
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in King Stone Energy Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

(I) PROPOSED SHARE CONSOLIDATION
(II) PROPOSED CHANGE IN BOARD LOT SIZE
(III) PLACING OF PLACING SHARES UNDER SPECIFIC MANDATE
AND
(IV) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company



INCUC Corporate Finance Limited

Placing Agent



大田證券期貨有限公司
Securities & Futures Co. Limited (CE No. BNC130)

DT Securities & Futures Co. Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular unless otherwise stated.

A notice convening the EGM of the Company to be held at 17th Floor, V Heun Building, No. 138 Queen's Road Central, Central, Hong Kong on Tuesday, 28 December 2021 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular.

A form of proxy for use at the EGM is enclosed herewith. Whether or not you are able to attend the meeting in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM:

- (1) Compulsory body temperature screening/checks;
- (2) Wearing of surgical face mask; and
- (3) No provision of refreshments or drinks.

Attendees who do not comply with the precautionary measures referred to in (1) and (2) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing COVID-19 pandemic and recent guidelines for prevention and control of its spread, the Company will implement the following precautionary measures at the EGM to protect the Shareholders, staff and other stakeholders who attend the EGM from the risk of infection:

- (i) compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee. Any person with a body temperature of 37.3 degrees Celsius or higher may be denied entry into the EGM venue or be required to leave the EGM venue;
- (ii) the Company will require all attendees to wear surgical face masks before they are permitted to attend, and during their attendance of the EGM at all times, and to maintain a safe distance between seats (please bring your own mask);
- (iii) no refreshment will be served at the EGM;
- (iv) no souvenirs will be distributed at the EGM; and
- (v) no guest will be allowed to enter the EGM venue if he/she is wearing quarantine wristband issued by the Government of Hong Kong.

Any person who does not comply with above requirements may be denied entry into the EGM venue or be required to leave the EGM venue. To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of other attendees at the EGM. In our case, denied entry to the EGM venue also means that person will not be allowed to attend the EGM. In the interest of all stakeholders' health and safety and in accordance with recent guidelines for prevention and control of the spread of COVID-19, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, the Shareholders may complete the proxy forms and appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

The proxy forms were despatched to the Shareholders together with this circular, and can otherwise be downloaded from the websites of the Company or the Stock Exchange. If you are not a registered Shareholder (i.e. if your Shares are held via banks, brokers, custodians or Hong Kong Securities Clearing Company Limited), you should consult directly with your banks, brokers or custodians (as the case may be) to assist you in the appointment of proxy.

Subject to the development of COVID-19 pandemic, the Company may implement further precautionary measures and may issue further announcements on such measures as appropriate.

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Announcement”	the announcement of the Company dated 16 November 2021 in relation to, among other things, the proposed Share Consolidation, Rights Issue and Placing
“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
“CCASS”	Central Clearing and Settlement System, a securities settlement system used within the Hong Kong Exchanges and Clearing Limited market system
“CCASS Operational Procedures”	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time
“Change in Board Lot Size”	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 1,000 Existing Shares to 10,000 Consolidated Shares
“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)
“Consolidated Share(s)”	ordinary share(s) in the share capital of the Company upon the Share Consolidation having become effective
“Controlling Shareholder(s)”	has the meaning as ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company

DEFINITIONS

“EAF(s)”	the form(s) of application for use by the Qualifying Shareholders who wish to apply for the excess Rights Shares
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Share Consolidation and the Placing (including the Specific Mandate)
“ES Unsold Rights Share(s)”	the Rights Share(s) which would otherwise has/have been provisionally allotted to the Excluded Shareholder(s) in nil-paid form that has/have not been sold by the Company
“Excluded Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Issue to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Existing Share(s)”	ordinary share(s) in the share capital of the Company prior to the Share Consolidation having become effective
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Day”	16 November 2021, being the last trading day of the Existing Shares on the Stock Exchange immediately prior to the publication of the Announcement

DEFINITIONS

“Latest Practicable Date”	2 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on Wednesday, 26 January 2022, being the last time for acceptance of and payment for the Rights Shares, or such other date as the Company may determine
“Listing Committee”	has the same meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Overseas Shareholder(s)”	Shareholder(s) whose address(es) on the register of members of the Company on the Record Date are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) for the Rights Issue
“Placing”	placing of the Placing Shares by the Placing Agent on a best efforts basis to investors who are independent third parties
“Placing Agent”	DT Securities & Futures Co. Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation to carry on business in Type 1 and Type 2 regulated activities under the SFO
“Placing Agreement”	the placing agreement dated 16 November 2021 and entered into among the Company and the Placing Agent in relation to the Placing
“Placing End Date”	Tuesday, 15 February 2022
“Placing Long Stop Date”	5:00 p.m. on Wednesday, 16 February 2022
“Placing Period”	the period from Tuesday, 8 February 2022 up to 4:00 p.m. on the Placing End Date, being the period during which the Placing Agent will seek to effect the Placing
“Placing Share(s)”	the Untaken Shares and the ES Unsold Rights Shares
“Posting Date”	Wednesday, 12 January 2022 or such other day as the Company may determine, being the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus to the Excluded Shareholders (as the case may be)

DEFINITIONS

“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be despatched to the Qualifying Shareholders (and the Excluded Shareholder(s) for information only) on the Posting Date in connection with the Rights Issue
“Prospectus Documents”	the Prospectus, the PAL(s) and the EAF(s)
“Qualifying Shareholders”	Shareholder(s), whose names appear on the register of members of the Company as at the Record Date, other than the Excluded Shareholder(s)
“Record Date”	Tuesday, 11 January 2022, or on such other date as the Company may determine, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	Tricor Secretaries Limited, the Company’s share registrar and transfer office in Hong Kong
“Rights Issue”	the proposed issue of one (1) Rights Share for every two (2) Consolidated Share at the subscription price of HK\$0.25 per rights share subject to, among other things, the Share Consolidation becoming effective, detail of which are disclosed in the Announcement
“Rights Share(s)”	the new Consolidated Share(s) to be allotted and issued under the Rights Issue
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Existing Share(s) or Consolidated Share(s) (as the case may be)
“Shareholder(s)”	holder(s) of the Share(s)
“Share Consolidation”	the consolidation of every ten (10) issued Existing Shares into one (1) Consolidated Share

DEFINITIONS

“Specific Mandate”	the specific mandate to allot, issue and deal with the Placing Shares to be proposed for approval as an ordinary resolution of the Shareholders at the EGM, which, if granted, shall expire three months from the date of the EGM
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price in respect of each Rights Share, being HK\$0.25
“Substantial Shareholder(s)”	has the meaning as ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
“Untaken Shares”	the number of unsubscribed Rights Share(s) not taken up by the Qualifying Shareholder(s) or renouncee(s) or transferee(s) of nil-paid rights under PAL(s)
“%”	per cent.

