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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)

DISCLOSEABLE TRANSACTION: PROPOSED ACQUISITION OF 89% EQUITY INTERESTS IN BEIJING JIEZHONG TECHNOLOGY CO., LTD.

The Board is pleased to announce that the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Vendor on 20 December 2019 (after trading hours), pursuant to which the Purchaser has agreed to acquire and the Vendor has agreed to sell the Equity Interests in the Target for a consideration of HK\$19,600,000 in accordance with the terms and conditions of the Acquisition Agreement.

The Consideration shall be satisfied by the Company allotting and issuing the Consideration Shares, credited as fully paid, to the Vendor at the issue price of HK\$0.07 per Consideration Share.

LISTING RULES IMPLICATION

As the applicable percentage ratios for the transaction under the Acquisition Agreement are more than 5% but less than 25%, the Acquisition Agreement and the transactions contemplated thereunder constitute a discloseable transaction on the part of the Company under Rule 14.07 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Vendor on 20 December 2019 (after trading hours), pursuant to which the Purchaser has agreed to acquire and the Vendor has agreed to sell the Equity Interests in the Target for a consideration of HK\$19,600,000 in accordance with the terms and conditions of the Acquisition Agreement.

THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are set out below:

Date: 20 December 2019

Parties: Gold Wish Investments Limited as Purchaser; and
HongKong YLM International Shares Limited as Vendor

The Purchaser is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company.

The Vendor is a company incorporated in Hong Kong with limited liability and is principally engaged in investments holding. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its beneficial owners are Independent Third Parties.

Acquisition of the Equity Interests

Pursuant to the Acquisition Agreement, the Purchaser has agreed to purchase the Equity Interests, representing 89% of the equity interests in the Target as at the date of this announcement.

Consideration

The Consideration is HK\$19,600,000. The Consideration will be satisfied by the allotment and issue of the Consideration Shares, credited as fully paid, to the Vendor at the issue price of HK\$0.07 per Consideration Share.

The Consideration Shares represent approximately 3.99% of the existing issued share capital of the Company and approximately 3.84% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares will be issued pursuant to the general mandate granted to the Board at the general meeting of the Company held on 3 June 2019. As at the date of this announcement, such general mandate has yet to be utilised and the Directors are authorised to allot and issue up to 1,402,011,113 shares under such general mandate. The Consideration Shares shall rank pari passu with the Shares in issue on the date of their allotment and issue.

The Consideration was agreed between the Company and the Vendor after arm's length negotiations with reference to (i) the potential financial and business prospect of the Target Group and (ii) the valuation by an independent valuer of the Target Group based on market approach with reference to the valuation of similar business operated by listed companies and having taking into consideration marketability discount on the Target Group which values the Equity Interests at approximately RMB17,675,000 (equivalent to approximately HK\$19,619,000).

The issue price of HK\$0.07 per Consideration Share represents:

- (a) a discount of approximately 14.6% to the closing price of HK\$0.082 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (b) a discount of approximately 13.8% to the average closing price of HK\$0.0812 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the Last Trading Day.

The issue price of HK\$0.07 per Consideration Share was arrived at by the Company and the Vendor after arm's length negotiation and taking into account the prevailing trading prices of the Shares.

Having considered the factors taken into account by the parties in arriving at the Consideration, the Directors (including the independent non-executive Directors) are of the view that the Consideration and the issue price of HK\$0.07 per Consideration Share are fair and reasonable.

Conditions Precedent

Completion of the Acquisition is subject to and conditional upon the satisfaction (or if applicable, waiver) of the following conditions:

- (a) the Purchaser being satisfied with the results of the due diligence review to be conducted on the Target Group;
- (b) the Listing Committee of the Stock Exchange granting the approval for the listing of and permission to deal in the Consideration Shares;
- (c) the warranties of the Acquisition Agreement in relation to the Target Group and the Vendor remaining true, accurate and complete in all respects and not misleading;
- (d) there being no material adverse change to the Target Group since the date of the Acquisition Agreement;

- (e) all necessary consents and approvals required to be obtained on the part of the Purchaser, the Vendor and the Target in respect of the transactions contemplated under the Acquisition Agreement having been obtained; and
- (f) all necessary consents and approvals required to be obtained from relevant PRC government departments or other appropriate organisations in respect of the transactions contemplated under the Acquisition Agreement having been obtained.

The Purchaser may, in its absolute discretion, waive all or any of the conditions set out above (other than items (b), (e) and (f) which cannot be waived in any circumstance) at any time by notice in writing to the Vendor.

