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KING STONE ENERGY GROUP LIMITED

金山能源集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

DISCLOSEABLE TRANSACTION REGARDING THE DISPOSAL OF THE SOLAR PHOTOVOLTAIC SYSTEMS

INTRODUCTION

The Board is pleased to announce that on 30 August 2021 (after trading hours), the Purchaser (an indirect wholly-owned subsidiary of EPI) entered into the Agreement with the Vendor (an indirect wholly-owned subsidiary of the Company) and the Company as the Vendor Guarantor, pursuant to which the Vendor shall sell, and the Purchaser shall purchase, all the solar photovoltaic systems of the Portfolio, free from any encumbrance and together with all rights and benefits attaching or accruing to them on or after Completion on the terms and subject to the conditions set out in the Agreement.

The Initial Purchase Price of HK\$6,487,020, being the aggregate consideration for the sale and purchase of the Existing Projects of the Portfolio, will be calculated at HK\$18.0 per W multiplied by 360.39kW, being the aggregate kW of the PV Capacity of the Existing Projects of the Portfolio as stated in the Completion Certificate of the respective Existing Projects, and shall be paid to the Vendor in cash on the date of the Initial Completion.

The Further Purchase Price of each Ongoing Project of the Portfolio, being the consideration for the sale and purchase of each Ongoing Project of the Portfolio, will be calculated at HK\$18.0 per W multiplied by the kW of the PV Capacity of the relevant Ongoing Project of the Portfolio as stated in the Completion Certificate of the relevant Ongoing Project of the Portfolio as approved by CLP under the FiT Scheme, and shall be paid to the Vendor in cash by stages according to the terms and subject to the conditions set out in the Agreement.

In any event, the aggregate amount of the Initial Purchase Price and the total Further Purchase Price (payable in respect of the acquisition of all Ongoing Projects of the Portfolio) shall be capped at and shall not exceed HK\$75,000,000 (or such other amount as may be agreed by the Vendor and the Purchaser in writing).

LISTING RULES IMPLICATIONS

As the applicable percentage ratios calculated in accordance with the Listing Rules are more than 5% and less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements only.

Completion of each of the Existing Projects and the Ongoing Projects comprising the Disposal is subject to the satisfaction or waiver of various conditions precedent and therefore the completion of each of the Existing Projects and the Ongoing Projects comprising the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

THE AGREEMENT

The principal terms of the Agreement are as follows:

Date

30 August 2021 (after trading hours)

Parties

- (1) EPI Energy Investments Limited (an indirect wholly-owned subsidiary of EPI), as the Purchaser;
- (2) SinoPower Solar Investments Co., Limited (an indirect wholly-owned subsidiary of the Company), as the Vendor; and
- (3) the Company, as the Vendor Guarantor.

Assets to be disposed of

Pursuant to the Agreement, the Vendor shall sell, and the Purchaser shall purchase, all the solar photovoltaic systems of the Portfolio, free from any encumbrance and together with all rights and benefits attaching or accruing to them on or after Completion on the terms and subject to the conditions set out in the Agreement.

Consideration

The Initial Purchase Price of HK\$6,487,020, being the aggregate consideration for the sale and purchase of the Existing Projects of the Portfolio, will be calculated at HK\$18.0 per W multiplied by 360.39kW, being the aggregate kW of the PV Capacity of the Existing Projects of the Portfolio as stated in the Completion Certificate of the respective Existing Projects, and shall be paid to the Vendor in cash on the date of the Initial Completion.

The Further Purchase Price of each Ongoing Project of the Portfolio, being the consideration for the sale and purchase of each Ongoing Projects of the Portfolio, will be calculated at HK\$18.0 per W multiplied by the kW of the PV Capacity of the relevant Ongoing Project of the Portfolio as stated in the Completion Certificate of the relevant Ongoing Project of the Portfolio as approved by CLP under the FiT Scheme, and shall be paid to the Vendor in cash in the following manner subject to the Vendor and Vendor Guarantor having performed their obligations under the Agreement and the payments shall constitute valid discharge of the obligations of the Purchaser to pay the Further Purchase Price to the Vendor:

