

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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: ACQUISITION OF 21% EQUITY INTERESTS IN SOUTH RAY INVESTMENT LIMITED

Financial Adviser to the Company



INCUC Corporate Finance Limited

SHARE PURCHASE AGREEMENT

On 21 December 2022 (after trading hours), the Company, the Vendor and the Guarantor entered into the Share Purchase Agreement, pursuant to which and subject to the terms and conditions thereof, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares at the consideration of RMB70,000,000 (equivalent to approximately HK\$77,700,000).

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

Reference is made to 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, 30 December 2021, 30 June 2022 and 29 August 2022, the Company entered into the non-legally binding MOU with the Vendor and the Guarantor in respect of the potential acquisition of the Target Company.

On 21 December 2022 (after trading hours), the Company, the Vendor and the Guarantor entered into the Share Purchase Agreement, pursuant to which and subject to the terms and conditions thereof, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares at the consideration of RMB70,000,000 (equivalent to approximately HK\$77,700,000). The principal terms of the Share Purchase Agreement are summarized as follows:

SHARE PURCHASE AGREEMENT

Date

21 December 2022

Parties Involved

- (i) the Company;
- (ii) the Vendor; and
- (iii) the Guarantor

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the Vendor and its ultimate beneficial owners, are the Independent Third Parties.

Subject Matter

As at the date of this announcement, the Target Company is wholly-owned by the Vendor.

Pursuant to the Share Purchase Agreement, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing 21% of the entire issued share capital of the Target Company.

Consideration

The consideration for the Acquisition shall be RMB70,000,000 (equivalent to approximately HK\$77,700,000), which shall be settled by the Deposit paid by the Company to the Vendor. No cash outflow of the Group will be made for the Acquisition.

The consideration was determined after arm's length negotiations between the Company and the Vendor with reference to the valuation on the entire equity interest of Yongniuteqi Lilan, the direct holding company of Shengdi Mining, in an amount of approximately RMB503,400,000 (equivalent to approximately HK\$558,774,000) as at 31 July 2022 by adopting the market approach by the Valuer.

Conditions Precedent

The Acquisition is conditional upon the following:

- (i) the Company being satisfied with the results of the due diligence review on the Target Group;
- (ii) All parties have obtained all necessary permits, approvals and consents for the Acquisition, including but not limited to, the board of directors of each party, the Stock Exchange, relevant government departments and/or regulatory agencies;
- (iii) the representations, warranties and undertakings provided by the Vendor and/or the Guarantor shall remain true, accurate and not misleading from the date of the Share Purchase Agreement until the date of completion; and
- (iv) there are no applicable Listing Rules, laws or regulations that prohibit any transaction contemplated hereunder.

If the conditions above have not been fulfilled on or before the Long Stop Date (or such other date as the parties may agree), the Share Purchase Agreement shall cease and terminate. The Vendor shall return the Earnest Money together with the accrued interest owed to the Group pursuant to the terms and conditions of the MOU.

Completion

Completion for the Acquisition shall take place on the same business day after the date on which all the conditions precedent specified in the Share Purchase Agreement are fulfilled.

Upon the completion of the Acquisition, the Company's shareholding in the Target Company will be classified as an associate of the Company.

INFORMATION OF THE PARTIES

The Company

The Company is an investment holding company. The Group is principally engaged in oil and gas exploration and production, silver mining, asset financing services, tourism services, photovoltaic power generation and commodities trading.

The Vendor and Guarantor

The Vendor is principally engaged in investment holding. As at the date of this announcement, the Guarantor, who is the beneficial owner of the Vendor, is an Independent Third Party.

INFORMATION OF THE TARGET GROUP

The Target Company is a company incorporated under the laws of the BVI with limited liability and is legally and beneficially owned by the Vendor. The Target Company is principally engaged in investment holding. The major asset held by the Target Group is the mine located in Inner Mongolia, the PRC, which is owned by Shengdi Mining (the "Mine").

The Target Group is principally engaged in the mining and processing of non-ferrous metals in the PRC. Shengdi Mining owns a mining right of the Mine in Ongniud Banner, Chifeng City, Inner Mongolia, the PRC. The mining permit is valid from February 2015 up to February 2024 and covers an area of 7.151 square kilometers. Based on the technical report of Mine, the Mine consists of one underground mine, which contains mineral resources of zinc, lead and silver, one processing plant with a processing capacity of 150,000 tonne per annum and the abovementioned mining permit.

Set out below is the unaudited consolidated financial information of the Target Group prepared in accordance with PRC accounting standard:

	For the year ended 31 December 2020 (unaudited) approximately RMB'000	For the year ended 31 December 2021 (unaudited) approximately RMB'000	For the nine months ended 30 September 2022 (unaudited) approximately RMB'000
Net profit/(loss) before tax	35,465	(12,970)	(10,626)
Net profit/(loss) after tax	35,465	(12,970)	(10,626)

As at 30 September 2022, the unaudited consolidated net assets of the Target Group were approximately RMB260.1 million (equivalent to approximately HK\$288.7 million).

The net loss of the Target Group for the year ended 31 December 2021 and the nine months ended 30 September 2022 was mainly due to the outbreak of the COVID-19 pandemic and the various preventive measures implemented by the PRC government. Due to lock down, travel restriction and quarantine policies in Inner Mongolia, the PRC, the operation and exploration of the Mine owned by Shengdi Mining was significantly affected. It is expected that the Target Group will resume its operating level when the PRC government relax the preventive measures in the coming year.

