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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a 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 (the "Company"), you should at once hand this circular, together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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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)

- (1) GENERAL MANDATES TO ISSUE NEW SHARES  
AND TO REPURCHASE SHARES;  
(2) RE-ELECTION OF DIRECTORS;  
(3) PROPOSED ADOPTION OF NEW SHARE OPTION SCHEME; AND  
(4) NOTICE OF ANNUAL GENERAL MEETING**

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A notice convening the annual general meeting of the Company to be held at 17th Floor, V Heun Building, No. 138 Queen's Road Central, Central, Hong Kong at 11:00 a.m. on Monday, 6 June 2022 is set out on pages 30 to 35 of this circular.

A form of proxy for use at the annual general meeting 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 AGM

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 AGM:

- (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 AGM 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 AGM by appointing the chairman of the AGM as their proxy and to return their proxy forms by the time specified above, instead of attending the AGM in person.

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## PRECAUTIONARY MEASURES FOR THE AGM

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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 AGM to protect the Shareholders, staff and other stakeholders who attend the AGM 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 degrees Celsius or higher may be denied entry into the AGM venue or be required to leave the AGM 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 AGM at all times, and to maintain a safe distance between seats (please bring your own mask);
- (iii) no refreshment will be served at the AGM;
- (iv) no souvenirs will be distributed at the AGM; and
- (v) no guest will be allowed to enter the AGM 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 AGM venue or be required to leave the AGM venue. To the extent permitted under law, the Company reserves the right to deny entry into the AGM venue or require any person to leave the AGM venue in order to ensure the safety of other attendees at the AGM. In our case, denied entry to the AGM venue also means that person will not be allowed to attend the AGM. 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 AGM 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 AGM as their proxy to vote on the relevant resolutions at the AGM instead of attending the AGM 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.

Due to the constantly evolving COVID-19 pandemic situation, the Company may be required to change the AGM arrangements at short notice. Shareholders should check the Company's website at <http://663hk.com> for further announcements and updates on the AGM arrangements.

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## DEFINITIONS

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

“2021 AGM”	the annual general meeting of the Company held on 28 June 2021
“2012 Share Option Scheme”	the share option scheme of the Company adopted by the Company pursuant to an ordinary resolution of the Shareholders passed on 30 May 2012
“2022 Share Option Scheme”	the share option scheme proposed to be approved by the Shareholders at the AGM
“Adoption Date”	the date on which the 2022 Share Option Scheme was conditionally adopted by the Company by way of shareholders’ resolution
“AGM”	the annual general meeting of the Company to be held at 17th Floor, V Heun Building, No 138 Queen’s Rood Central, Central, Hong Kong at 11:00 a.m. on Monday, 6 June 2022, notice of which is set out on pages 30 to 35 of this circular, or any adjournment thereof
“Articles of Association”	the articles of association of the Company as amended, supplemented or modified from time to time
“Board”	the board of Directors
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“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
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company, and in relation to the 2022 Share Option Scheme, the directors of the Company (excluding independent non-executive directors of the Company) and any of its subsidiaries

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## DEFINITIONS

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“Eligible Participants”	any person who is (or will be on the date of grant of an Option) an Employee, a director of the Company (excluding independent non-executive directors) or a Service Provider, as may be determined by the Directors or the Remuneration Committee (as the case may be) from time to time
“Employee”	a person who is in the full-time or part-time employment of the Company or any of its subsidiaries
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s
“Issue Mandate”	a general and unconditional mandate proposed to be granted to the Directors to exercise all powers of the Company to allot, issue or otherwise deal with Shares up to a maximum of 20% of the total issued share capital of the Company as at the date of passing the relevant resolution as at the AGM
“Latest Practicable Date”	27 April 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Option(s)”	any options granted or to be granted under the 2022 Share Option Scheme or the 2012 Share Option Scheme (as the case may be) conferring a right to subscribe for Shares
“Optionholder(s)”	the relevant holders of the Options
“Notice”	the notice convening the AGM as set out on pages 30 to 35 of this circular

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## DEFINITIONS

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“Remuneration Committee”	the remuneration committee of the Board
“Repurchase Mandate”	a general and unconditional mandate proposed to be granted to the Directors to exercise all powers of the Company to repurchase Shares which shall not exceed 10% of the total number of the issued Shares of the Company as at the date of passing the relevant resolution at the AGM
“Service Providers”	consultants, advisers and agents who provide services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are material to the long-term growth of the Group, as may be determined by the Remuneration Committee from time to time. For the avoidance of doubt, financial advisors or placing agents providing fundraising or M&A services or consultants providing professional services to the issuer are excluded
“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers
“%”	per cent.

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## LETTER FROM THE BOARD

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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)**

*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

29 April 2022

*To the Shareholders*

Dear Sir or Madam,

- (1) GENERAL MANDATES TO ISSUE NEW SHARES  
AND TO REPURCHASE SHARES;  
(2) RE-ELECTION OF DIRECTORS;  
(3) PROPOSED ADOPTION OF NEW SHARE OPTION SCHEME; AND  
(4) NOTICE OF ANNUAL GENERAL MEETING**

#### INTRODUCTION

The purpose of this circular is to give you notice of the AGM and to provide you with information regarding the ordinary resolutions to be proposed at the AGM relating to (i) the grant of the Issue Mandate and the Repurchase Mandate; (ii) the re-election of Directors; and (iii) the proposed adoption of the 2022 Share Option Scheme.

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## LETTER FROM THE BOARD

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### GENERAL MANDATES TO ISSUE NEW SHARES AND TO REPURCHASE SHARES

At the 2021 AGM, general mandates were granted to the Directors authorising them, among other matters, (a) to exercise the powers of the Company to allot, issue and deal with new Shares not exceeding 20% of the total number of issued Shares; (b) to repurchase Shares not exceeding 10% of the total number of issued Shares; and (c) to extend the general mandate to issue Shares by the number of Shares purchased under the repurchase mandate mentioned in (b) above. Such general mandates would expire at the earlier of (i) the conclusion of the AGM; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws of Hong Kong to be held; or (iii) the date on which the ordinary resolutions approving such mandates are revoked or varied by the Shareholders in a general meeting of the Company.

Accordingly, ordinary resolutions will be proposed at the AGM to grant to the Directors general mandates authorising them, among other matters, (a) to exercise the power of the Company to allot, issue and deal with new Shares not exceeding 20% of the total number of issued Shares as at the date of the passing of such resolution; (b) to repurchase Shares not exceeding 10% of the total number of issued Shares as at the date of the passing of such resolution and (c) subject to the passing of the proposed ordinary resolutions to approve the Issue Mandate and the Repurchase Mandate at the AGM, to extend the Issue Mandate by the number of Shares repurchased under the Repurchase Mandate.