EXPECTED TIMETABLE

The expected timetable for the implementation of the Share Consolidation, Change in Board Lot Size, the Rights Issue and the Placing is set out below:

Event(s)	Time and date
Latest time for lodging transfer of shares to qualify for attendance and voting at the EGM	4:30 p.m. on Monday, 20 December 2021
Closure of register of members (both days inclusive)	Tuesday, 21 December 2021- Tuesday, 28 December 2021
Latest time for lodging proxy forms for the EGM.	11:00 a.m. on Sunday, 26 December 2021
Record date for attendance and voting at the EGM.	Tuesday, 28 December 2021
Expected time and date of the EGM to approve the proposed Share Consolidation	11:00 a.m. on Tuesday, 28 December 2021
Announcement of the poll results of the EGM.	Tuesday, 28 December 2021
Register of members re-opens	Wednesday, 29 December 2021
Effective date of the Share Consolidation.	Thursday, 30 December 2021
Commencement of dealings in the Consolidated Shares	9:00 a.m. on Thursday, 30 December 2021
Original counter for trading in the Existing Shares in board lots of 1,000 Shares (in the form of existing share certificates in yellow colour) temporarily closes	9:00 a.m. on Thursday, 30 December 2021
Temporary counter for trading in board lots of 100 Consolidated Shares (in the form of existing share certificates in yellow colour) opens	9:00 a.m. on Thursday, 30 December 2021
First day of free exchange of existing share certificates for new share certificates in pink colour for the Consolidated Shares.	Thursday, 30 December 2021

EXPECTED TIMETABLE

Last day of dealings in the Consolidated Shares on cum-rights basis relating to the Rights Issue	Friday, 31 December 2021
First day of dealings in the Consolidated Shares on ex-rights basis relating to the Rights Issue	Monday, 3 January 2022
Latest time for the Shareholders to lodge transfer of Consolidated Shares to qualify for the Rights Issue	4:30 p.m. on Tuesday, 4 January 2022
Closure of register of members for the Rights Issue (both days inclusive).	Wednesday, 5 January 2022- Tuesday, 11 January 2022
Record date for the Rights Issue	Tuesday, 11 January 2022
Register of members of the Company re-opens	Wednesday, 12 January 2022
Despatch of Prospectus, PAL and EAF.	Wednesday, 12 January 2022
Designated broker starts to stand in the market to provide matching services for odd lots of the Consolidated Shares	9:00 a.m. on Thursday, 13 January 2022
Original counter for trading in the Consolidated Shares in board lots of 10,000 Consolidated Shares (in the form of new share certificates) re-opens.	Thursday, 13 January 2022
Parallel trading in the Consolidated Shares (in the form of both existing and consolidated share certificates in yellow colour and new certificates in pink colour) commences	9:00 a.m. on Thursday, 13 January 2022
First day of dealings in nil-paid Rights Shares	Friday, 14 January 2022
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Tuesday, 18 January 2022
Last day of dealing in nil-paid Rights Shares	Friday, 21 January 2022

EXPECTED TIMETABLE

Latest Time for Acceptance of and payment for the Rights Shares and application of excess Rights Shares	4:00 p.m. on Wednesday, 26 January 2022
Announcement of the number of the Placing Shares subject to the Placing	Monday, 7 February 2022
Designated broker ceases to provide matching services for odd lots of the Consolidated Shares	4:00 p.m. on Monday, 7 February 2022
Temporary counter for trading in board lots of 100 Consolidated Shares (in the form of existing share certificates) closes	4:10 p.m. on Monday, 7 February 2022
Parallel trading in Consolidated Shares (represented by both existing certificates in yellow colour and new certificates in pink colour) ends	4:10 p.m. on Monday, 7 February 2022
Commencement of the Placing Period (if there are any Placing Shares available)	Tuesday, 8 February 2022
Last day for free exchange of existing share certificates for new certificates for the Consolidated Shares	Friday, 11 February 2022
Placing End Date for placing the Placing Shares (if applicable)	Tuesday, 15 February 2022
Rights Issue Settlement Date and Placing Completion Date	Wednesday, 16 February 2022
Announcement of results of the Rights Issue, the application for excess Rights Shares and the Placing	Thursday, 17 February 2022
Despatch of certificates for fully-paid rights shares and refund cheques in relation to wholly or partially unsuccessful applications for excess Rights Shares	Friday, 18 February 2022
Commencement of dealings in fully-paid Rights Shares and Placing Shares	Monday, 21 February 2022

All times and dates specified in this circular refer to the Hong Kong times and dates. This timetable is indicative only and any subsequent changes to the expected timetable will be announced by the Company as and when appropriate.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Xu Zhuliang (*Chairman*)
Mr. Zong Hao (*Chief Executive Officer*)
Ms. He Qing

Registered Office and Principal

Place of Business in Hong Kong:
17th Floor, V Heun Building,
No. 138 Queen's Road Central,
Central, Hong Kong

Independent non-executive Directors:

Mr. Chiu Sui Keung
Mr. Lee Ping
Mr. Lee Kwok Wan

8 December 2021

To the Shareholders of the Company

Dear Sir or Madam,

(I) PROPOSED SHARE CONSOLIDATION
(II) PROPOSED CHANGE IN BOARD LOT SIZE
(III) PLACING OF PLACING SHARES UNDER SPECIFIC MANDATE
AND
(IV) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Share Consolidation, Change in Board Lot Size, the Rights Issue and the Placing. The purpose of this circular is to provide you among other things, details of Share Consolidation, the Change in Board Lot Size and the Placing and the notice of the EGM to be convened.

