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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)

ISSUE OF CONVERTIBLE NOTES UNDER GENERAL MANDATE

Financial Adviser to the Company



INCUC Corporate Finance Limited

THE SUBSCRIPTION AGREEMENTS

On 15 July 2020 (after trading hours), the Company and the Subscribers entered into the Subscription Agreements, pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the Convertible Notes in the aggregate principal amount of HK\$50,000,000.

The Conversion Price of HK\$0.08 per Conversion Share represents (i) a premium of approximately 14.3% over the closing price of HK\$0.070 as quoted on the Stock Exchange on the day of the Subscription Agreements; and (ii) a premium of approximately 14.3% over the average of closing prices of HK\$0.070 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately preceding to the date of the Subscription Agreements.

Assuming the conversion rights attaching to the Convertible Notes are exercised in full at the Conversion Price of HK\$0.08, a maximum of 625,000,000 Conversion Shares will be allotted and issued, representing (i) approximately 8.57% of the existing issued shares of the Company of 7,290,055,568 Shares as at the date of this announcement, and (ii) approximately 7.90% of the issued shares of the Company of 7,915,055,568 Shares as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares, upon issue, shall rank pari passu in all respects with the Shares then in issue.

The gross proceeds from the Subscription will be HK\$50 million and the net proceeds will be approximately HK\$49.8 million (after deduction of expenses of the Subscription). The Directors intend to use the net proceeds as to (i) approximately HK\$40 million for trading of medical supplies and (ii) approximately HK\$9.8 million for general working capital.

Shareholders and potential investors should note that the issue of the Convertible Notes is subject to fulfilment of conditions under the Subscription Agreements. As the Subscription may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

ISSUE OF CONVERTIBLE NOTES UNDER GENERAL MANDATE

On 15 July 2020 (after trading hours), the Company and the Subscribers entered into the Subscription Agreements. Details of the Subscription Agreements are set out below:

The Subscription Agreements

Date

15 July 2020 (after trading hours)

Parties

- | | |
|---------------------------|---|
| Subscription Agreement 1: | (1) the Company, as issuer |
| | (2) Atlantis Investment Management Limited, as Subscriber 1 |
| Subscription Agreement 2: | (1) the Company, as issuer |
| | (2) Atlantis China Star Fund Limited, as Subscriber 2 |

Pursuant to the Subscription Agreement 1, the Company has conditionally agreed to issue and the Subscriber 1 has conditionally agreed to subscribe for the Convertible Notes in principal amount of HK\$30,000,000.

Pursuant to the Subscription Agreement 2, the Company has conditionally agreed to issue and the Subscriber 2 has conditionally agreed to subscribe for the Convertible Notes in principal amount of HK\$20,000,000.

Save as disclosed above, the Subscription Agreements are on principally the same terms.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Subscribers and their ultimate beneficial owners are Independent Third Parties.

Principal Terms of the Convertible Notes

Issuer	:	the Company
Principal amount	:	HK\$50,000,000 in aggregate, of which (i) HK\$30,000,000 will be subscribed by Subscriber 1; (ii) HK\$20,000,000 will be subscribed by Subscriber 2.
Conversion price	:	HK\$0.08 per Conversion Share, subject to adjustments
Maturity Date	:	The date falling on the first anniversary of the date of first issue of the Convertible Notes and if that is not a Business day, the Business day immediately after such date.
Interest rate	:	7% per annum on the outstanding principal amount of the Convertible Notes, which shall accrue daily on a 365-day basis and will be payable upon the Maturity Date
Conversion Period	:	The period commencing from the date after six months from the issue date of Convertible Notes up to the Maturity Date (the “ Conversion Period ”)
Conversion Rights	:	The holder of the Convertible Notes will have the right to convert the principal amount of the Convertible Notes into Conversion Shares at any time during the Conversion Period. Written notice should be served by the Noteholder one month before every conversion of Convertible Notes.