Pursuant to the Acquisition Agreement, if any of the conditions precedent above is not being fulfilled or waived by the Purchaser in full by 5:00 p.m. on 31 March 2020 (or such other time and date as may be agreed between the Purchaser and the Vendor in writing), the Acquisition Agreement shall cease and determine.

As at the date of this announcement, none of the conditions precedent has been fulfilled.

Completion

Completion for the Acquisition shall take place on the third business day after the date on which all the conditions precedent specified in the Acquisition Agreement are fulfilled or, as the case may be, waived by the Purchaser.

Upon the completion of the Acquisition, the Target will become an indirect 89% owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the books of the Company.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following chart sets out the shareholding structure of the Company (i) as at the date of this announcement and (ii) immediately upon the allotment and issue of the Consideration Shares, assuming there is no other change in the issued share capital and shareholding structure of the Company from the date of this announcement.

Shareholders	As at the date of this announcement		Immediately upon the allotment and issue of the Consideration Shares	
	<i>Number of Shares</i>	<i>Approximate percentage (%)</i>	<i>Number of Shares</i>	<i>Approximate percentage (%)</i>
Belton Light Limited	3,575,318,000	51.00	3,575,318,000	49.04
Gold sino Investments Limited	1,081,500,000	15.43	1,081,500,000	14.84
Vendor (or its nominee)	0	0	280,000,000	3.84
Other public Shareholders	2,353,237,568	33.57	2,353,237,568	32.28
Total	7,010,055,568	100	7,290,055,568	100

INFORMATION OF THE TARGET GROUP

The Target is a company established in the PRC. As at the date of this announcement, the Target is legally and beneficially owned as to 89% by the Vendor and as to 11% by an Independent Third Party. The Target, through its 85% – owned indirect subsidiary Chengde Shuntian, is principally engaged in a 5 Mega Watts 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 4.038 Mega Watts.

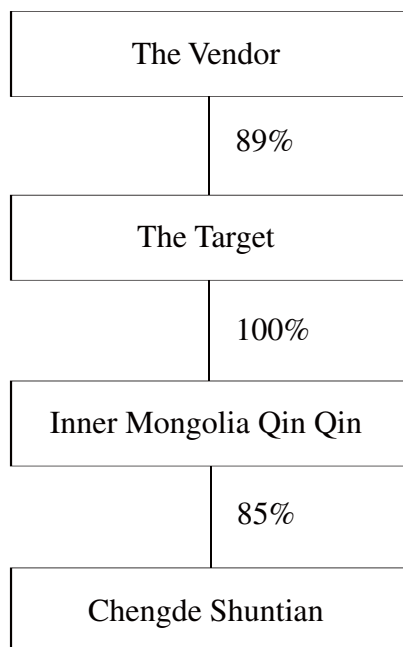
According to national and provincial photovoltaic power generation subsidy policy, Chengde Shuntian is entitled to receive (i) national financial subsidy from 1 January 2018 until the end of the project and (ii) provincial financial subsidy from 1 January 2018 until 31 December 2020. From 1 January 2018 to 30 September 2019, Chengde Shuntian's entitlement under the national and provincial photovoltaic power generation subsidy policy amounted to approximately RMB3,500,000 (equivalent to approximately HK\$3,885,000) and approximately RMB1,800,000 (equivalent to approximately HK\$1,998,000), respectively.

Set out below is a summary of the unaudited consolidated financial information of the Target Group, prepared in accordance with the generally accepted accounting principles in the PRC, for the two years ended 31 December 2018 and the ten months ended 31 October 2019:

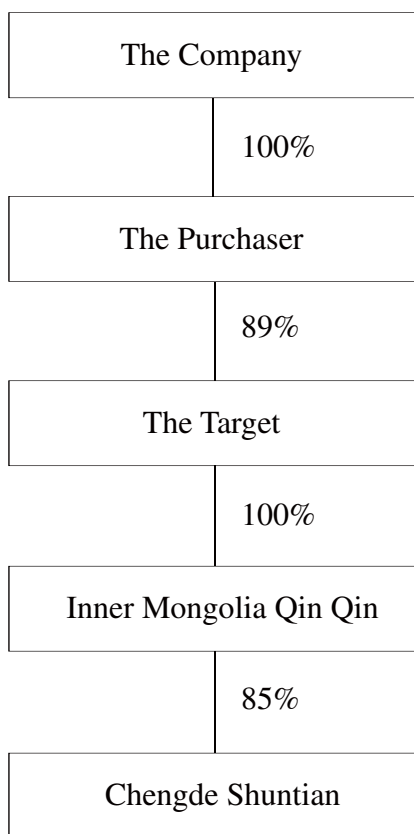
	For the year ended 31 December 2017 <i>(unaudited)</i> <i>(RMB'000)</i>	For the year ended 31 December 2018 <i>(unaudited)</i> <i>(RMB'000)</i>	For the ten months ended 31 October 2019 <i>(unaudited)</i> <i>(RMB'000)</i>
Profit/(Loss) before taxation	(10) (equivalent to approximately HK\$(11))	539 (equivalent to approximately HK\$598)	1,382 (equivalent to approximately HK\$1,534)
Profit/(Loss) after taxation	(10) (equivalent to approximately HK\$(11))	539 (equivalent to approximately HK\$598)	1,382 (equivalent to approximately HK\$1,534)