As at the Latest Practicable Date, there were 1,187,258,334 Shares in issue. Subject to the passing of the ordinary resolutions to approve the Issue Mandate and the Repurchase Mandate at the AGM and on the basis that no further Shares will be issued or repurchased between the Latest Practicable Date and the date of the AGM, the Company would be allowed to issue up to a maximum of 237,451,666 Shares under the Issue Mandate (assuming the Repurchase Mandate has not been utilized) and to repurchase up to a maximum of 118,725,833 Shares under the Repurchase Mandate.

The Directors have no present intention to exercise the Issue Mandate to allot and issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme as may be proposed by the Company.

An explanatory statement providing all the information required under the Listing Rules regarding the Repurchase Mandate is set out in Appendix I to this circular.

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## LETTER FROM THE BOARD

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### RE-ELECTION OF DIRECTORS

According to Article 103, one-third of the Directors for the time being, or, if their number is not a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation at every annual general meeting of the Company. A retiring Director shall be eligible for re-election. Pursuant to the Articles of Association, Mr. Xu Zhuliang and Mr. Lee Ping will retire from office and offer themselves for re-election at the AGM. At the AGM, an ordinary resolution will be proposed to re-elect Mr. Xu Zhuliang as an executive Director and Mr. Lee Ping as an independent non-executive Director.

Brief biographical and other details of the above-mentioned Directors offering themselves for re-election at the AGM, which are required to be disclosed under the Listing Rules, are set out in Appendix II to this circular.

In reviewing the structure of the Board, the nomination committee of the Company (the “**Nomination Committee**”) will consider the structure, size and diversity (including gender, age, cultural and educational background, length of service, skills, knowledge and experience etc.) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy. All appointments to the Board are based on meritocracy and the candidates will be assessed based on criteria such as education background and relevant skills and experience for consideration of the operation of the Board as a whole, with a view to maintaining a sound balance of the Board’s composition.

Pursuant to the Code Provision B.2.3 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules, any further appointment of independent non-executive director serving more than nine years should be subject to a separate resolution to be approved by shareholders. Mr. Lee Ping, who was first appointed as the independent non-executive Director on 8 April 2013, has served as independent non-executive Director for more than nine years. The Nomination Committee and Board (with Mr. Lee Ping abstained from the discussion and voting regarding his re-election) has assessed Mr. Lee’s independence, educational background, experience and professional skills when determining his suitability of retaining him as an independent non-executive director.

When considering Mr. Lee Ping’s educational background, experience and professional skills, the Board has considered that (i) he has years of experience in portfolio management, technology development, engineering and manufacturing, global sourcing, and development and implementation of long term growth strategy in the energy and petroleum industry; (ii) he is the president and general manager of a BG Group China, a world leader in natural gas industry, and has served as the president of the world largest oilfield services company, and would be able to serve as an industry expert to the Board and can offer an unique industry perspective in relation to the exploration and production of oil and gas; (iii) he is an accomplished research scientist and a holder of over twenty scientific publications and two patents; and (iv) his years of experience working as an independent non-executive Director allowed him to be familiar with the businesses the Company operates in and him to discharge his duties as an independent non-executive director in a more efficient manner.

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## LETTER FROM THE BOARD

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In assessing the independence of Mr. Lee Ping, the Nomination Committee has reviewed his annual confirmation of independence and assessed his independence based on the independence criteria set out in Rule 3.13 of the Listing Rules. Mr. Lee Ping does not have any relationship with any Directors, chief executive and senior management of the Company, substantial Shareholders or controlling Shareholders. The Nomination Committee and the Board are also not aware of any circumstance that might influence Mr. Lee Ping in exercising independent judgment, given he does not hold any shares or share options of the Company, and are satisfied that he has the required character, integrity, independence and experience to fulfill the role of independent non-executive Director by providing objective views and independent guidance to the Board.

Having considered the factors above, the Nomination Committee is satisfied that Mr. Lee Ping remains independent notwithstanding the length of his service and believes that he is able to continue to fulfill his role as an independent non-executive director, and hence recommended to the Board for the re-election of Mr. Lee Ping as independent non-executive Director.

Taking into consideration of the Nomination Committee's recommendations and Mr. Lee Ping has been committed to devoting time and attention to perform his duties as an independent non-executive Director in the past years, the Board (including the independent non-executive Directors other than Mr. Lee Ping) considers that the long service of Mr. Lee Ping would not affect his exercise of independent judgement and is satisfied that he has the required character, integrity and experience to perform his duties as independent non-executive director by providing objective views and independent guidance to the Board. Further, the Board (including the independent non-executive Directors other than Mr. Lee Ping) believes that an individual's independence cannot be determined arbitrarily on basis of a set period of time. Mr. Lee Ping has not been involved in any management role in the company nor in any relationships which would interfere with the exercise of his independent judgement. The Board (including the independent non-executive Directors other than Mr. Lee Ping) is of the view that despite his length of service, Mr. Lee Ping maintains an independent mindset and provides invaluable expertise, knowledge, experience, professionalism, continuity and stability to the Board, and the Company has benefited greatly from his contribution and valuable insights derived from his wide breadth of professional experience and knowledge in the oil and gas industry and in-depth understanding with the operations and business of the Group.

The Board (including the independent non-executive Directors other than Mr. Lee Ping) accepted the Nomination Committee's nominations and recommended Mr. Lee Ping to stand for re-election by the Shareholders at the AGM. The Board (including the independent non-executive Directors other than Mr. Lee Ping) considers that the re-election of Mr. Lee Ping as independent non-executive Director is in the best interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### PROPOSED ADOPTION OF 2022 SHARE OPTION SCHEME

#### Lapse of the 2012 Share Option Scheme

The 2012 Share Option Scheme is due to expire on 30 May 2022. In view of the expiry of the 2012 Share Option Scheme, the Board proposes to recommend to the Shareholders to approve the adoption of the 2022 Share Option Scheme. As at the Latest Practicable Date, there were no outstanding Options granted under the 2012 Share Option Scheme.

#### The 2022 Share Option Scheme

At the AGM, an ordinary resolution will be proposed for the Company to approve and adopt the 2022 Share Option Scheme as the 2012 Share Option Scheme is due to expire and no further Options can thereafter be offered or granted under the 2012 Share Option Scheme. There is no significant difference between the terms of the 2012 Share Option Scheme and the 2022 Share Option Scheme; both schemes comply with the requirements under Chapter 17 of the Listing Rules. The 2022 Share Option Scheme will take effect on the Adoption Date subject to the Stock Exchange granting approval for the listing of and dealing in the shares to be issued and allotted pursuant to the exercise of options in accordance with the terms and conditions of the 2022 Share Option Scheme.