Pursuant to the MOU and prior to the Share Purchase Agreement, the Group has provided approximately RMB15.5 million (equivalent to approximately HK\$17.2 million) to the Target Group for meeting their operating expenses and/or capital expenditure as part of the Earnest Money. Due to lock down, travel restriction and quarantine policies in Inner Mongolia, the PRC, the Company agrees that the Target Group will repay such remaining Earnest Money to the Group by the end of 2023 and the Share Charges shall not be released until the remaining Earnest Money is fully repaid under the terms pursuant to the MOU.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As mentioned above, the major asset of the Target Group is the Mine held by Shengdi Mining. The Group is principally engaged in oil and gas exploration and production, silver mining, asset financing services, tourism services, photovoltaic power generation and commodities trading. The Directors consider that the Acquisition is the business expansion of the existing business of the Group.

Reference is made to the announcement of the Company dated 29 August 2022, the Group has been negotiating and preparing a proposal for the Acquisition. However, the outbreak of the COVID-19 prolonged the progress of the negotiation with the Vendor as the PRC government implemented various preventive measures in order to limit the spread of the pandemic. Furthermore, the outbreak of the COVID-19 also adversely affected the business environment globally, which in turn limited the Company's options and opportunities of obtaining external financing for the Acquisition.

As a result, although the Target Group was operating at a loss due to the reasons as discussed above, the Directors are of the view that the Acquisition is a good opportunity to expand the Group's mining business and the financial performance of the Target Group is expected to recover following the relaxation of the COVID-19 preventive measures in the PRC. The Directors also consider that the business environment has been difficult in past few years but is in progressive recovery in the recent months. International Lead and Zinc Study Group, which was formed by the United Nation in 1959, released a press release on 14 December 2022 that the world refined lead metal and zinc metal demand exceeded supply by 46kt and 118kt during the first ten months of 2022 respectively. The reported stock level of lead metal and zinc metal was reduced by 62kt and 125kt respectively as the global mine production of lead and zinc was reduced by 2.1% and 3.1% during the first ten months of 2022. Therefore, the Directors consider it is fair and reasonable and is in the interest of the Shareholders to acquire a minority stake of the Target Company and preserve potential opportunities to further expand the Group's mining business without obtaining external financing and creating any extra financial burden to the Group at the current business environment and condition of the financial market.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of 21% of the entire issued share capital of the Target Company in accordance with the Share Purchase Agreement
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any weekday(s) (other than a Saturday or a day on which a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which banks are generally open for business in Hong Kong
“BVI”	the British Virgin Islands

“Company”	King Stone Energy Group Limited, a company incorporated in Hong Kong with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 663)
“Deposit”	the deposit of RMB70,000,000 (equivalent to approximately HK\$77,700,000) to the Vendor pursuant to the MOU
“Director(s)”	the director(s) of the Company
“Earnest Money”	the sum of the Deposit and approximately RMB15.5 million (equivalent to approximately HK\$17.2 million) to the Target Group for meeting the operating expenses and/or capital expenditure of the Target Group pursuant to the MOU
“Group”	the Company and its subsidiaries
“Guarantor”	Li Sheng (李晟), the beneficial owner of the Vendor
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong South Ray”	Hong Kong South Ray Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by the Target Company
“Independent Third Party(ies)”	party(ies) who, together with its ultimate beneficial owner(s), is/are persons independent of the Company and its connected persons (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 January 2023 (or such other date as the parties may agree)
“MOU”	the non-legally binding memorandum of understanding dated 4 December 2017 entered into among the Vendor, the Guarantor and the Company as amended or supplemented from time to time

“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	21 issued shares of the Target Company, representing 21% of the entire issued share capital of the Target Company
“Share(s)”	ordinary share(s) in the share capital of the Company
“Share Charges”	(i) the share charge executed by the Target Company in favour of the Group over the entire issued share capital of its immediate subsidiary pursuant to the MOU; and (ii) the share charge executed by Yongniuteqi Lilan in favour of the Group over 80% of the entire registered capital of Shengdi Mining pursuant to the MOU
“Share Purchase Agreement”	the share purchase agreement dated 21 December 2022 entered into between the Company, the Vendor and the Guarantor in relation to the Acquisition
“Shareholder(s)”	holder(s) of the Share(s)
“Shengdi Mining”	Inner Mongolia Shengdi Mining Company Limited* (內蒙古盛地礦業有限責任公司), a company established under the laws of the PRC which is owned as to 80% and 20% by Yongniuteqi Lilan and Wang Fenglin (王鳳林) respectively, being the owner of mining and exploration rights in Ongniud Bannar, Chifeng City, Inner Mongolia, the PRC
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Target Company”	South Ray Investment Limited, a company incorporated in the BVI with limited liability and wholly-owned by the Vendor
“Target Group”	the Target Company and its subsidiaries
“Valuer”	Beijing Zhongzhonglian Assets Appraisal Co., Ltd.* (北京中眾利安資產評估有限公司), the independent valuer

“Vendor”	Liyanda Limited, a company incorporated under the laws of the BVI and the legal and beneficial owner of the Target Company
“Xiangge Mining”	Hohhot Xiangge Mining Co., Ltd.* (呼和浩特市祥格礦業有限公司), a company incorporated in PRC with limited liability and an Independent Third Party
“Yongniuteqi Lilan”	Yongniuteqi Lilan Mining Co., Ltd.* (翁牛特旗力蘭礦業有限公司), a company incorporated in PRC with limited liability, which is owned as to approximately 69.31% and 30.69% by Zhongyitaxi Mining and Xiangge Mining respectively
“Zhongyitaxi Mining”	Ordos City Dongsheng District In Zhongyitaxi Mining Co., Ltd.* (鄂爾多斯市東勝區中億塔西礦業有限公司), a company incorporated in PRC with limited liability and wholly-owned by Hong Kong South Ray
“%”	per cent.

By order of the Board
King Stone Energy Group Limited
Xu Zhuliang
Chairman

Hong Kong, 21 December 2022

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

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

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.