The unaudited consolidated net asset value of the Target Group as at 31 October 2019 was approximately RMB1.6 million (equivalent to approximately HK\$1.8million).

Below is a diagram illustrating the corporate structure of the Target Group immediately before the completion of the Acquisition:



Below is a diagram illustrating the corporate structure of the Target Group immediately after the completion of the Acquisition:



INFORMATION ON THE GROUP

The Company is an investment holding company. The Group is principally engaged in exploring and drilling natural gas and oil in the United States of America, silver mining, provision of asset financing service and tourism in the PRC.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors are of the view that the Acquisition provides a good opportunity for the Group to enter renewable energy market in the PRC to complement the Group's non-renewable energy businesses. The Directors consider that (i) photovoltaic power has large potential and the Acquisition will diversify the Group's business and broaden its revenue base; (ii) the photovoltaic power generation financial subsidy policies in the PRC will ensure a steady income stream to the Target Group; (iii) the settlement of the Consideration by way of the allotment and issue of the Consideration Shares enables sufficient funding for the Acquisition without causing or creating any cash outflows, liability or commitment on the part of the Company while the equity capital base of the Company would be enlarged, the current and future liquidity position of the Group can therefore be properly maintained;

In consideration of the above, the Directors are of the view that the terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interests of the Company and Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios for the transaction under the Acquisition Agreement are more than 5% but less than 25%, the Acquisition Agreement and the transactions contemplated thereunder constitute a discloseable transaction on the part of the Company under Rule 14.07 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms shall have the same following meanings as set out below:

“Acquisition”	the proposed acquisition of the Equity Interests in the Target by the Purchaser from the Vendor in accordance with the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the conditional acquisition agreement dated 20 December 2019 and entered into between the Purchaser and the Vendor in relation to the Acquisition
“Board”	the board of Directors
“Chengde Shuntian”	承德順天光伏發電有限公司 (Chengde Shuntian Photovoltaic Power Generation Co., Ltd.*), a company established in the PRC and is owned as to 85% by Inner Mongolia Qin Qin
“Company”	King Stone Energy Group Limited, a company incorporated in Hong Kong with limited liability whose issued shares are listed on the Main Board of the Stock Exchange (stock code: 663)
“Consideration”	HK\$19,600,000
“Consideration Shares”	280,000,000 new Shares to be allotted and issued to the Vendor, credited as fully paid, as settlement of the Consideration
“Director(s)”	the director(s) of the Company
“Equity Interests”	89% of the equity interests in the Target
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	independent third party(ies) not connected with the Company and its connected persons within the meaning of the Listing Rules
“Inner Mongolia Qin Qin”	內蒙古青青科技有限公司 (Inner Mongolia Qin Qin Technology Co. Ltd.*), a wholly owned subsidiary of the Target established in the PRC

“Last Trading Day”	20 December 2019, being the last trading day immediately prior to the release of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Gold Wish Investments Limited, a company incorporated in Hong Kong and an indirectly wholly-owned subsidiary of the Company
“Share(s)”	ordinary shares of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	北京杰眾科技有限責任公司(Beijing Jiezhong Technology Co., Ltd.*), a company established in the PRC which is owned as to 89% by the Vendor immediately prior to the completion of the Acquisition
“Target Group”	the Target, Inner Mongolia Qin Qin and Chengde Shuntian
“Vendor”	HongKong YLM International Shares Limited, a company incorporated in Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By Order of the Board
King Stone Energy Group Limited
Zong Hao
Executive Director

Hong Kong, 20 December 2019

The English transliteration of the Chinese name(s) in this announcement, where indicated with “”, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese names.*

In this announcement, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.11. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

As at the date of this announcement, the executive Directors are Ms. Gloria Chang Wong, Mr. Zong Hao, Mr. Xu Zhuliang, Mr. Benjamin Clark Danielson and Ms. He Qing, and the independent non-executive Directors are Mr. Chiu Sui Keung, Mr. Lu Binghui, Mr. Lee Ping, Mr. Liu Shengming and Mr. Lee Kwok Wan.