LETTER FROM THE BOARD

PROPOSED SHARE CONSOLIDATION

The Board intends to put forward a proposal to the Shareholders to effect the Share Consolidation which involves the consolidation of every ten (10) Existing Shares into one (1) Consolidated Share. The Share Consolidation is conditional upon, among other things, the approval by the Shareholders by way of poll at the EGM. As none of the Shareholders or their associates would have any interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution(s) relating to the Share Consolidation at the EGM.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following:

- (i) the passing of the necessary resolution(s) by the Shareholders to approve the Share Consolidation at the EGM;
- (ii) the compliance with all relevant procedures and requirements under the laws of Hong Kong (where applicable) and the Listing Rules to effect the Share Consolidation; and
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation.

The Share Consolidation will become effective on the Business Day immediately following the fulfillment of the above conditions.

Effects of the Share Consolidation

As at the Latest Practicable Date, 7,915,055,568 Existing Shares had been allotted and issued as fully paid or credited as fully paid.

As at the Latest Practicable Date, the Company has no outstanding convertible securities, options or warrants, which confer any right to subscribe for or convert into or exchange into Shares.

Upon the Share Consolidation becoming effective and on the basis that no further Existing Shares will be allotted, issued or repurchased prior thereto, 791,505,556 Consolidated Shares will be in issue, which are fully paid or credited as fully paid.

LETTER FROM THE BOARD

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank *pari passu* in all respects with each other in accordance with the Company's articles of association. No fractional Consolidated Shares will be issued by the Company. Any fractional entitlements of the Consolidated Shares will be aggregated and sold for the benefits of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the shares of the Company regardless of the number of share certificates held by such holder.

Other than the expenses to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Group or the interests or rights of the Shareholders, save for any fractional Consolidated Shares to which the Shareholders may be entitled.

Odd lots arrangements and matching services

In order to alleviate the difficulties arising from the existence of odd lots (if any) of the Consolidated Shares, the Company has appointed DT Securities & Futures Co. Limited as an agent to stand in the market to provide matching services for sale and purchase of odd lots of the Consolidated Shares on a best effort basis and the period of such matching services commences from 9:00 a.m. on Thursday, 13 January 2022 and ends at 4:00 p.m. on Monday, 7 February 2022 (both dates inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the Consolidated Shares or top up to a full board lot may, directly or through their brokers, contact Ms. Wan of DT Securities & Futures Co. Limited at Unit 2312, Cosco Tower, No.183 Queen's Road Central, Hong Kong (telephone number: 3156 8886) during office hours.

Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares are not warranted. Any Shareholder who is in any doubt about the odd lots arrangements is recommended to consult his/her/its own professional advisers.

Exchange of share certificates

Subject to the Share Consolidation having become effective, Shareholders may, from Thursday, 30 December 2021 to Friday, 11 February 2022 (both days inclusive, submit the existing share certificates for the Existing Shares to the Registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, in exchange, at the expense of the Company, for new share certificates for the Consolidated Shares. Thereafter, certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for Consolidated Shares at the expense of the Shareholders on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate for Existing Shares cancelled or each Consolidated Share certificate issued for Consolidated Shares (whichever is higher) but are not acceptable for trading, settlement and registration upon the Share Consolidation becoming effective.

LETTER FROM THE BOARD

The new share certificates for the Consolidated Shares will be issued in pink colour in order to distinguish them from the existing yellow colour.

Listing and Dealings

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Consolidated Shares to be issued upon the Share Consolidation becoming effective.

Subject to the granting of listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, as well as compliance with the stock admission requirements of the HKSCC, upon the Share Consolidation becoming effective, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC.

None of the Existing Shares are listed or dealt in on any other stock exchanges other than the Stock Exchange, and at the time when the Share Consolidation becoming effective, the Consolidated Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

PROPOSED CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Existing Shares are traded on the Stock Exchange in board lot size of 1,000 Existing Shares. The Board proposes to change the board lot size for trading on the Stock Exchange from 1,000 Existing Shares to 10,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

Based on the closing price of HK\$0.043 per Existing Share (equivalent to the theoretical closing price of HK\$0.43 per Consolidated Share) as at the Latest Practicable Date, (i) the value of each existing board lot of Existing Shares is HK\$43; (ii) the value of each board lot of 1,000 Consolidated Shares would be HK\$430 assuming the Share Consolidation has become effective; and (iii) the estimated value per board lot of 10,000 Consolidated Shares would be HK\$4,300 assuming that the Change in Board Lot Size have become effective.

The Change in Board Lot Size will not result in change in the relative rights of the Shareholders.

LETTER FROM THE BOARD

REASONS FOR THE SHARE CONSOLIDATION AND CHANGE IN BOARD LOT SIZE

Under Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities.

Pursuant to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and updated on 1 October 2020 (the “**Guideline**”), the expected board lot value should be greater than HK\$2,000 per board lot taking into account the minimum transaction costs for a securities trade. As at the Latest Practicable Date, the closing price of each Existing Share is HK\$0.043, with a board lot size of 1,000 Existing Shares, the Company is trading under HK\$2,000 per board lot.

The Existing Shares has been constantly traded below HK\$1.00 for the past few years. In order to reduce transaction and registration costs incurred by the Shareholders and investors of the Company, the Board proposes to implement the Share Consolidation. It is expected that the Share Consolidation, together with the Change in Board Lot Size, will increase the value of each board lot of the Consolidated Shares to more than HK\$2,000.

Therefore, the Board believes the Share Consolidation and the Change in Board Lot Size are in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, save as disclosed in this letter from the Board, the Company currently (i) does not have any agreement, arrangement, understanding, intention, or negotiation (either concluded or in process) on any potential fundraising activities which will involve issue of equity securities of the Company; and (ii) has no other plan or intention to carry out any future corporate actions in the next twelve months which may have an effect of undermining or negating the intended purpose of the Share Consolidation. However, in the event there is any change to the business environment and/or financial position of the Company due to unforeseeable circumstances, and the Company is required to conduct further fund raising exercises when suitable opportunities arise in order to support future development of the Group, the Company will publish further announcement(s) in compliance with the Listing Rules as and when appropriate.

PROPOSED RIGHTS ISSUE

Reference is made to the Announcement. The Rights Issue is proposed to take place after the Share Consolidation has become effective. The Rights Issue will be conducted under the basis of one (1) Rights Share for every two (2) Consolidated Shares held by the Qualifying Shareholders at the close of business on the Record Date at the Subscription Price (i.e. HK\$0.25 per Rights Share). The number of Rights Shares to be issued pursuant to the Rights Issue will be up to 395,752,778 Rights Shares (assuming no change in the number of Existing Shares in issue on or before the Record Date). Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment.