- Transferability : The Convertible Notes may be transferred or assigned in whole or in part (if in part, in minimum amount of HK\$500,000 or in whole multiple thereof) to any person subject to the conditions, approvals, requirements and any other provisions of or under:
- (a) the Stock Exchange or their rules and regulations; and
 - (b) all applicable rules and regulations,
- provided that the Convertible Notes (or any part(s) thereof) shall not be assigned or transferred to a connected person of the Company or any person other than related companies of the Subscribers without prior written consent of the Company.
- Voting : The Noteholder will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of being holders of the Convertible Notes.
- Early repayment: : The Noteholder is entitled to request the Company to repay the outstanding principal amount of the Convertible Notes in an amount equal to the 100% of the principal amount of the Convertible Notes at any time from 1 December 2020 to the Maturity Date. Written notice should be served by the Noteholder one month before early repayment of Convertible Notes.
- Redemption : Any Convertible Notes outstanding on the maturity date shall be redeemed at 100% of the outstanding principal amount by the Company. The Company has the right to redeem the Convertible Notes in an amount equal to the 100% of the principal amount of the Convertible Notes at any time commencing from date of issue of the Convertible Notes and ending upon the Maturity Date.
- Listing : No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares.

Adjustments to the Conversion Price

The initial Conversion Price will be subject to adjustment if any following event arises:

- (i) share consolidation or subdivision;
- (ii) capitalisation of profits or reserves of the Company;
- (iii) a capital distribution being made by the Company, except where the Conversion Price falls to be adjusted under (ii) above or falls within (ii) but no adjustment falls to be made);
- (iv) issue of new Shares to all or substantially all existing Shareholders as a class by way of rights, or issue or grant to all or substantially all existing Shareholders options, warrants or other rights to subscribe for or purchase any Shares, in each case at a price per Share which is less than 80% of the market price quoted by the Stock Exchange for one Share on the date of the announcement of the terms of such issue or grant (“**Current Market Price**”);
- (v) issue of any securities (otherwise than as mentioned in (iv) above) to all or substantially all Shareholders as a class, by way of rights, or grant to all or substantially all Shareholders as a class by way of rights, of any options, warrants or other rights to subscribe for or purchase, any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares);
- (vi) issue (otherwise than as mentioned in (iv) above) wholly for cash any new Shares or the issue or grant of (otherwise as mentioned in condition (iv) above) options, warrants or other rights to subscribe for or purchase Shares, in each case at a price per Share which is less than 80% of the Current Market Price per Share on the date of announcement of the terms of such issue or grant;
- (vii) issue of any securities (other than the Convertible Notes), by the Company or any of its subsidiaries (otherwise than as mentioned in (iv), (v) or (vi) above) or (at the direction of request of or pursuant to an arrangement with the Company or any subsidiary) any other person, which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than 80% of the Current Market Price per Share on the date of announcement of the terms of issue of such securities; and
- (viii) any modification of the rights of conversion, exchange or subscription attaching to any such securities mentioned in (vii) above (other than in accordance with the terms applicable to such securities) arises, so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 80% of the Current Market Price per Share on the date of announcement of the proposals for such modification.

Conversion Shares

Assuming the conversion rights attaching to the Convertible Notes are exercised in full at the Conversion Price of HK\$0.08, a maximum of 625,000,000 Conversion Shares will be allotted and issued, representing (i) approximately 8.57% of the existing issued shares of the Company of 7,290,055,568 Shares as at the date of this announcement, and (ii) approximately 7.90% of the issued shares of the Company of 7,915,055,568 Shares as enlarged by the allotment and issue of the Conversion Shares.

Conversion Price

The Conversion Price of HK\$0.08 per Conversion Share represents:

- (i) a premium of approximately 14.3% over the closing price of HK\$0.070 as quoted on the Stock Exchange on the day of the Subscription Agreements; and
- (ii) a premium of approximately 14.3% over the average of closing prices of HK\$0.070 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately preceding to the date of the Subscription Agreements.

The Conversion Price was determined with reference to, among other things, the prevailing market price of the Shares and was negotiated on an arm's length basis between the Company and the Subscribers. The Directors consider that the terms of the Subscription are on normal commercial terms and are fair and reasonable based on the current market conditions. Hence, the Directors consider that the Subscription is in the interests of the Company and its Shareholders as a whole.

Ranking of Conversion Shares

The Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Conversion Shares.

