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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)

UPDATE ON THE PROPOSED ACQUISITION

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 and 30 June 2022 (the “**Announcements**”) in respect of, among others, the Proposed Acquisition. Capitalised terms used herein shall have the same meanings as defined in the Announcements unless the context requires otherwise.

The Group has been negotiating and preparing a proposal for the Proposed Acquisition and has engaged various professional parties including financial advisers, legal advisers, auditors and the Competent Person (as defined in the Listing Rules) to perform due diligence work on the Target Group during the period from the date of signing of the MOU and up to the date of this announcement including but not limited to:

- (i) obtained and inspected the statutory records of all companies incorporated in the British Virgin Islands, the PRC and Hong Kong of the Target Group and performed legal due diligence on the Target Group with the legal adviser;
- (ii) conducted site visit on the lead zinc mine (the “**Mine**”) in Inner Mongolia, the PRC, owned by the PRC Subsidiary, which is the major asset of the Target Group, and interviewed the staff and management of the Mine;
- (iii) studied the resources report of the Mine issued by a geological exploration company in the PRC provided by the Vendor;
- (iv) assisted the Competent Person engaged by the Company to review the resources report(s) and the preparation of the valuation report of the Mine, including but not limited to, arranging the Competent Person to conduct several site visits on the Mine; providing necessary information and documents requested by the Competent Person; participating with the Competent Person to have discussions with the geological institute which conducted the exploration programs and the design institute which conducted the feasibility on the mining project; and

- (v) obtained and studied the financial statements of all the companies of the Target Group and assisted the auditors to perform audit work on the Target Group.

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. These measures and restrictions affected the progress of the due diligence work on the Target Group performed by the Company and its professional parties. This also limited the opportunities for the Company to negotiate with the Vendor's team in person. Furthermore, the outbreak of COVID-19 also adversely affected the business environment, which in turn limited the Company's options and opportunities of obtaining external financing for the Proposed Acquisition.

As at the date of this announcement, the Company has resumed discussions on the Proposed Acquisition including the terms and structure with the Vendor and is also exploring the possibility of acquiring a minority stake of the Target Company. The Company's professional parties are in the process of reviewing the valuation report on the operating subsidiaries of the Target Group (the "**Valuation Report**"). The Company has also instructed its legal advisers to prepare necessary documents in relation to the acquisition proposal and the legal adviser is in the progress of drafting the documents in relation to the matter. It is expected that the Company will complete the review of the Valuation Report by the end of the third quarter this year and it is the Company's present intention to proceed with the Proposed Acquisition upon completion of the review once an agreement have been reached between the parties, subject to the outcome of the commercial negotiation and the latest market condition.

The Company will make further the announcement(s) in respect of the Proposed Acquisition as and when appropriate or required in accordance with the requirements of the Listing Rules.

The Board wishes to emphasise that the Proposed Acquisition may or may not proceed. If the Proposed Acquisition materialises, it will constitute a notifiable transaction on the part of the Company pursuant to the Listing Rules. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 29 August 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.