LETTER FROM THE BOARD

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders or holders of nil-paid rights together with the ES Unsold Rights Shares will be placed to independent placees on a best effort basis. Any Untaken Shares and ES Unsold Rights Shares which are not placed will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There is no minimum amount to be raised under the Rights Issue. The legal advisers of the Company have confirmed that there are no statutory requirements regarding minimum subscription levels in respect of the Rights Issue.

As at the Latest Practicable Date, the Company has not received any undertaking from any Substantial Shareholder of the Company of any intention as to whether such Shareholder will take up his/her/its entitlements under the Rights Issue (or otherwise).

Please refer to the Announcement for further details in relation to the Rights Issue.

PLACING OF PLACING SHARES UNDER SPECIFIC MANDATE

The Placing

On 16 November 2021 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Company conditionally appointed the Placing Agent and the Placing Agent conditionally agreed to act as the Placing Agent for the Company to procure, on a best effort basis, Placees to subscribe for the Placing Shares (i.e. the Untaken Shares and the ES Unsold Rights Shares) on the terms and subject to the conditions set out in the Placing Agreement. **Under the terms of the Placing Agreement, if all the Rights Shares are already fully taken up in the Rights Issue through the PAL(s) or EAF(s), the Placing will not proceed.**

The Company had approached a few brokerage companies (including the Placing Agent) to explore their interest in participating in the underwriting of the Rights Issue. None of the brokerage companies indicated their willingness, nor were they responsive, in participating in the underwriting of the Rights Issue mainly due to the lack of interest in the secondary fundraising activity and the recent downward trend of the market price, save and except for the Placing Agent which expressed interest in acting as a placing agent and on a best effort basis only.

LETTER FROM THE BOARD

Placing Agreement

The principal terms of the Placing Agreement are summarised below:

- Placing Agent : DT Securities & Futures Co. Limited
- Placing Agent confirms that it and its ultimate beneficial owner(s) are independent third parties.
- Placing commission and expenses : 1% of the gross proceeds from the subscription of the Placing Shares actually placed by the Placing Agent under the Placing Agreement and reimbursed for the expenses in relation to the Placing (including but not limited to all out-of-pocket expenses actually incurred by the Placing Agent for placing the Placing Shares), which the Placing Agent is authorised to deduct from the payment to be made by the Placing Agent to the Company at the Placing End Date.
- Placing price : The placing price of each of the Placing Share (as the case maybe) shall be same as the Subscription Price (i.e. HK\$0.25 per Placing Share).
- Placing Period : The Placing Period shall commence on Tuesday, 8 February 2022, and end on the Placing End Date (i.e., Tuesday, 15 February 2022 under timetable) or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Placing.
- Placees : The Placing Agent shall ensure that the Placing Shares are placed (i) only to institutional, corporate or individual investors who and whose ultimate beneficial owner(s) shall be the independent third parties; (ii) such that no placee shall become a Substantial Shareholder immediately following the Placing; and (iii) such that the Placing will not have any implications under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing.

LETTER FROM THE BOARD

Ranking : The Placing Shares, when issued and fully paid, will rank *pari passu* in all respects with the Shares then in issue as at the date of allotment and issue of the Placing Shares.

Placing Shares

The number of Placing Shares shall be equivalent to the number of Untaken Shares and ES Unsold Rights Shares, being the difference between (i) the total number of Rights Shares available for subscription as at the Record Date; and (ii) the total number of Rights Shares taken up by Qualifying Shareholders whether under the PAL(s) or EAF(s).

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date; and (ii) no Qualifying Shareholder subscribes for any Rights Shares, the maximum number of Placing Shares will be 395,752,778 Consolidated Shares, representing 50.0% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and approximately 33.3% of the total number of issued Consolidated Shares as enlarged by the issue of the Placing Shares.

Placing Price

For the avoidance of doubt, the Placing will proceed only if the Rights Shares are not fully subscribed and validly taken up. The placing price of HK\$0.25 per Placing Share shall be same as the Subscription Price and represents:

- (i) a discount of approximately 41.9% to the theoretical closing price of HK\$0.430 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.043 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 41.9% to the theoretical closing price of HK\$0.430 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.043 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 43.9% to the theoretical closing price of HK\$0.446 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 44.1% to the average closing price of HK\$0.447 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price per Existing Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (v) a discount of approximately 32.4% to the theoretical ex-rights price of approximately HK\$0.370 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.043 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a theoretical dilution effect of approximately 14.6% represented by the theoretical diluted price of approximately HK\$0.381 per Consolidated Share to the benchmarked price of HK\$0.446 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price of HK\$0.430 per Consolidated Share on the Last Trading Day and the average closing price of the Existing Shares as quoted on the Stock Exchange for the five consecutive trading days prior to the Last Trading Day of HK\$0.446 per Existing Share and adjusted for the effect of the Capital Consolidation); and
- (vii) a discount of approximately 30.2% to the net asset value of the Company of approximately HK\$0.358 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the unaudited net asset value attributable to owners of the Company of approximately HK\$283,267,000 as at 30 June 2021 and 791,505,556 Consolidated Shares assuming the Share Consolidation has become effective.

As stated above, the Rights Issue and the Placing are part and parcel of the overall fundraising plan of the Company. In particular, the Directors considered that priority would be given to the Qualifying Shareholders to subscribe for the Rights Shares from their provisional allotments and excess applications under the Rights Issue. Should the Qualifying Shareholders not participate in the Rights Issue and there remains any Untaken Shares, the Placing provides an equal opportunity for potential investors to invest in the Company so as to enable the Company to raise sufficient funds.

The placing price shall be same as the Subscription Price and the Subscription Price was determined with reference to, among others, (i) the market price of the Existing Shares under the prevailing market conditions; (ii) the theoretical dilution effect for the Rights Issue; (iii) the financial condition of the Company; and (iv) the reasons and benefits of Rights Issue, in particular the funding needs of the Group for the solar photovoltaic system projects, which will bring potential growth to the Group, as discussed in the section headed “Reasons for and Benefits of the Rights Issue and the Placing and Use of Proceeds” below.