- (a) 20% of the consideration for the sale and purchase of each Ongoing Project of the Portfolio shall be paid to the Vendor no later than ten (10) Business Days after signing of the Agreement, such consideration shall be calculated at HK\$18.0 per W multiplied by kW of the estimated PV Capacity of the relevant Ongoing Project as stated in the Agreement;
- (b) 30% of the consideration for the sale and purchase of each Ongoing Project of the Portfolio shall be paid to the Vendor no later than ten (10) Business Days after the issuance of application acknowledgement letter from CLP on the connection of the relevant solar photovoltaic system to the CLP grid, such consideration shall be calculated at HK\$18.0 per W multiplied by kW of the estimated PV Capacity of the relevant Ongoing Project as stated in the Agreement;
- (c) 30% of the consideration for the sale and purchase of each Ongoing Project of the Portfolio shall be paid to the Vendor no later than ten (10) Business Days after the issuance of completion letter from CLP on the commencement date of the connection of the relevant solar photovoltaic system to the CLP grid, such consideration shall be calculated at HK\$18.0 per W multiplied by kW of the PV Capacity of the relevant Ongoing Project as stated in the Completion Certificate; and
- (d) the remaining consideration for the sale and purchase of each Ongoing Project of the Portfolio after deducting the payments in paragraphs (a), (b) and (c) above, shall be paid to the Vendor no later than forty-five (45) Business Days after the connection of the relevant solar photovoltaic system to the CLP grid, such consideration shall be calculated at HK\$18.0 per W multiplied by kW of the PV Capacity of the relevant Ongoing Project as stated in the Completion Certificate.

In any event, the aggregate amount of the Initial Purchase Price and the total Further Purchase Price (payable in respect of the acquisition of all Ongoing Projects of the Portfolio) shall be capped at and shall not exceed HK\$75,000,000 (or such other amount as may be agreed by the Vendor and the Purchaser in writing).

The Initial Purchase Price and the Further Purchase Price were determined between the parties to the Agreement after arm's length negotiation with reference to, among other things, (i) the prevailing market prices of solar photovoltaic systems; (ii) the PV Capacity of the solar photovoltaic systems; and (iii) the installation costs of the solar photovoltaic systems.

Conditions Precedent

Completion is conditional upon the fulfilment or waiver of the Conditions stated below:

- (a) the warranties, representations and/or undertakings given or made by the Vendor and the Vendor Guarantor pursuant to the Agreement remaining true and accurate and not misleading as given as at the date of the Agreement, as at the Initial Completion and as at each Further Completion;
- (b) all approvals, authorisations, consents, licences, certificates, permits, concessions, agreements or other permissions of any kind of, from or by any governmental authority, regulatory body or other third party necessary for the consummation of the transactions contemplated in the Agreement having been obtained by the Vendor and remaining in full force and effect;
- (c) there being no applicable law or regulations which prohibits, restricts or imposes conditions or limitations on, or is reasonably expected to operate to prohibit, restrict or impose conditions or limitations on, the consummation of any of the transactions contemplated in the Agreement;
- (d) there being no bona fide legal, administrative or arbitration action, suit, complaint, charge, hearing, injunction, enquiry, investigation or proceedings in effect, pending or to the best knowledge of the parties to the Agreement genuinely threatened as of Completion before any court, tribunal or arbitrator of a competent jurisdiction or by any governmental authority which seek to prohibit, restrict, impose condition or limitation on or otherwise challenge any of the transactions contemplated in the Agreement; and
- (e) the grant of FiT Approval by the issuance of completion letter from CLP on the connection of the relevant solar photovoltaic system to the CLP grid in respect of each of the Ongoing Projects under the FiT Scheme.

The Purchaser may, at its absolute discretion, waive any of the Conditions. The Vendor and the Vendor Guarantor shall procure the fulfilment of the Conditions on the Initial Completion Date (except for Condition (e)) and each Further Completion Date and shall procure the fulfilment of all the Conditions for the Existing Projects (except for Condition (e)) and each Ongoing Project by 31 March 2022 (or such later date as may be agreed by the Vendor and the Purchaser in writing).