The purpose of the 2022 Share Option Scheme is to provide incentives and/or rewards to the Eligible Participants for their contribution to the growth of the Group, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and continuing efforts to promote the interests of the Group, and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

The rules of the 2022 Share Option Scheme provide that the Board, subject to the approval of the Remuneration Committee, may specify the Eligible Participants to whom Options shall be granted, the number of Shares subject to each Option and the date on which the Options shall be granted. The basis for determining the subscription price is also specified precisely in the rules of the 2022 Share Option Scheme. The Board considers that the aforesaid criteria and rules will serve to preserve the value of the Company and encourage Eligible Participants to acquire proprietary interests in the Company. The Company does not at present intend to appoint any trustee to the 2022 Share Option Scheme. The resolution to be proposed for the approval of the 2022 Share Option Scheme by the Shareholders at the AGM will also include the grant of the general mandate to the Board to grant Options under the 2022 Share Option Scheme for the allotment and issue of not more than 10% of the entire issued capital of the Company (excluding, for this purpose, Options which have lapsed in accordance with the terms of any other share option scheme of the Company, and the outstanding Options granted and yet to be exercised pursuant to the 2012 Share Option Scheme) as at the date of the passing of the relevant resolution upon their exercise.

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## LETTER FROM THE BOARD

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In addition to the Directors and the Employees, the Eligible Participants of the 2022 Share Option Scheme also covers the Service Providers, who has contributed or may contribute to the Group. The Board considers that the grant of Options to the Service Providers is necessary and appropriate, because the success of the Group does not only depend on the contributions by the Employees and Directors, but also depends on the co-operation and contribution from the Service Providers who provide services to the Group on a continuing and recurring basis in its ordinary and usual course of business which are material and beneficial to the long term growth of the businesses of the Group, including the persons who work for the Company as independent contractors but the continuity and frequency of their services are akin to those of employees.

### **Service Providers**

The Board considered that the inclusion of Service Providers as Eligible Participants will offer incentives to the Service Providers for their continuing efforts to promote the interests of the Group and benefits for the long-term growth of the Group. For example, the grant of Options to Service Providers would provide incentive and reward for these grantees to optimize their performance efficiency for the benefit of the Group in their capacity as Service Providers.

The inclusion of the Service Providers as Eligible Participants under the Share Option Scheme leaves sufficient flexibility in the scheme rules in light of the future development and is fair and reasonable and in the interest of the Company and its Shareholders as a whole in the long run because: (i) in a view to enhancing its competitive strength and maintaining its market position, the Company may need Service Providers to provide insights to various aspects of the business and operation of the Group; (ii) the Service Providers may provide recommendations and/or advice to the Group in matters including but not limited to investors' management, strategic management, business research and development, technological support, advice and expertise and other market or industry resources to the Group, which may be commercially beneficial to the Group, so as to contribute to assist the Group in achieving the operational competitiveness and business sustainability on mid to long term basis; and (iii) in the event that the Company engages Service Providers to provide consulting services to the Group, including these Service Providers as Eligible Participants may fill the gap and to foster the relationship with them as well as allowing the Company to pay such Service Providers a consideration comprising service fee and share-based consideration, leveraging on which, the Company may be able to avoid expensive one-off short-term transaction costs, at the same time incentivize the Service Providers with the long-term value to be brought by the growth of the Company's business and market capitalization. Furthermore, it will align the interests of the Service Providers with that of the Group, which would in the long term, and draw in key players of various industries that would help contribute to the Group's growth and development, and therefore is in the interests of the Company and the Shareholders as a whole, and in line with the purposes of the 2022 Share Option Scheme.

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## LETTER FROM THE BOARD

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It is therefore desirable for the Company to motivate and align the interests of the Service Providers towards the Group by including them as the Eligible Participants. The Options will offer incentives and reward for the contribution of the Service Providers and their loyalty in having a sustainable business relationship with the Group, and therefore to provide continuing efforts as mentioned above to promote the interests of the Group and benefit the long-term growth of the Group. Further, the grant of Options to the Service Providers will provide the Company the flexibility to remunerate them with share-based consideration in lieu of cash-based fees. The Board will not grant and has never granted any options to a Service Provider if they have not or the Board believes upon its assessment, that they will not contribute to the long term growth of the businesses of the Group.

In respect of the Service Providers, despite that there may not be a performance target set on them, the Remuneration Committee will exercise due care to assess the importance and value of the services provided by the Service Providers to ensure that the grant of Options will be beneficial to the Company, and make recommendation to the Board. Going forward, under the overriding principle that any potential grantees must be persons who have provide services to the Group on a continuing and recurring basis in its ordinary and usual course of business which are material to the long term growth of the Group and any grant to such Eligible Participants should be made in the interest of the Company and its Shareholders as a whole. In assessing the eligibility of the Service Providers, the Board and the Remuneration Committee will consider, among other matters, (i) the length of service to the Group; (ii) the materiality and nature of the services provided to the Group (such as whether they relate to the core business of the Group and whether such services could be readily replaced by third parties); (iii) track record in the quality of services provided to the Group; and (iv) the scale of business dealings with the Group, the positive impacts expected to be brought to the operation and business of the Group, their potential and/or actual participation and involvement in promoting the business of the Group and/or cooperation with the Group to negotiate with the business referrals, with regard to factors such as the actual or expected change in the Group's revenue or profits which is or may be attributable to Service Providers as well as the number, scale and nature of the projects and the period of their engagement and/or business relationship with the Group.

The Board (or the case may be, the independent non-executive Directors) and the Remuneration Committee will assess the eligibility of Eligible Participants who are Employees and Directors based on factors, including but not limited to: (i) work performance; (ii) years of service; (iii) responsibilities and engagement conditions in accordance with the prevailing market practice and industry standard; (iv) potential or actual contribution to the business of the Group (e.g. actively promoting the development and growth of the business of the Group); and (v) the ability to make valuable contribution based on his/her work experience, qualifications, industry knowledge and professional skills and other relevant factors.

The Board and the Remuneration Committee also considers the grant of the Option to a Service Provider can serve the purpose of the 2022 Share Option Scheme, namely to provide incentives and/or rewards and/or attract and retain people who are valuable, have contributed or may contribute to the Group, and is in the interests of the Company and Shareholders as a whole, taking into account the following considerations, including but not limited to:

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## LETTER FROM THE BOARD

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- (a) it gives the Company an alternative way of compensating a Service Provider and provides greater flexibility to recognise the contributions of a Service Provider;
- (b) as a substitute for cash compensation, it reduces current compensation expenses associated with paying by cash; and
- (c) it shares the risks associated with our growing business, where it is an incentive, not an entitlement to motivate the Eligible Participants to see the Company profits and stock value gains.