LETTER FROM THE BOARD

In determining the Subscription Price, which represents a discount of approximately 41.9% to the theoretical closing price of HK\$0.430 per Consolidated Share on the Last Trading Day, the Directors have considered, among other things as mentioned above, market price of the Existing Shares traded on the Stock Exchange in the past six months prior to and including the Last Trading Day (the “**Relevant Period**”), as a benchmark to reflect the prevailing market conditions and recent market sentiment. During the Relevant Period, the Shares were traded on the Stock Exchange with a theoretical closing price ranges between HK\$0.430 per Consolidated Share based on the lowest closing price of HK\$0.043 per Existing Share on 16 November 2021 (i.e. the Last Trading Day) and HK\$0.760 per Consolidated Share based on the highest closing price of HK\$0.076 per Existing Share on 31 May 2021, with an average closing price during the Relevant Period of approximately HK\$0.570 per Consolidated Share based on the average closing price of HK\$0.057 per Existing Share. The daily closing price per Existing Share during the Relevant Period demonstrates a downward trend. Despite the fact that the Subscription Price represents a significant discount to the average closing price of the Shares during the Relevant Period, the theoretical dilution effect of approximately 14.6% represented by the theoretical diluted price of approximately HK\$0.381 per Consolidated Share to the benchmarked price of HK\$0.446 per Consolidated Share is fair and reasonable. Furthermore, the Group has been loss making in the last five years and the business development of the Group has been adversely affected by the COVID-19 pandemic in recent years. Therefore, the Directors consider a reasonable discount to the theoretical closing price of Consolidated Shares on the Last Trading Day would attract Shareholders to participate in the Rights Issue.

As the Rights Issue will proceed on a non-underwritten basis, the discount of the Subscription Price provides the Qualifying Shareholders an incentive to participate in the proposed Rights Issue, such that (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil paid rights in the market; and (ii) the Qualifying Shareholders are afforded an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the recent market price of the Shares.

After considering the factors as discussed above and the reasons and benefits of Rights Issue as discussed in the section headed “Reasons for and Benefits of the Rights Issue and the Placing and Use of Proceeds” below, the Directors are of the view that the Subscription Price represents a reasonable discount to the trading price of the Shares and an incentive to the Shareholders to participate in the proposed Rights Issue.

The Directors are also of the view that if the placing price is set higher than the Subscription Price, it would adversely affect the results of the Placing as investors could otherwise acquire the Shares in the open market before the Record Date and participate in the Rights Issue at the Subscription Price. Therefore, although the placing price represents a discount of 43.9% to the benchmarked price of HK\$0.446 per Consolidated Share, having balanced the interests of the Company, the Shareholders and investors who would like to participate in the Group’s future development, the Directors consider that the terms of the Placing, including the placing price and the placing commission, are on normal commercial terms, fair and reasonable and the Placing is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Conditions of the Placing

The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon the following conditions being fulfilled:

- (i) the passing by the Shareholders of all the necessary resolutions to be approved at the EGM for the transactions contemplated under the Placing Agreement (including the Specific Mandate);
- (ii) the grant by the Listing Committee of the Stock Exchange of the approval for the listing of, and permission to deal in, the Placing Shares and such approval not having been withdrawn or revoked;
- (iii) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained; and
- (iv) the Rights Issue becoming unconditional.

None of the above conditions of the Placing is capable of being waived in whole or in part by the Placing Agent or the Company.

The timetable of the Placing is driven by the timetable of the Rights Issue. Under the terms of the Placing Agreement, the Placing Period shall commence on Tuesday, 8 February 2022, or such other date as the Company may announce. The Placing Period shall end on Tuesday, 15 February 2022, or such other date as the Company may announce.

The long stop date for the fulfilment of conditions of the Placing Agreement shall be 5:00 p.m. on Wednesday, 16 February 2022 (being the next Business Day after the Placing End Date) or such later date as may be announced by the Company. The Company shall use its reasonable endeavours to procure the fulfilment of the conditions and if the said conditions are not fulfilled on or before the Placing Long Stop Date, the Placing Agreement will lapse and become null and void and the Company and the Placing Agent shall be released from all obligations under the Placing Agreement, save the liabilities for any antecedent breaches thereof.

If all the Rights Shares are already fully taken up in the Rights Issue through valid applications by PAL(s), the Placing will not proceed.

LETTER FROM THE BOARD

Termination

The Placing Agent may terminate the Placing Agreement without any liability to the Company, by notice in writing given to the Company at any time prior to 10:00 a.m. on the completion date of the Placing (as set out in the section headed “Placing of Placing Shares under Specific Mandate – Completion of the Placing”) upon the occurrence of the following events:

- (a) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before, on and/or after the date hereof) of a political, military, industrial, financial, economic, fiscal, regulatory or other nature, resulting in a material change in, or which may result in a material change in the political, economic, fiscal, financial, regulatory or stock market conditions in Hong Kong or any other jurisdiction relevant to the Group and which in the Placing Agent’s reasonable opinion would adversely affect the success of the Placing;
- (b) the imposition of any moratorium, suspension (for more than 10 trading days) or restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise and which in the Placing Agent’s absolute opinion, would affect the success of the Placing;
- (c) the introduction of any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group and if in the Placing Agent’s reasonable opinion any such new law or change may materially and adversely affect the business or financial prospects of the Group and/or the success of the Placing;
- (d) any litigation or claim being instigated against any member of the Group, which has or may have a material effect on the business or financial position of the Group and which in the Placing Agent’s absolute opinion would affect the success of the Placing;
- (e) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
- (f) any material breach of any of the representations and warranties comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date hereof and prior to the completion date which if it had occurred or arisen before the date hereof would have rendered any of such representations and warranties untrue or incorrect or there has been a material breach by the Company of any other provision of this Agreement;

LETTER FROM THE BOARD

Application for listing

The Company will apply to the Stock Exchange for the approval for the listing of, and permission to deal in, the Placing Shares.

Status of the Placing Shares

The Placing Shares, when issued and fully paid, will be free from all liens, charges, encumbrances and third-party rights, interests or claims of any nature whatsoever and shall rank *pari passu* in all respects with the Shares then in issue, including as to the right to receive all dividends and distributions which may be declared, made or paid on or after the date of issue of the Placing Shares.