Completion

Subject to all the Conditions (save for Condition (e)) having been fulfilled (or waived by the Purchaser), the Initial Completion shall take place on the Initial Completion Date (or such other time and place as may be agreed by the Vendor and the Purchaser in writing).

Subject to Condition (e) being fulfilled for any one of the Ongoing Projects and upon receipt of due notice of the same being received from the Vendor in accordance with the Agreement, the Further Completion for that Ongoing Project shall take place on the Further Completion Date (or such other time as may be agreed by the Vendor and the Purchaser in writing).

Further obligations of the Vendor

Subsequent to the transfer of ownership of the solar photovoltaic system to the Purchaser upon the Initial Completion and/or Further Completion, the Vendor shall and the Vendor Guarantor shall procure the Vendor to:

- (a) continue to provide operation and maintenance service (as stipulated in the respective Profit-sharing Agreements for each individual solar photovoltaic system assigned) for the individual solar photovoltaic systems assigned to the Purchaser pursuant to the terms of the Agreement at the agreed monthly fee of HK\$0.90 per kWh multiplied by the actual unit of energy generated by the relevant solar photovoltaic system, as shown in the monthly electric bill issued by CLP, which shared by the Purchaser pursuant to the Profit-sharing Agreement for that solar photovoltaic system. Upon the due payment and receipt of FiT Income from the Vendor to the Purchaser, the Purchaser shall pay the Vendor the monthly fee within three (3) Business Days;
- (b) continue to collect FiT Income on behalf of the Purchaser pursuant to the respective Profit-sharing Agreements for each individual solar photovoltaic system assigned to the Purchaser pursuant to the terms of the Agreement (the rights of which have been assigned to the Purchaser) and distribute the share of FiT income from CLP to (1) the relevant landlord/incorporated owners according to the terms of the respective Profit-sharing Agreement(s) and (2) to the Purchaser within three (3) Business Days of the receipt of such share of FiT Income from CLP;
- (c) continue to perform its obligations pursuant to the Profit-sharing Agreements for each individual solar photovoltaic system assigned to the Purchaser pursuant to the terms of the Agreement; and
- (d) at the request of the Purchaser, assist to procure the landlord/incorporated owner of all Profit-sharing Agreements (whether for Existing Projects or Ongoing Projects) to enter into a new Profit-sharing Agreement with the Purchaser and the Vendor (as provider of operation and maintenance service), and to request the Vendor to transfer its account under the FiT Scheme of CLP to the Purchaser.

During the period from the date of the Agreement to the last Further Completion Date takes place (being the date on which ownership of the entire Portfolio is assigned to the Purchaser):

- (a) the Vendor shall not and the Vendor Guarantor shall procure the Vendor not to do, allow or procure any act or omission which would constitute a breach of any of the warranties under the Agreement; and
- (b) the Vendor and the Vendor Guarantor shall use their best endeavours to procure the grant of FiT Approval from CLP in respect of all the Ongoing Projects under the FiT Scheme.

INFORMATION ON THE PURCHASER AND EPI GROUP

The EPI Group is principally engaged in (i) the energy sector business including petroleum exploration and production, (ii) money lending and (iii) investment in securities.

The Purchaser is a company incorporated in Hong Kong with limited liability. As at the date of this announcement, the Purchaser is indirectly wholly-owned by EPI, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 689) and is principally engaged in investment holding.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons as at the date of this announcement.

INFORMATION ON THE GROUP AND THE VENDOR

Group

The Group is principal engaged in oil and gas exploration and production, silver mining, asset financing services, tourism services, photovoltaic power generation and commodities trading.

Vendor

The Vendor is a company incorporated in Hong Kong with limited liability. As at the date of this announcement, the Vendor is indirectly wholly-owned by the Company.

The Vendor operates as an integrated project developer and investor of solar energy projects in Hong Kong. The Vendor is also a party to the Profit-Sharing Agreements for the construction and installation of solar photovoltaic system and share of FiT Income from CLP on energy generated from solar photovoltaic systems.

Currently, the Vendor has developed 6 rooftop solar projects with PV Capacity of approximately 840 kW and has a pipeline of solar projects with an estimated PV Capacity of approximately 20mW.