Based on the above, the Board considers that the inclusion of Service Provider in addition to the Employees and Directors as Eligible Participants is fair and reasonable and in the interests of the Company and the Shareholders as a whole, and would enable the purpose of the 2022 Share Option Scheme to be achieved.

Eligible Participants to whom Options shall be granted, are entitled to subscribe for the number of Shares at a subscription price subject to each Option and the date on which the Options shall be granted. The basis for determining the subscription price is also specified precisely in the rules of the 2022 Share Option Scheme. There is no performance target specified in the 2022 Share Option Scheme. The Directors consider that the aforesaid criteria and rules will serve to preserve the value of the Company and encourage Eligible Participants to acquire proprietary interests in the Company.

The Directors consider that it is not appropriate to state the value of all Options that can be granted pursuant to the 2022 Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the Option value have not been determined. Such variables include but are not limited to the exercise price, exercise period and lock-up period (if any). The Directors believe that any calculation of the value of the Options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to Shareholders.

None of the Directors is a trustee of the 2022 Share Option Scheme or has a direct or indirect interest in the trustee, if any. With respect to the operation of the 2022 Share Option Scheme, the Company will, where applicable, comply with the relevant requirements under Chapter 17 of the Listing Rules.

### **Conditions precedent of the 2022 Share Option Scheme**

The adoption of the 2022 Share Option Scheme is conditional upon:

- (a) the Listing Committee of the Stock Exchange granting approval for the listing of and permission to deal in any Shares which may fall to be allotted and issued by the Company pursuant to the exercise of Options in accordance with the terms and conditions of the 2022 Share Option Scheme; and

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## LETTER FROM THE BOARD

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- (b) the passing of an ordinary resolution at a general meeting of the Company approving the adoption of the 2022 Share Option Scheme.

Subject to the obtaining of Shareholders' approval with respect to the adoption of the 2022 Share Option Scheme at the AGM, the total number of Shares which may be issued upon exercise of all Options to be granted under the 2022 Share Option Scheme and any other schemes must not in aggregate exceed 10% of the total issued capital of the Company as at the Adoption Date unless the Company obtains a fresh approval from the Shareholders to renew the 10% limit on the basis that the maximum number of Shares in respect of which Options may be granted under the 2022 Share Option Scheme together with any Options outstanding and yet to be exercised under the 2022 Share Option Scheme and any other schemes must not exceed 30% of the issued share capital of the Company from time to time.

As at the Latest Practicable Date, the Company has 1,187,258,334 issued Shares. Assuming that there is no change in the issued share capital between the period from the Latest Practicable Date and the Adoption Date, the number of Shares issuable pursuant to the 2022 Share Option Scheme on the Adoption Date will be 118,725,833 Shares, representing approximately 10% of the existing issued share capital of the Company. As there are no outstanding Options under the 2012 Share Option Scheme or any other share option scheme(s), the number of 118,725,833 Options under the 2022 Share Option Scheme represents 10% of the issued share capital of the Company as at the Latest Practicable Date. In the event that the Company conducts share consolidation or subdivision after the scheme limit has been approved, the maximum number of Shares that may be issued upon exercise of all options to be granted under the 2022 Share Option Scheme shall be adjusted in the same proportion of the issued share capital of the Company before such alteration. The maximum number of Shares that may be issued upon exercise of all options to be granted under the 2022 Share Option Scheme and any other share option schemes of the Company shall also be adjusted in the same proportion so as not exceed 30% of the issued share capital of the Company.

The Board currently does not have a concrete plan to grant any Options to any of the Eligible Participants in the coming 12 months upon the adoption of the 2022 Share Option Scheme. The Board will from time to time consider whether to grant any Options to the Eligible Participants based on a number of factors including, *inter alia*, the Group's overall financial performance, the Eligible Participants' individual performance and their contribution to the revenue, profits or business development of the Group.

A summary of the principal terms of the 2022 Share Option Scheme which is proposed to be approved and adopted by the Company at the AGM is set out in Appendix III to this circular from pages 20 to 29. A copy of the 2022 Share Option Scheme is available for inspection at the Company's principal place of business in Hong Kong at 17th Floor, V Heun Building, No 138 Queen's Road Central, Central, Hong Kong during normal business hours from the date hereof up to and including the date of the AGM.

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## LETTER FROM THE BOARD

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### **Application for listing**

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options granted under the 2022 Share Option Scheme.

### **ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT**

The Notice is set out on pages 30 to 35 of this circular at which resolutions will be proposed, among other matters, to approve the grant of the Issue Mandate and the Repurchase Mandate, re-election of Directors and adoption of 2022 Share Option Scheme.

A form of proxy for use at the AGM is enclosed herewith. Whether or not you propose to attend the AGM, you are requested to complete the 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 less than 48 hours before the time fixed for holding the AGM or any adjourned meeting thereof. Completion and return of the form of proxy will not prevent you from attending and voting at the AGM or any adjourned meeting thereof (as the case may be) should you wish to do so.

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 resolution relates purely to a procedural or administrative matter which may be voted on by a show of hands) and accordingly, all resolutions proposed at the AGM will be taken by poll. To the best of the Directors' knowledge, information and belief, no Shareholder is required to abstain from voting on the ordinary resolutions to be proposed at the AGM pursuant to the Listing Rules and/or the Articles of Association.

The Board confirmed that to the best of their knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, there was no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholder and there was no obligation or entitlement of any Shareholder whereby he, she or it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his, her or its Shares to a third party, either generally or on a case-by-case basis.

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## LETTER FROM THE BOARD

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### VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any resolution put to the vote of the Shareholders at a general meeting shall be decided on a poll except where the chairman of the AGM, 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, each of the resolutions set out in the notice of the AGM will be taken by way of poll. On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorized representative, shall have one vote for every fully paid Share of which he/she is the holder. A shareholder entitled to more than one vote needs not use all his/her votes or cast all the votes he/she used in the same way.

### 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 herein or this circular misleading.

### RECOMMENDATION

The Directors consider that the grant of the Issue Mandate and the Repurchase Mandate, the re-election of the retiring Directors and adoption of the 2022 Share Option Scheme are all in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the ordinary resolutions to be proposed at the AGM.

A copy of the 2022 Share Option Scheme will be published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.663hk.com](http://www.663hk.com)) for display from the date of this circular up to and including the date of the AGM (i.e. from 29 April 2022 to 6 June 2022), and the same will be available for inspection at the AGM.

### OTHER INFORMATION

Your attention is also drawn to the information as set out in the appendices to this circular.

Yours faithfully  
By order of the Board of  
**KING STONE ENERGY GROUP LIMITED**  
**Xu Zhuliang**  
*Chairman*

This appendix serves as an explanatory statement as required by the Listing Rules and also constitutes the memorandum required under section 239 of the Companies Ordinance to provide the requisite information to you for your consideration of the Repurchase Mandate.