Completion of the Placing

Subject to the fulfilment of conditions of the Placing as set out in the section headed “Placing of Placing Shares under Specific Mandate – Conditions of the Placing” above, the completion of the Placing is expected to take place on the next Business Day after the Placing End Date (or such later date as the Company may announce).

The engagement between the Company and the Placing Agent of the Placing Shares was determined after arm’s length negotiation between the Placing Agent and the Company and is on normal commercial terms after considering (i) the prevailing market conditions; (ii) the funding requirements of the Group as detailed in the section headed “Reasons for and Benefits of the Rights Issue and the Placing and Use of Proceeds”; and (iii) the Subscription Price. In particular, the Directors, taking into account the range of placing commission for recent rights issues conducted by issuers listed on the Stock Exchange, consider that the terms of Placing Agreement, including the placing commission, are normal commercial terms. Given that the Placing for the Placing Shares will allow the Company to raise the shortfall of funds required where possible after the Rights Issue, the Directors consider that the Placing Agreement is fair and reasonable and in the interests of the Company and its shareholders as a whole.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the possible changes in the shareholding structure of the Company arising from the Share Consolidation and Rights Issue which are for illustrative purpose only.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has 7,915,055,568 Existing Shares in issue. Set out below is the shareholding structure of the Company (i) as at the date of Latest Practicable Date, (ii) immediately after the Share Consolidation becoming effective but before completion of the Rights Issue, and (iii) after the Share Consolidation becoming effective and immediately after completion of the Rights Issue, assuming all the Qualifying Shareholders take up their respective allotment of Rights Shares in full; and (iv) after the Share Consolidation becoming effective and immediately upon completion of the Rights Issue, assuming nil acceptance by the Qualifying Shareholders and all the Untaken Shares and ES Unsold Rights Shares are fully placed to the placees.

	(i) At the Latest Practicable Date		(ii) Immediately after the Share Consolidation but before completion of the Rights Issue		(iii) After the Share Consolidation becoming effective and immediately after completion of the Rights Issue (assuming full acceptance by the Qualifying Shareholders)		(iv) After the Share Consolidation becoming effective and immediately after completion of the Rights Issue (assuming full acceptance by Belton Light Limited and Goldsino Investment Limited only and no Untaken Shares and ES Unsold Rights Shares are placed to the placees) (Note 5)		(v) After the Share Consolidation becoming effective and immediately after completion of the Rights Issue (assuming nil acceptance by the Qualifying Shareholders and all the Untaken Shares and ES Unsold Rights Shares are fully placed to the placees)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Belton Light Limited (Note 1)	3,575,318,000	45.17	357,531,800	45.17	536,297,700	45.17	536,297,700	52.36	357,531,800	30.11
Goldsino Investment Limited (Note 2)	1,081,500,000	13.66	108,150,000	13.66	162,225,000	13.66	162,225,000	15.84	108,150,000	9.11
Placees (Note 3)	-	-	-	-	-	-	-	-	395,752,778	33.33
Other Public Shareholders	3,258,237,568	41.17	325,823,756	41.17	488,735,634	41.17	325,823,756	31.80	325,823,756	27.45
	7,915,055,568	100.00	791,505,556	100.00	1,187,258,334	100.00	1,024,346,456	100.00	1,187,258,334	100.00

LETTER FROM THE BOARD

Notes:

1. Belton Light Limited is a Substantial Shareholder of the Company and is wholly-owned by Jade Bird Energy Fund II, L.P., a limited partnership registered in Cayman Islands whose general partner is Jade Bird Strategic Investment.
2. Goldsino Investments Limited is a Substantial Shareholder of the Company and is wholly-owned by Asia Gate Holdings Co., Ltd, which is listed on Tokyo Stock Exchange JASDAQ (Standard).
3. Pursuant to terms and conditions of the Placing Agreement, the Placing Shares will be placed by the Placing Agent (i) only to institutional, corporate or individual investors who and whose ultimate beneficial owner(s) shall be the independent third parties; (ii) such that no placee shall become a Substantial Shareholder immediately following the Placing; and (iii) such that the Placing will not have any implications under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing.
4. The public float requirements under the Listing Rules shall be fulfilled by the Company at all times. The Company will take all appropriate steps to ensure that sufficient public float be maintained at all times in compliance with Rule 8.08 of the Listing Rules.
5. This scenario is for illustrative purposes only. As mentioned in the paragraph headed “The Rights Issue on a non-underwritten basis” of the Announcement, in the event that the Rights Shares are not fully taken up, the application of a Shareholder can and will be scaled down to a level which does not trigger an obligation on the part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance with the note to Rule 7.19(5) of the Listing Rules.

REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND THE PLACING AND USE OF PROCEEDS

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.

As disclosed in the announcement of the Company dated 20 December 2019, the Group acquired Beijing Jiezhong Technology Co., Ltd., which 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. Since then, photovoltaic power generation has become one of the principal businesses of the Group.

LETTER FROM THE BOARD

As disclosed in the announcement of the Company dated 28 June 2021, the Group further expanded its photovoltaic power generation business in Hong Kong and acquired SinoPower Solar Investment Co. Limited (“SPSI”), which is an integrated project developer and investor of distribution type of solar energy projects in Hong Kong and has a pipeline of solar projects with an on-grid power generation capacity of approximately 20 Mega Watts. After the acquisition of SPSI, the Group shall continue to put emphasis on environmental, social and governance and implement new energy projects on its own or with potential cooperative partners by leveraging their respective expertise and resources in order to reduce carbon emissions to achieve carbon neutrality for cleaner environment as well as creating better returns for the shareholders and investors of the Company in the long term.

As disclosed in the announcements of the Company dated 30 August 2021 and 14 September 2021, SPSI has disposed part of the solar photovoltaic system projects for a maximum consideration of HK\$75 million. The Group intended to operate and develop the remaining solar photovoltaic systems and pipelines projects that had not been disposed, and use part of the proceeds received from the disposal to re-invest in other solar photovoltaic projects in Hong Kong to increase market share in the solar energy market in Hong Kong. The Group is still in the process of negotiating with other potential landlords/incorporated owners for installation of solar photovoltaic systems.