The Portfolio is the list of solar photovoltaic system projects comprising both the Existing Projects and the Ongoing Projects. The Existing Projects are the projects with solar photovoltaic systems currently in operation with an on-grid power generation capacity of approximately 360.39kW, and the Ongoing Projects are projects with solar photovoltaic systems in the course of installation with an estimated power generation capacity of approximately 3,772.69kW.

The revenue generated from the solar photovoltaic system of the Existing Projects for the six months period from February 2021 (being the month in which one of the Existing Projects commenced operations) to August 2021 was approximately HK\$246,000. The net book value of the Existing Projects as at 31 July 2021 was approximately HK\$5.3 million based on the Vendor's unaudited management accounts.

FINANCIAL EFFECT ON THE DISPOSAL

It is expected that the Group will recognise an unaudited gain of approximately HK\$1.1 million (after deducting the fees and expenses in relation to the Disposal) as a result of the disposal of the Existing Projects. Such gain is calculated with reference to the difference between the Initial Purchase Price of approximately HK\$6.5 million for the Existing Projects and the unaudited book value of the Existing Projects of approximately HK\$5.3 million as at 31 July 2021. Financial effects arising from disposal of the Ongoing Projects will be determined by the Further Purchase Price and the actual costs of construction of the Ongoing Projects. The actual gain or loss to be recorded by the Company will be subject to final audit to be performed by the auditors of the Company.

REASONS FOR AND BENEFITS OF THE DISPOSAL

With reference to the announcement of the Company dated 28 June 2021, the Vendor was acquired by the Company in June 2021. The Vendor, as an integrated project developer and investor of solar energy projects in Hong Kong, aims to operate and develop projects in the solar power generation while investing suitable solar projects in Hong Kong. Following completion of the acquisition, the Group was approached by the Purchaser with a view to cooperate with the Vendor on the solar energy projects in Hong Kong for recurring income.

The Directors are of the view that, although the Group intends to develop and invest in solar projects in Hong Kong and acquired the Vendor in June 2021: (i) the Disposal provides the Group with an opportunity to realise part of its investments and recognise a gain within a short period of time; (ii) the Group will be able to generate O&M Income for the individual solar photovoltaic system from the Purchaser and will provide the Group with a steady operating income; and (iii) the use of proceeds as mentioned below will be used for investment in other solar energy projects in Hong Kong. Accordingly, the Board is of the view that the terms of the Agreement and the Disposal are on normal commercial terms and are fair and reasonable and the entering into of the Agreement is in the interests of the Company and its shareholders as a whole.

Upon Initial Completion and Further Completion, the Group will continue to (i) operate the remaining portfolio of the Vendor and generate O&M Income for the Vendor; (ii) operate and develop other solar photovoltaic system projects in Hong Kong and will be entitled to FiT Income from CLP under FiT Scheme and/or O&M Income; (iii) operate a rooftop distributed solar power generation project in Chengde City, Hebei Province, the PRC, with an on-grid power generation capacity of approximately 4.085 Mega Watts; and (iv) seek suitable investment opportunities in solar energy sector in Hong Kong, the PRC and Japan. The Directors consider that the above strategy aligns with the Group's business strategy of gradually diversifying into an integrated new energy company with a focus on eco-friendly energy.

It is intended that the net proceeds from the Disposal will be used for development and investment in the solar energy projects of the Group.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios calculated in accordance with the Listing Rules are more than 5% and less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements only.

Completion of each of the Existing Projects and the Ongoing Projects comprising the Disposal is subject to the satisfaction or waiver of various conditions precedent and therefore completion of each of the Existing Projects and the Ongoing Projects comprising the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

DEFINITIONS

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

“Agreement”	the sale and purchase agreement dated 30 August 2021 entered into among the Purchaser, the Vendor and the Vendor Guarantor in respect of the Acquisition
“Board”	The board of Directors