### **1. SHARE CAPITAL**

As at the Latest Practicable Date, the issued share capital of the Company comprised 1,187,258,334 Shares. Subject to the passing of the ordinary resolution to approve the Repurchase Mandate at the AGM and on the basis that no further Shares will be issued or repurchased between the Latest Practicable Date and the date of the AGM, the Company would be allowed under the Repurchase Mandate to repurchase up to a maximum of 118,725,833 fully paid up Shares, representing 10% of the issued share capital of the Company as at the Latest Practicable Date.

### **2. REASONS FOR THE REPURCHASE**

The Directors believe that the Repurchase Mandate is in the best interests of the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the value of the net assets and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

### **3. FUNDING OF REPURCHASES**

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the laws of Hong Kong. A share repurchase may only be made out of the distributable profits of the Company and/or the proceeds of a new issue of Shares.

As compared to the financial position of the Company as at 31 December 2021 (being the date of the Company's latest audited accounts), the Directors consider that the repurchases of securities could have a material adverse impact on the working capital and the gearing position of the Company in the event that the Repurchase Mandate were to be exercised in full during the proposed repurchase period. The Directors do not, however, propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

#### 4. DISCLOSURE OF INTERESTS

None of the Directors, nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates, have any present intention to sell any Shares to the Company under the Repurchase Mandate if it is approved by the Shareholders.

No core connected person of the Company has notified the Company that he/she/it has a present intention to sell any Shares to the Company or its subsidiaries, or has undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

#### 5. UNDERTAKING OF THE DIRECTORS

The Directors have undertaken to the Stock Exchange that if they shall exercise the power of the Company to make repurchases pursuant to the Repurchase Mandate they will exercise the same in accordance with the Listing Rules and the laws of Hong Kong and all applicable laws.

#### 6. SHARE PRICES

The highest and lowest prices at which the Shares have traded on the Stock Exchange in each of the previous twelve calendar months were as follows:

	<b>Highest</b> <i>HK\$</i>	<b>Lowest</b> <i>HK\$</i>
<b>2021</b>		
April*	1.680	0.770
May*	0.840	0.690
June*	0.780	0.620
July*	0.680	0.530
August*	0.620	0.470
September*	0.540	0.430
October*	0.540	0.410
November*	0.460	0.360
December*	0.440	0.380
<b>2022</b>		
January	0.450	0.288
February	0.400	0.305
March	0.320	0.195
April (up to the Latest Practicable Date)	0.335	0.241

\* adjusted upon share consolidation effective from 30 December 2021

**7. SHARE REPURCHASE MADE BY THE COMPANY**

Neither the Company nor any of its subsidiaries has repurchased any of the Company's listed securities during the six months immediately prior to the Latest Practicable Date.

**8. EFFECT OF THE TAKEOVERS CODE**

If a shareholder's proportionate interest in the voting rights of the Company increases as a result of the Directors exercising the powers of the Company to repurchase Shares pursuant to the Repurchase Mandate, such increase will be treated as an acquisition of voting rights for the purpose of Rule 32 of the Takeovers Code.

As at the Latest Practicable Date, to the best of the Directors' information, belief and knowledge, (i) Belton Light Limited, which is wholly owned by Jade Bird Energy Fund II, L.P., is able to exercise or control the exercise of approximately 30.11% of the voting rights in general meeting of the Company; (ii) Goldsino Investments Limited, which is wholly owned by Team Collection Limited and in turn wholly owned by Ms. Xu Mengran, is able to exercise or control the exercise of approximately 22.09% of the voting rights in general meeting of the Company. Save as aforesaid, no other Shareholder held more than 10% of the Shares in issue as at the Latest Practicable Date. Accordingly, on the basis that there is no change in shareholding structure, an exercise of the Repurchase Mandate in full would give rise to an obligation on Belton Light Limited to make a mandatory general offer under Rule 26 of the Takeovers Code. However, the Directors have no present intention to exercise the Repurchase Mandate to the extent that such obligation would be triggered. Save as the foregoing, the Directors are not aware of any consequences which may arise under the Takeovers Code as a consequence of any purchase made under the Repurchase Mandate.

The Directors have no present intention to exercise the Repurchase Mandate to such an extent that would result in the Company failing to comply with the public float requirements under Rule 8.08 of the Listing Rules.

The details of the Directors who will retire from office by rotation at the AGM and being eligible, would offer themselves for re-election at the AGM, are set out below:

**Mr. Xu Zhuliang – Executive Director**

Mr. Xu Zhuliang (“**Mr. Xu**”), aged 52, obtained a diploma from Taiyuan University of Technology in 1991. Mr. Xu holds the Safety Qualification Certificate issued by the State Administration of Work Safety. Since 2009, Mr. Xu has been the Assistant to President and Vice President of Beida Jade Bird Group, and is primarily responsible for the management of the company’s coal mine and chemical projects. During the period from 2006 to 2008, Mr. Xu was the manager of Shanxi Tianchengdayang Energy Chemical Industry Co. Ltd., a company specialized in the development, production and processing of energy chemical products. Prior to that, Mr. Xu was the manager of Shanxi Glamour Science & Technology Co. Ltd. During the period from 2002 to 2006, he was responsible for the research and development, investment, construction and operation of the coal mine and chemical projects of that company. He was appointed as the executive Director on 12 March 2013 and becomes Chairman of the Board on 1 March 2020. He is also the chairman of the nomination committee of the Company.

Save as disclosed above, Mr. Xu does not hold any position with the Group. Mr. Xu does not hold any other major appointments and has not held any position or directorships in any other listed public companies during last three years preceding the Latest Practicable Date.

There is no service contract between Mr. Xu and the Company. His remuneration was HK\$1,818,000 for the year ended 31 December 2021 with reference to the prevailing market rate and his duties and responsibilities in the Company.

As confirmed by Mr. Xu, he does not have any relationships with any directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Company. As at the Latest Practicable Date, Mr. Xu does not have any interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Xu is not aware of any other matters that need to be brought to the attention of the Shareholders nor is there any information to be disclosed by the Company pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

**Mr. Lee Ping – Independent Non-Executive Director**

Mr. Lee Ping (“**Mr. Lee**”), aged 61, holds a Bachelor’s Degree in Mathematics and Computer Science from State University of New York at Buffalo, a Master’s Degree in Computer Science and a Doctor of Philosophy in Mathematics from Cornell University. He has over 21 years’ experience in energy and petroleum industry. Currently, Mr. Lee is the President and General Manager of BG Group China, a world leader in natural gas industry. He has responsibility in managing BG Group’s overall portfolio in relation with China, domestic and international. Prior to joining BG Group, Mr. Lee served as President of Schlumberger China, the world largest oilfield services company, responsible for oilfield operations, technology development, engineering and manufacturing, global sourcing, and developing and implementing long term growth strategy. He also spent ten years in Schlumberger-Doll Research and Austin Research as senior and principal research scientist, and is a holder of over twenty scientific publications and two patents. He was appointed as an independent non-executive Director on 8 April 2013 and is a member of the audit committee of the Company.