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 as mentioned above, 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. In order to raise the funds required, the Group considers to proceed with the Rights Issue to provide existing Shareholders the opportunity to participate in the enlarged capital base of the Company followed by the Placing for the Placing Shares to raise the shortfall of funds required where possible. If the funds raised from the Rights Issue and Placing is less than the estimated net proceeds as described above, the use of proceeds will be reduced accordingly on a pro rata basis and the scale and timeline of the development of the solar photovoltaic system projects will be adjusted accordingly.

LETTER FROM THE BOARD

The Company considers the net proceeds from the Rights Issue and the Placing will provide financial strength to achieve the Group's business development in the photovoltaic power generation sector, such as financing the upfront cost incurred from the commencement of installment of solar photovoltaic system of future projects. As the installment and connection of solar photovoltaic system to the grid of CLP Power Hong Kong Limited ("CLP") take time, typically, the Group will need to finance the upfront cost incurred from the commencement of installment of solar photovoltaic system and can only start receiving the monthly feed-in tariff ("FiT") income generated from the sale of renewable energy from CLP several months after the relevant project connected to CLP grid (unless the solar photovoltaic system being sold to other third parties). Currently, the Group receives monthly FiT at a standard rate of HK\$4 per kWh for the solar photovoltaic system's capacity from 10kW to 200kW operated by the Group. 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. Therefore, early connection of solar photovoltaic system to CLP grid has the advantage of receiving more FiT income and gaining higher market share in the solar energy market in Hong Kong. In order to benefit from early connection of solar photovoltaic system to CLP grid by participating the FiT scheme and to be awarded projects of higher value as soon as possible, the Group considers the importance to further strengthen its cash position for the development of its photovoltaic power generation business. The Group targets to complete installation of solar photovoltaic system projects with an on-grid power generation capacity of approximately 20 Mega Watts within next few years and, based on the pipelines currently in negotiation, the total capital requirement and the upfront construction cost (i.e. 1st installment of construction cost representing approximately 20% of capital requirement) of the installation of solar photovoltaic system projects are expected to be HK\$281 million and HK\$56 million respectively. Subject to the progress of development of the solar photovoltaic system projects and the market condition, it is expected that the proceeds with maximum amount of HK\$80 million for the business development of the photovoltaic power generation sector from the Rights Issue and the Placing will be fully utilised by the end of 2022. The Group is also in negotiation with several banks and intends to finance the remaining capital requirement by way of debt financing. However, as at the Latest Practicable Date, there is no indication that such bank loans will be approved or the loan amount will be sufficient to finance the capital requirement of the solar photovoltaic system projects. In the event the total funds raised (including the Rights Issue) is less than the total capital requirement as mentioned above, the scale and timeline of the development of the solar photovoltaic system projects will be adjusted accordingly. Given the prolonged approval process of the banks for additional loans, the Group consider the Rights Issue could provide immediate funds for the solar photovoltaic system projects to develop the Group's market share as soon as possible.

LETTER FROM THE BOARD

As at 30 June 2021, the Group had bank and cash balance of approximately HK\$88.9 million, which majority of such funds was held in subsidiaries of the Company in the PRC for the operation of asset financing business. As at the Latest Practicable Date, the Group has no major development in asset financing business other than as disclosed in the interim report of the Company for the six months ended 30 June 2021. The Directors consider that the remaining bank and cash balance is not sufficient for the upfront cost incurred from the commencement of installment of solar photovoltaic system to grasp the benefit from early connection of solar photovoltaic system to CLP grid by participating the FiT scheme as mentioned above.

It is the Board's intention to continue its existing business. Meanwhile, the net proceeds from the Rights Issue and the Placing will also provide financial flexibility for the Company to grasp future investments as the opportunity arises. The Company may seek for new investment opportunities in the renewable energy sector in Hong Kong, the PRC and Japan with better development prospect and that can generate good return to the Shareholders. As at the Latest Practicable Date, the Group has not identified any specific targets for potential investment and has not entered into any agreement in relation to potential new investments. As at the Latest Practicable Date, the Company does not have any agreement, arrangement, understanding, intention, or negotiation (either concluded or in process) to dispose or scale down or terminate its existing businesses or commence any new business other than the existing businesses or propose any corporate actions that would lead to change of control of the Company.

The Board has considered other fund-raising alternatives before resolving to the proposed Rights Issue, including but not limited to debt financing, placing and open offer. As for debt financing, as mentioned above, the Group is also in negotiation with several banks, as an alternative of proposed Rights Issue which shall be on a non-underwritten basis, for addressing part of capital expenditure of the development of solar photovoltaic system projects. However, due to the prolonged approval process of the banks for additional loans, the Group does not consider it to be beneficial to the Group and not in line with the Group's plan to advance its connection of solar photovoltaic system to CLP grid in order to enhance the Group's market share in the solar energy market in Hong Kong as mentioned above. Also, additional loans will create further financial burden to the Group's financial performance. As for placing of new Shares, taking into account that it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, it was not considered by the Board to be the most suitable fund-raising method for the Company. As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market unlike a rights issue, which would allow Shareholders to have more flexibility in dealing with the Shares and the nil paid rights attaching thereto.

Taking into account the internal resources available to the Group and the estimated net proceeds from the Rights Issue and the Placing, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least twelve months from the Latest Practicable Date.

LETTER FROM THE BOARD

In view of the above, the Board considers that it is in the interests of the Company and the Shareholders as a whole to proceed with the Rights Issue to provide existing Shareholders the opportunity to participate in the enlarged capital base of the Company followed by the Placing for the Placing Shares to raise the fund required.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not conducted any equity fund raising activities during the 12 months immediately preceding the Latest Practicable Date.

WARNING OF THE RISKS OF DEALING IN THE EXISTING SHARES, THE CONSOLIDATED SHARES

Shareholders and potential investors should note that the Share Consolidation is conditional upon satisfaction of the conditions set out in this circular. Accordingly, the Share Consolidation and the Change in Board Lot Size may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares. If they are in any doubt, they should consult their professional advisers.

Shareholders and potential investors of the Company should note that the Placing are conditional upon, among others, conditions set out in the section headed “Conditions of the Placing” above. Accordingly, if any of the applicable conditions are not fulfilled (or where applicable, waived), the Placing will not proceed.