“Business Day(s)”	a day (excluding Saturdays and Sundays and public holidays and days on which a tropical cyclone warning No.8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks generally are open in Hong Kong for the transaction of normal banking business
“CLP”	CLP Power Hong Kong Limited
“Company” or “Vendor Guarantor”	King Stone Energy Group Limited, a company incorporated in the Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 663), as the guarantor of the Vendor under the Agreement
“Completion”	the Initial Completion and any Further Completion
“Completion Certificate”	the T&C report and WR1 Form (Electrical and Mechanical Services Department’s work completion certificate) issued by the registered electrical engineer of the solar photovoltaic system comprising the relevant Existing Projects or the Ongoing Projects of the Portfolio (as appropriate) as approved by the CLP under the FiT Scheme
“Condition(s)”	the condition(s) precedent set out in the Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	the proposed disposal of the Existing Projects and the Ongoing Projects comprising the Portfolio by the Vendor to the Purchaser pursuant to the terms and conditions of the Agreement
“EPI”	EPI (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 689)

“EPI Group”	EPI and its subsidiaries
“Existing Project(s)”	the projects for which the solar photovoltaic system are currently in operation as set out in the Portfolio
“FiT Approval”	the completion letter under the FiT Scheme issued by CLP on the commencement date of the connection of the solar photovoltaic system to the CLP grid
“FiT Income”	the feed-in tariff income generated from the sale of renewable energy to The Hongkong Electric Co., Limited and CLP pursuant to the FiT Scheme
“FiT Scheme”	the feed-in tariff scheme implemented by the Government of Hong Kong to promote the distribution of renewable energies
“Further Completion”	each instance of completion of the sale and purchase of a solar photovoltaic system comprising the list of the Ongoing Projects of the Portfolio (which for the avoidance of doubt shall occur after each FiT Approval of the relevant solar photovoltaic system on connection to the CLP grid) pursuant to the Agreement, by the performance of the payment obligation of the Purchaser and the performance of the several obligations by the parties to the Agreement contained in the Agreement
“Further Completion Date”	the date(s) on which the Further Completion takes place, which shall be no later than ten (10) Business Days after the issuance of completion letter from CLP on the commencement date of the connection of the relevant solar photovoltaic system to the CLP grid as stated in the FiT Approval of each Ongoing Project as notified by the Vendor to the Purchaser or such other date as may be agreed by the Vendor and the Purchaser in writing, and each such date shall be construed as a “Further Completion Date”
“Further Purchase Price”	the consideration for the sale and purchase of each of the Ongoing Projects
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Initial Completion”	the completion of the sale and purchase of each solar photovoltaic system of the list of Existing Projects of the Portfolio pursuant to the Agreement, by the performance of the Purchaser, Vendor and Vendor Guarantor of their several obligations contained in the Agreement
“Initial Completion Date”	the date on which Initial Completion takes place, which shall be the third (3rd) Business Day after the execution of the Agreement or such other date as may be agreed by the Vendor and the Purchaser in writing
“Initial Purchase Price”	the aggregate consideration for the sale and purchase of the Existing Projects
“kW”	kilo-watt
“kWh”	kilo-watt hour
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“mW”	Mega-Watt
“Ongoing Project(s)”	the projects for which the solar photovoltaic systems are in the course of installation as set out in the Portfolio
“O&M Income”	operation and maintenance income
“Portfolio”	the list of solar photovoltaic system projects comprising both the Existing Projects and Ongoing Projects
“Profit-Sharing Agreement(s)”	each agreement entered/to be entered into between the Vendor/the Purchaser and the landlord/incorporated owner in relation to the sharing of FiT Income received from CLP between the Vendor/the Purchaser and the landlord/incorporated owner on energy generated from the solar photovoltaic system of the Portfolio
“Purchaser”	EPI Energy Investments Limited, a company incorporated in Hong Kong with limited liability and is indirectly wholly-owned by EPI, as the purchaser under the Agreement

“PRC”	the People’s Republic of China but excluding, for the purposes of the Agreement, Taiwan, Hong Kong and the Macau Special Administrative Regions
“PV Capacity”	the photovoltaic output power of the solar photovoltaic system
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	SinoPower Solar Investments Co., Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company, as the vendor under the Agreement
“W”	watt

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

Hong Kong, 30 August 2021

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 the three independent non-executive Directors, namely Mr. Chiu Sui Keung, Mr. Lee Ping and Mr. Lee Kwok Wan.