Save as disclosed above, Mr. Lee does not hold any position with the Group. Mr. Lee does not hold any other major appointments and has not held any position or directorships in any other listed public companies during last three years preceding the Latest Practicable Date.

There is no service contract between Mr. Lee and the Company. His remuneration was HK\$180,000 for the year ended 31 December 2021 which is determined with reference to the prevailing market rate and his duties and responsibilities in the Company.

As confirmed by Mr. Lee, he does not have any relationships with any directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Company. As at the Latest Practicable Date, Mr. Lee does not have any interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Lee is not aware of any other matters that need to be brought to the attention of the Shareholders nor is there any information to be disclosed by the Company pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

This Appendix summarises the principal terms of the 2022 Share Option Scheme but does not form part of, nor was it intended to be, part of the 2022 Share Option Scheme nor should it be taken as effecting the interpretation of the rules of the 2022 Share Option Scheme.

**(a) Purpose of the 2022 Share Option Scheme**

The purpose of the 2022 Share Option Scheme is to provide incentives and/or rewards to the Eligible Participants for their contribution to the growth of the Group, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and continuing efforts to promote the interests of the Group, and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

**(b) Administration of the 2022 Share Option Scheme**

The 2022 Share Option Scheme shall be subject to the administration of the Directors whose decision on all matters arising in relation to the 2022 Share Option Scheme or their interpretation or effect shall (save as otherwise provided therein) be final and binding on all persons who may be affected thereby.

**(c) Grant and acceptance of Options**

The Board shall, subject to and in accordance with the provisions of the 2022 Share Option Scheme and the Listing Rules, be entitled (but shall not be bound) at any time and from time to time on any business day within a period of ten years commencing on the date of which the 2022 Share Option Scheme is adopted to make an offer for the grant of an Option (the “Offer”) to such Eligible Participant as it may in its absolute discretion select, and subject to such conditions as the Board may think fit, to subscribe for such number of Shares as the Board may determine at the Subscription Price (hereinafter defined).

An Offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as the Board may from time to time determine and shall remain open for acceptance by the Eligible Participant concerned for a period of twenty-eight (28) days inclusive of, and from the date of which an Offer is made to an Eligible Participant provided that no such Offer shall be open for acceptance after the earlier of the 10th anniversary of the adoption date of the 2022 Share Option Scheme or the termination of the 2022 Share Option Scheme. A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an Option. An Option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option duly signed by the Eligible Participant together with the said consideration of HK\$1.00 is received by the Company.

Any Offer may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in such number of Shares as represents a board lot for the time being for the purpose of trading on main board or an integral multiple thereof.

**(d) Exercise of Options and Price of Shares**

An Option may be exercised in whole or in part by the grantee giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Subscription Price for the Shares in respect of which the notice is given. Within twenty-one (21) days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate from the Company's auditors or independent financial advisers, the Company shall allot and issue the relevant Shares to the grantee (or his legal personal representative(s)) credited as fully paid.

The Options (before exercise) do not carry any right to vote in general meeting of the Company, or any dividend, transfer or other rights, including those arising on the liquidation of the Company, save as otherwise provided under the 2022 Share Option Scheme or under the relevant laws or the memorandum and articles of association of the Company in effect from time to time. Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the memorandum and articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which the Option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an Option shall not carry voting rights until the name of the grantee of the Option(s) has been duly entered onto the register of members of the Company as the holder thereof.

The exercise price for Shares under the 2022 Share Option Scheme (the "Subscription Price") shall be determined by the Board at its absolute discretion but in any event will not be less than the higher of: (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant of an Option, which must be a business day; (ii) the average closing price of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant of an Option; and (iii) the nominal value of the Shares.

**(e) Maximum number of Shares available for issue**

- (1) Subject to the Listing Rules, the overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the 2022 Share Option Scheme and any other scheme of the Company must not, in aggregate, exceed 30% of the Shares in issue from time to time (the “Overall Limit”). No Options shall be granted under any share option schemes of the Company (including the 2022 Share Option Scheme) if this will result in the Overall Limit being exceeded.
- (2) Subject to the Overall Limit, the total number of Shares which may be issued upon exercise of all Options to be granted under the 2022 Share Option Scheme and any other share option schemes of the Company adopted by the Group must not, in aggregate, exceed 10% of the Shares in issue as at the date of the approval of the 2022 Share Option Scheme (the “Scheme Mandate Limit”), unless Shareholders’ approval has been obtained pursuant to sub-paragraphs (iii) and (iv) below. Options lapsed in accordance with the terms of the 2022 Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (3) The Company may seek separate approval by its Shareholders in general meeting for granting Options beyond the Scheme Mandate Limited provided the Options in excess of the Scheme Mandate Limited are granted only to Eligible Participants specifically identified by the Company before such approval is sought. The Company must send a circular to the Shareholders containing a general description of the specified Eligible Participant and such other information as required under the Listing Rules.
- (4) The Company may seek approval by its Shareholders in general meeting for “refreshing” the Scheme Mandate Limit under the 2022 Share Option Scheme. However, the total number of Shares which may be issued upon exercise of all Options to be granted under the 2022 Share Option Scheme and any other schemes of the Company under the limit as “refreshed” must not exceed 10% of the Shares in issue as at the date of passing the relevant resolution. The Company must send a circular to the Shareholders containing the information as required under the Listing Rules.

**(f) Grant of Options to a Director, chief executive or substantial Shareholder of the Company, or any of their respective associates**

Any grant of Options to a Director, chief executive or substantial Shareholder of the Company, or any of their respective associates, must be approved by the independent non-executive Directors. Where Options are proposed to be granted to a substantial Shareholder or any of its/his/her respective associates and if such grant would result in the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted (including Options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant to such person representing in aggregate over 0.1% of the total issued Shares and having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, then the proposed grant must be subject to the approval of Shareholders taken on a poll in a general meeting. The relevant Grantee, his associates and all core connected persons of the Company must abstain from voting at such general meeting (except where any Grantee, his associates and all core connected person intends to vote against the proposed grant provided that his intention to do so has been stated in the shareholders' circular to be issued as stated below).