Conditions of the Subscription

The Subscription is conditional upon fulfilment of (or waiver by the relevant party to the Subscription Agreements in writing):

- (a) the Listing Committee of the Stock Exchange granting:
 - (i) the approval for the listing of, and the permission to deal in, the Conversion Shares; and
 - (ii) if required, the approval for the issue of the Convertible Notes

- (b) the passing by the directors of the Subscribers of a resolution approving the Subscription Agreements and the transactions contemplated thereunder including but not limited to the Subscription;
- (c) the warranties given by the Company under the Subscription Agreements remaining true and accurate and not misleading in all respects as at Completion; and
- (d) the warranties given by the Subscribers under the Subscription Agreements remaining true and accurate and not misleading in all respects as at Completion.

The Subscribers may waive the condition (c) set out above. The Company may waive the condition (b) and (d) set out above. As at the date of this announcement, condition (b) has been fulfilled.

Completion of the Subscription

Subject to fulfilment (or waiver) of the conditions as set out in paragraph headed “**Conditions of the Subscription**” above, Completion shall take place at the principal place of business of the Company in Hong Kong (or such other place the Company and the Subscribers may agree in writing) on or before 5:00 p.m. on the Completion Date.

If the above conditions are not fulfilled on or before the Long Stop Date, the Subscription will be terminated and the Subscription will not proceed and all rights, obligations and liabilities of the parties thereto shall cease and terminate and neither of the parties shall have any claim against the other (save for liabilities for any antecedent breaches thereof).

General Mandate

The Conversion Shares will be allotted and issued under the General Mandate granted to the Directors by resolution of the Shareholders passed at the AGM, subject to the limit up to 20% of the then issued share capital of the Company as at the date of the AGM. Under the General Mandate, the Company is authorised to issue up to 1,458,011,113 new Shares. Up to the date of this announcement, no new Shares have been issued under the General Mandate. Accordingly, the allotment and issue of the Conversion Shares is not subject to the approval of the Shareholders.

Termination

If at any time on or prior to Completion:

- (a) the Company commits any material breach of any warranties given by the Company or omits to perform or observe any of its other obligations or undertakings expressed to be assumed by it under the Subscription Agreements in any material aspect (including its obligations on Completion); or

- (b) the Subscribers commits any material breach of any warranties given by the Subscribers or omits to perform or observe any of its other obligations or undertakings expressed to be assumed by it under the Subscription Agreements in any material aspect (including its obligations on Completion); or
- (c) an event of default or a prospective event of default (as specified under the Subscription Agreements) has occurred and has not been remedied to the satisfaction of the other party to the Subscription Agreements on or prior to Completion,

then, in any such event, the aforesaid other party thereto may on or before Completion Date in its absolute discretion without any liability on its part, by notice in writing terminate the Subscription Agreements. The right to forthwith terminate the Subscription Agreements under each of the termination clauses (a) to (c) above is a separate and independent right and the exercise of any such right shall not affect or prejudice or constitute a waiver of any other right, remedy or claim which the aforesaid other party thereto may have as at the date of such notice.

The Directors are not aware of the occurrence of any of such events as at the date of this announcement.

Application for listing

No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares.

REASONS FOR THE SUBSCRIPTION AND THE USE OF PROCEEDS

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

Assuming the maximum number of the Conversion Shares is placed under the Subscription Agreements, the gross proceeds from the Subscription will be HK\$50 million and the net proceeds will be approximately HK\$49.8 million (after deduction of expenses of the Subscription). The Directors intend to use the net proceeds as to (i) approximately HK\$40 million for trading of medical supplies and (ii) approximately HK\$9.8 million for general working capital.

In view of the spread of the COVID-19 worldwide and the global demand for medical supplies has surged significantly, the Directors consider that the Subscription represents an opportunity for the Group to strengthen its financial resources to capture the business opportunity within a relatively shorter time frame and at lower costs when compared with other means of fundraising under the tightening overall capital environment.

Having considered various ways of raising funds in the capital market, the Directors, in light of the tightening overall capital environment and relatively higher financing cost, consider that the issue of the Convertible Notes is in the interests of the Company and the Shareholders as a whole, and the Subscription represents a good opportunity to raise additional funds for the Company for the reasons as follows: (i) the Subscription will provide immediate funding without immediate dilution of the shareholding of the existing Shareholders; and (ii) in the event that the Convertible Notes are converted into Shares, the Company can improve its capital base, benefiting the long-term development of the Company.

