-grid wind power systems in Japan, with an aim to become a project developer that can effectively integrate the resources of small to medium-sized distributed wind power market in Japan.

The Group is also actively conducting the research on materials, technology, and application development of the energy storage industry to strengthen its presence in the PRC. In light of this, it is cooperating with a high-tech enterprise dedicated to the research and development, production and sales of new energy vehicle power batteries to work on the research and development and production of new vanadium redox battery and multi-energy integration and complement projects in the PRC. In March 2021, the Company entered into a memorandum with an independent third party in respect of the proposed acquisition of a target company in Baotou City, Inner Mongolia, the PRC. The target company is a high-tech enterprise engaged in the research and development, manufacturing and sales of technology, materials and equipment of rare earth new power supply. It possesses various patents for the core technology of the industrialization of rare earth new power supply projects, and its market positioning is to provide power supply, energy storage supply and start-up power supply for new energy vehicles in alpine regions in the PRC.

On 11 March 2022, the Company entered into a strategic cooperation agreement with Enerstar Corporation ("Enerstar"), which is a high-tech research institute principally engaged in the research and development and production of hydrogen fuel cell membrane electrodes, stacks, modules and systems, and testing equipment, in relation to forming a strategic alliance to develop the foundation of the hydrogen energy industry chain in Ordos City, Inner Mongolia, the PRC and by taking advantage of the high-yield and low-cost advantages of Inner Mongolia's industrial by-product hydrogen and photovoltaic green hydrogen, build a hydrogen supply and hydrogenation chain through the jointly established or self-established stations, open up the lifeline of fuel cell vehicles, and promote the integrated development of hydrogen production, storage, transportation and application. The parties will cooperate in four key areas namely (i) hydrogen fuel cell system manufacturing; (ii) hydrogen fuel cell vehicle sales; (iii) hydrogen refueling station; and (iv) hydrogen fuel cell heavy truck operation. The Company and Enerstar will establish a joint venture entity to build and develop a full-end hydrogen energy industry chain in Ordos City, mainly engaged in the technology research and development, product development, manufacturing and sale of hydrogen fuel cells and main components (membrane electrodes) and hydrogen fuel cell semi-trailer trucks, financial leasing services and operation of hydrogen fuel cell heavy trucks, and construction and development of hydrogen refueling stations.

As the society and the capital market put more emphasis on ESG, the Group is adjusting its business strategy and gradually diversifying into an integrated new energy company that focuses on eco-friendly energy, solid waste treatment and new materials, accompanied with traditional energy and mineral exploration, and combined with light assets including asset financing services, commodities trading and tourism. The Group believes that the new energy and solid waste disposal projects are eco-friendly and produce significant economic benefits, and are also in line with the values of recycling use and ecological development that are advocated worldwide. It is expected that the implementation of the Group's new energy projects will achieve the win-win goal of regional economic development and contribute to a better environment that is beneficial to the country and mankind, creating better returns for the shareholders and investors of the Company in the long term.

DIVIDEND

The Board has resolved not to declare any dividend for the year ended 31 December 2021 (2020: nil).

PURCHASE, REDEMPTION OR SALE OF SECURITIES

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices (the "Code") which adopted practices that meet the requirements as set out in Appendix 14 to the Listing Rules during the year, with the following exception:

Under provision A.4.1 of the Code, non-executive Directors should be appointed for a specific term, subject to re-election. All of the 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 has been and 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 to the Listing Rules as the guidelines for the Directors dealings in securities of the Company. 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 year.

REVIEW BY AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in accordance with the requirements of the Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting procedure, risk management and internal controls Systems of the Company. The Audit Committee comprises three independent non-executive directors, namely Mr. Chiu Sui Keung, Mr. Lee Ping and Mr. Lee Kwok Wan. The Audit Committee has reviewed the annual results for the year ended 31 December 2021.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (https://663hk.com). The Company's 2021 annual report along with the AGM circular, the notice of AGM, the proxy form and such documents will be published on the aforementioned websites and despatched to the shareholders of the Company in due course.

On behalf of the Board
King Stone Energy Group Limited
Xu Zhuliang
Chairman

Hong Kong, 31 March 2022

As at the date of this announcement, the executive Directors are Mr. Xu Zhuliang, Mr. Zong Hao and Ms. He Qing, and the independent non-executive Directors are Mr. Chiu Sui Keung, Mr. Lee Ping and Mr. Lee Kwok Wan.