A circular must be prepared by the Company explaining the proposed grant, disclosing (i) the number and terms of the Options to be granted; (ii) containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant; (iii) containing information relating to any Directors who are trustees of the scheme or have a direct or indirect interest in the trustees; and (iv) such other information as required under the Listing Rules. Any change in the terms of Options granted to a connected person or its associates must be approved by Shareholders in a general meeting.

**(g) Maximum entitlement of each Eligible Participant**

The total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Participant or grantee (including exercised and outstanding options) in any twelve (12)-month period up to the date of grant shall not exceed 1% of the Shares in issue at the date of grant (the "Individual Limit"). Where it is proposed that any offer is to be made to an Eligible Participant (or where approximate, an existing grantee) which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve (12)-month period up to and including the relevant date of grant to exceed his, her or its Individual Limit, such offer and any acceptance thereof must be conditional upon Shareholders' approval in general meeting with such Eligible Participant (or where appropriate, an existing grantee) and his, her or its associates abstaining from voting. The Company must send a circular to the Shareholders disclosing the identity of the Eligible Participant or grantee, the number and terms of options to be granted (and options previously granted) to such Eligible Participant and the information required under the Listing Rules. The number and terms (including the subscription price) of options to be granted to such Eligible Participant must be fixed before the date on which Shareholders' approval is sought and

the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

**(h) Time of Exercise of Options**

Subject to the terms of the 2022 Share Option Scheme, an Option may be exercised in whole or in part at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an Option, but in any event no later than 10 years from the date of grant but subject to the early termination of the 2022 Share Option Scheme (the “Option Period”).

There is no specified minimum period under the 2022 Share Option Scheme for which an Option must be held or the performance target which must be achieved before an Option can be exercised under the terms of the 2022 Share Option Scheme.

**(i) Restrictions on the time of grant of Options**

Grant of Options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the relevant requirements of the Listing Rules. In particular, no Option may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of the Company’s quarterly, interim or annual results and (ii) the deadline for the Company to publish its quarterly, interim or annual results announcement and ending on the date of such results announcement.

**(j) Rights are personal to grantees**

An Option is personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a grantee shall entitle the Company to cancel any option or part thereof granted to such grantee to the extent not already exercised.

**(k) Rights on cessation of employment by dismissal**

If the grantee of an Option is an employee (the “Employee”) of the Group and ceases to be an Employee on one or more of the grounds that he or she has been guilty of persistent or serious misconduct, bankruptcy, insolvency, composition with his or her creditors generally or conviction of any criminal offence or other grounds on which an employer would be entitled to terminate his or her employment pursuant to any applicable law, his or her Option (to the extent not already exercised) will lapse on the date of cessation of his or her employment.

**(l) Rights on death**

If the grantee of an Option is an Employee and ceases to be an Employee by reason of his or her death before exercising the Options in full and none of the events referred to in paragraph (k) above as ground for termination of his or her Options arises, his or her personal representative(s) may exercise the Option (to the extent not already exercised) within a period of 12 months following the date of death (or such longer period as the Board may determine), failing which it will lapse.

**(m) Rights on cessation of employment for other reasons**

If the grantee of an Option who is an Employee and ceases to be an Eligible Participant for any other reason the Options (to the extent not already exercised) shall lapse on the date of cessation or termination and shall not be exercisable unless the Board otherwise determines in which event the grantee may exercise the vested portion of the Option (to the extent not already exercised) in whole or in part within a period as the Board may determine following the date of such cessation or termination, which date shall be the last actual working day with the Group, whether salary is paid in lieu of notice or not. If any of the events referred to in paragraph (n) to (p) below occurs during such period, he or she may exercise the Option pursuant to paragraphs (n) to (p) respectively.

**(n) Rights on a general offer**

In the event of a general offer being made to all Shareholders (or all such holders other than the offeror and/or person controlled by the offeror and/or any person acting in concert (as defined in the Takeovers Code) with the offeror) and such offer becomes or is declared unconditional during the Option Period of the relevant Option, the grantee (or his personal representative(s)) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within the Option Period and up to the close of such offer.

**(o) Rights on winding up**

In the event a notice is given by the Company to its members to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or as soon as after it despatches such notice to each member of the Company give notice thereof to all grantees and any grantee (or his or her personal representative(s) may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price in respect of the relevant Option (such notice to be received by the Company no later than five business days prior to the propose general meeting)) exercise the Option (to the extent not already exercised) either to its full extent or to the extent that he or she may specify in his or her notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue such number of Shares to the grantee credited as fully paid.

**(p) Rights on reconstruction, compromise or arrangement**

If a compromise or arrangement between the Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice to the grantee on the same date as it despatches the notice to each member or creditor of the Company to consider such a compromise or arrangement, and thereupon the grantee (or his or her personal representative(s)) may by notice in writing to the Company accompanied by a remittance of the full amount of the subscription price in respect of which the notice is given (such notice to be received by the Company no later than five business days prior to the proposed meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting allot and issue such number of Shares to the grantee credited as fully paid.

**(q) Cancellation of Options**

The Board shall be entitled at its discretion at any time and from time to time to cancel any Option, either in whole or in part, which has not been validly exercised by a grantee, by giving notice in writing to the grantee stating that such Option is thereby cancelled.

**(r) Effect of alterations to share capital**

In the event of any alteration in the capital structure of the Company by way of capitalisation of profits or reserved, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction while any Option remains exercisable), such corresponding alterations (if any) will be made in (i) the numbers or nominal amount of Shares subject to any Option so far as such Option remains unexercised and/or (ii) the subscription price per Share and/or (iii) the maximum number of Shares available for subscription and/or; (iv) the method of exercise of the Option as the auditors or independent financial advisers for the time being of the Company shall at the request of the Company or any grantee certify in writing to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that the grantee shall have the same proportion of the issued share capital of the Company to which he was entitled before such alteration and the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as possible the same as (but not greater than) it was before such event, but so that no such alterations shall be made the effect of which would be to enable a Share to be issue at less than its nominal value. Save in the case of a capitalisation issue, the auditors or independent financial advisers for the time being of the Company must confirm to the Directors in writing that such adjustment(s) satisfy the aforesaid requirements.

**(s) Ranking of Shares**

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the memorandum and articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the Option is exercised and accordingly will entitle the holders of Shares to participate in all dividends or other distributions paid or made on or after the date on which the Option is exercised other than any dividends or other distributions previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of allotment.

**(t) Duration of the 2022 Share Option Scheme**

The 2022 Share Option Scheme shall continue in force for the period commencing from the date of adoption of the 2022 Share Option Scheme and expiring at the close of business on the tenth anniversary thereof, after such period no further Options will be granted but the provisions of the 2022 Share Option Scheme shall remain in full force and effect in respect of any Options granted before its expiry or termination but not yet exercised.