The Directors consider that the Subscription Agreements are entered into upon normal commercial terms following arm's length negotiations between the Company and the Subscribers and the terms of the Subscription Agreements are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE SUBSCRIBERS

Subscriber 1 – Atlantis Investment Management Limited

Subscriber 1 is a limited liability company incorporated in Hong Kong, which is ultimately wholly-owned by Ms. Liu Yang (“**Ms. Liu**”). Subscriber 1 is principally engaged in investment management. Ms. Liu is an experienced investor with over 25 years’ experience investing in the Greater China region and has been managing funds since the inception of the China stock markets in 1993.

Subscriber 2 – Atlantis China Star Fund Limited

Subscriber 2 is a fund established in Cayman Islands and managed by the Subscriber 1. Subscriber 2 is principally engaged in investment in a portfolio of listed and unlisted equities, and equity related instruments including convertible bonds, preference shares and warrants.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not conducted any equity fund raising activities in the past twelve months immediately preceding the date of this announcement.

EFFECTS ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately upon completion of the Subscription (assuming there will be no other change in the issued share capital of the Company between the date of this announcement and completion of the Subscription) are set out as follows:

	As at the date of this announcement		Immediately upon the completion of Subscription	
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
Belton Light Limited (<i>Note 1</i>)	3,575,318,000	49.04	3,575,318,000	45.17
Goldsino Investments Limited (<i>Note 2</i>)	1,081,500,000	14.84	1,081,500,000	13.66
Subscriber 1	–	–	375,000,000	4.74
Subscriber 2	–	–	250,000,000	3.16
Other public Shareholders	<u>2,633,237,568</u>	<u>36.12</u>	<u>2,633,237,568</u>	<u>33.27</u>
	<u><u>7,290,055,568</u></u>	<u><u>100.00</u></u>	<u><u>7,915,055,568</u></u>	<u><u>100.00</u></u>

Notes:

1. Belton Light Limited is wholly-owned by Jade Bird Energy Fund II, L.P.
2. Goldsino Investments Limited is wholly-owned by Asia Gate Holdings Co., Ltd.

Shareholders and potential investors should note that the issue of the Convertible Notes is subject to fulfilment of conditions under the Subscription Agreements. As the Subscription may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

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

“AGM”	the annual general meeting of the Company held on 8 June 2020
“Board”	the board of Directors

“Business Day”	a day (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business throughout their normal business hours
“Company”	King Stone Energy Group Limited, a company incorporated in Hong Kong with limited liability whose issued shares are listed on the Main Board of the Stock Exchange (stock code: 663)
“Completion”	the completion of the Subscription in accordance with the terms and conditions of the Subscription Agreements
“Completion Date”	the date on which Completion occurs, which shall be taken place simultaneously with the fulfilment (or waiver) of the last of the conditions as set out in paragraph headed “Conditions of the Subscription” or such other date as may be agreed between the Company and the Subscribers
“Conversion Price”	HK\$0.08 per Conversion Share
“Conversion Share(s)”	the new Share(s) to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes
“Convertible Notes”	7% coupon convertible notes in the aggregate principal amount of HK\$50,000,000 to be issued by the Company pursuant to the Subscription Agreements
“Director(s)”	director(s) of the Company
“General Mandate”	the mandate granted to the Directors by the Shareholders at the AGM to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the AGM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	any persons or company(ies) and their respective ultimate beneficial owners, to the best of the Director’s knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2020 or such other date as may be agreed between the Company and the Subscribers
“Maturity Date”	the first anniversary of the date of issue of the Convertible Notes
“Noteholder(s)”	holder(s) of the Convertible Notes
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	ordinary shares of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscriber 1”	Atlantis Investment Management Limited
“Subscriber 2”	Atlantis China Star Fund Limited
“Subscribers”	Subscriber 1 and Subscriber 2
“Subscription”	the subscription for the Convertible Notes by the Subscribers pursuant to the terms of the Subscription Agreements
“Subscription Agreements”	the subscription agreements dated 15 July 2020 entered into between the Company and the Subscribers in relation to the Subscription

“HK\$” Hong Kong dollar(s), the lawful currency of Hong Kong

“%” per cent.

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

Hong Kong, 15 July 2020

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