EGM

A notice convening the EGM of the Company to be held at 17th Floor, V Heun Building, No. 138 Queen’s Road Central, Central, Hong Kong on Tuesday, 28 December 2021 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. At the EGM, an ordinary resolution in respect of proposed Share Consolidation and the Placing (including the Specific Mandate) and a special resolution in respect of the proposed Share Consolidation and the Placing (including the Specific Mandate) will be proposed to the Shareholders.

Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM (i.e. 11:00 a.m. on Sunday, 26 December 2021 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

LETTER FROM THE BOARD

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolution to be considered and, if thought fit, approved at the EGM will be voted by way of poll by the Shareholders. An announcement on the poll vote results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has a material interest in the Share Consolidation and the Placing (including the Specific Mandate), accordingly, no Shareholders are required to abstain from voting on the relevant ordinary resolution to be proposed at the EGM.

Subject to the approval of the Share Consolidation and the Placing (including the Specific Mandate) at the EGM, the Prospectus containing further information in relation to the Rights Issue and financial and other information relating to the Group is expected to be despatched by the Company together with the PAL and EAF on or before Wednesday, 12 January 2022. A copy of the Prospectus will also be made available on the websites of the Company (<http://www.663hk.com>) and the Stock Exchange (<https://www.hkexnews.hk/>). To the extent reasonably practicable and subject to the advice of legal advisers in the relevant jurisdictions in respect of applicable local laws and regulations, the Company will send copies of the Prospectus to Excluded Shareholders for their information only but will not send the PAL or the EAF to them.

Closure of register of members

The register of members of the Company will be closed from Tuesday, 21 December 2021 to Tuesday, 28 December 2021, both days inclusive, during this period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 20 December 2021, for registration.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained herein or this circular misleading.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the Share Consolidation and the Placing (including the Specific Mandate) are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

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

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of King Stone Energy Group Limited (the “**Company**”) will be held at 17th Floor, V Heun Building, No. 138 Queen’s Road Central, Central, Hong Kong on Tuesday, 28 December 2021 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications the following resolutions of the Company:

ORDINARY RESOLUTION

1. “**THAT** subject to and conditional upon (i) the granting of approval by the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) of the listing of, and permission to deal in, the Consolidated Shares (as defined below); and (ii) compliance with the relevant procedures and requirements under the applicable laws of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange to effect the Share Consolidation (as defined below):
 - (a) with effect from the second business day immediately following the date on which this resolution is passed or the above condition is fulfilled (whichever is later):
 - (i) every ten (10) issued and unissued ordinary shares in the share capital of the Company be consolidated into one (1) consolidated share (each a “**Consolidated Share**”) (together as the “**Share Consolidation**”), such Consolidated Shares shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions as contained in constitutional documents of the Company;
 - (ii) the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation be and is hereby rounded down to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation (if applicable); and

NOTICE OF EXTRAORDINARY GENERAL MEETING

(iii) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents, which are ancillary to the Share Consolidation and of administrative nature, on behalf of the Company, including under seal where applicable, as he/they consider necessary, desirable or expedient to give effect to the foregoing arrangements for the Share Consolidation.”

2. **“THAT:**

- (a) the placing agreement dated 16 November 2021 (the **“Placing Agreement”**) (a copy of which, signed by the chairman of the EGM for the purposes of identification, has been produced to the EGM marked **“A”**) entered into between the Company and DT Securities & Futures Co. Limited (the **“Placing Agent”**) in relation to the best effort placing (the **“Placing”**) by the Placing Agent of such number of shares of the Company as is equivalent to the number of shares being the difference between (i) the total number of rights shares available for subscription as at the record date of the rights issue of the Company; and (ii) the total number of rights shares taken up by qualifying shareholders whether under the PAL(s) or EAF(s) during the offer period of rights issue of the Company (the **“Placing Share(s)”**) at the placing price of HK\$0.25 per Placing Share, and all transactions contemplated under, and all other matters of, and incidental to, and in connection with, the Placing Agreement be and are hereby approved, confirmed and ratified in all respects;
- (b) subject to and conditional upon the satisfaction of all conditions of the Placing Agreement, the Directors be and are hereby granted a specific mandate (the **“Specific Mandate”**) to exercise the powers of the Company to allot and issue the Placing Shares pursuant to the terms and conditions of the Placing Agreement for a period of three-months from the date of the passing of this resolution, such Placing Shares ranking *pari passu* amongst themselves and with all other fully paid Shares in issue as at the date of allotment and issue of the Placing Shares in all respects and such Specific Mandate being in addition to and not prejudicing or revoking any other general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company; and

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- (c) any Director be and is hereby authorised to do all such acts or things, to sign and execute all such documents, and to take such steps as he/she may, in his/her absolute discretion, consider necessary, appropriate, desirable or expedient to implement or to give effect to or in connection with the Placing Agreement and the transactions contemplated under the Placing Agreement, and to agree to such variation, amendments or waiver of matters relating to the Placing Agreement as are, in the opinion of the Director(s), in the interests of the Company.”

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

Hong Kong, 8 December 2021

Registered Office & Principal Place of Business in Hong Kong:

17th Floor, V Heun Building,
138 Queen’s Road Central,
Central, Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the meeting may appoint one or more than one proxy to attend and to vote instead of him. A proxy need not be a shareholder of the Company.
2. In the case of joint holders of any share, any one of such persons may vote at the said meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders is present at the said meeting, personally or by proxy, that one of the said persons so present whose name stands first on the Register of Members in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company’s share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and return of a form of proxy will not preclude shareholders from attending and voting in person should they so desire.
4. In order to establish entitlements to attend and vote at the meeting, the register of members of the Company will be closed from Tuesday, 21 December 2021 to Tuesday, 28 December 2021, both days inclusive, during which period no transfer of the shares of the Company can be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 20 December 2021 in order to attend and vote at the meeting.

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5. If tropical cyclone warning signal no. 8 or above or “extreme conditions” caused by super typhoons or a black rainstorm warning signal is in force at 7:00 a.m. on Tuesday, 28 December 2021, the Meeting will be adjourned and further announcement for details of alternative meeting arrangements will be made. The Meeting will be held as scheduled even when tropical cyclone warning signal no. 3 or below is hoisted, or an amber or red rainstorm warning signal is in force. You should make your own decision as to whether you would attend the Meeting under bad weather conditions and if you should choose to do so, you are advised to exercise care and caution.

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