**(u) Alterations to the 2022 Share Option Scheme**

- (1) The provisions relating to the matters set out in rule 17.03 of the Listing Rules cannot be altered to the advantage of the Eligible Participants without the prior approval of Shareholders in a general meeting.
- (2) Any alterations to the terms and conditions of the 2022 Share Option Scheme which are of a material nature or any change to the terms of Options granted must be approved by Shareholders, except where the alterations take effect automatically under the existing terms of the 2022 Share Option Scheme.
- (3) Any change to the authority of the Directors in relation to any alteration to the terms of the 2022 Share Option Scheme must be approved by Shareholders in a general meeting.
- (4) Any alterations to the terms and conditions of the 2022 Share Option Scheme shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

Save as the above, the 2022 Share Option Scheme may be altered in any respect by a resolution of the Board.

**(v) Conditions of the 2022 Share Option Scheme**

The 2022 Share Option Scheme is conditional upon:

- (1) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in any Shares to be issued by the Company pursuant to the exercise of Options in accordance with the terms and conditions of the 2022 Share Option Scheme; and
- (2) the passing of the necessary resolution to approve and adopt the 2022 Share Option Scheme in general meeting.

**(w) Lapse of Options**

An Option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (1) the expiry of the Option Period;
- (2) the expiry of any of the periods referred to in paragraphs (k) to (p);
- (3) the date on which the Directors shall exercise the Company's right to cancel the Option by reason of a breach of paragraph (j) by the grantee of the Option in respect of that or any other Option; and
- (4) the date on which the grantee, being an employee of a member of the Group, ceases to be an Eligible Participant by reason of a termination of his employment on any one or more of the grounds that he has been guilty of persistent or serious misconduct, or has become bankrupt or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group into disrepute) or other grounds on which the Company and its Subsidiaries would be entitled to terminate his or her employment pursuant to any applicable law.

**(x) Termination**

The Company by ordinary resolution in general meeting may at any time terminate the operation of the 2022 Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the 2022 Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Options granted but not yet exercised prior to such termination. Details of the Options granted, including Options exercised or outstanding, under the 2022 Share Option Scheme shall be disclosed in the circular to Shareholders seeking approval of any subsequent share option scheme to be established after such termination.

**(y) Miscellaneous**

The terms of the 2022 Share Option Scheme (and any other schemes adopted by the Company from time to time) shall be in accordance with the requirements set out in Chapter 17 of the Listing Rules.

The Company will comply with the relevant statutory requirements and the Listing Rules from time to time in force on a continuing basis in respect of the 2022 Share Option Scheme and any other schemes of the Company. Any dispute arising in connection with the number of Shares of an Option and any of the matters referred to in paragraph (r) above shall be referred to the decision of the auditors or the independent financial advisers of the Company who shall act as experts and not as arbitrators and whose decision, in the absence of manifest error, shall be final and binding.

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## NOTICE OF AGM

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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)**

### **NOTICE OF AGM**

**NOTICE IS HEREBY GIVEN** that the annual 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 at 11:00 a.m. on Monday, 6 June 2022 to transact the following ordinary businesses:

#### **ORDINARY RESOLUTIONS**

1. To receive, consider and adopt the audited financial statements, the directors’ report and the auditors’ report for the year ended 31 December 2021.
2. (A) To re-elect Mr. Xu Zhuliang as an executive director of the Company;  
  
(B) To re-elect Mr. Lee Ping as an independent non-executive director of the Company; and  
  
(C) To authorise the board of directors to fix the remuneration of the respective directors of the Company.
3. To re-appoint Messrs. Ernst & Young as the auditors of the Company and to authorise the board of directors to fix their remuneration.

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4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution of the Company:

**“THAT:**

- (a) subject to sub-paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares of the Company and to make or grant offers, agreements and options, including warrants, bonds, notes and debentures convertible into shares of the Company which would or might require the exercise of such power, subject to and in accordance with all applicable laws and the memorandum and articles of association of the Company, be and is hereby generally and unconditionally approved;
- (b) the approval in sub-paragraph (a) above shall be in addition to any authorisation given to the directors of the Company and shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, notes and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the total number of shares of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in subparagraphs (a) and (b) above, otherwise than (i) pursuant to a Rights Issue (as hereinafter defined); or (ii) any issue of shares of the Company on the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any bonds, notes, debentures and securities which are convertible into shares of the Company; or (iii) an issue of shares of the Company under any share option scheme or similar arrangement providing for the grant to employees (including directors) of the Company and/or any of its subsidiaries of the rights to subscribe for shares of the Company; or (iv) an issue of shares of the Company in lieu of the whole or part of a dividend on share in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the total number of shares of the Company in issue as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

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(d) for the purposes of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of Hong Kong to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the directors of the Company to the holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the law of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company).”

5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution of the Company:

“**THAT:**

- (a) subject to sub-paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

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## NOTICE OF AGM

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- (b) the approval in sub-paragraph (a) of this resolution shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors of the Company on behalf of the Company during the Relevant Period to procure the Company to purchase its securities at a price determined by the directors of the Company;
- (c) the total number of shares of the Company to be repurchased by the Company pursuant to the approval in sub-paragraphs (a) and (b) above shall not exceed 10 per cent. of the total number of shares of the Company in issue as at the date of passing this resolution, and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of Hong Kong to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

6. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution of the Company:

“**THAT** conditional upon resolutions numbered 4 and 5 as set out in the notice convening this meeting being passed, the total number of shares of the Company which are repurchased by the Company under the authority granted to the directors of the Company pursuant to and in accordance with the said resolution numbered 5 above shall be added to the total number of shares of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the directors of the Company pursuant to and in accordance with the resolution numbered 4 as set out in the notice convening this meeting.”

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7. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“**THAT** subject to and conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the shares to be issued pursuant to the exercise of any options granted under the new share option scheme of the Company (the “**2022 Share Option Scheme**”, a copy of which marked “A” is produced to the meeting and for the purposes of identification signed by the Chairman thereof), the 2022 Share Option Scheme be and is hereby approved and adopted and the Directors be and are hereby authorised to grant options thereunder and to allot and issue Shares up to 10% of the total number of Shares in issue as at the date of passing this resolution pursuant to the 2022 Share Option Scheme and take all such steps as may be necessary or desirable to implement such 2022 Share Option Scheme and to agree to such variation, amendment or waiver as are, in the opinion of the Board, in the interests of the Company.”

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

Hong Kong, 29 April 2022

*Registered office & Principal Place of Business in Hong Kong:*

17th Floor, V Heun Building  
No. 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 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 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.

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- (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, 31 May 2022 to Monday, 6 June 2022, 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, 30 May 2022 in order to attend and vote at the Meeting.
- (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 Monday, 6 June 2022, 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 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.*