

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

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

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KING STONE ENERGY GROUP LIMITED

金山能源集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

- (1) PROPOSED GRANT OF GENERAL MANDATES TO ISSUE NEW SHARES
AND REPURCHASE BY THE COMPANY OF ITS OWN SHARES;
(2) PROPOSED RE-ELECTION OF DIRECTORS;
(3) PROPOSED ADOPTION OF NEW SHARE OPTION SCHEME AND
GRANT OF MANDATE TO ISSUE OPTIONS; AND
(4) NOTICE OF ANNUAL GENERAL MEETING**

A notice convening an annual general meeting of the Company to be held at Suite 3603, 36th Floor, One Exchange Square, Central, Hong Kong on Wednesday, 30 May 2012 at 11:30 a.m. is set out on pages 25 to 29 of this circular. A form of proxy for use at the annual general meeting is enclosed with this circular. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk and the Company at www.663hk.com.

Whether or not you are able to attend the annual general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the share registrar of the Company, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the annual general 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 annual general meeting or any adjournment thereof should you so wish.

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DEFINITIONS

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

“AGM”	the annual general meeting of the Company to be convened and held to consider and, if thought fit, to approve, among other things, the proposed grant of the General Mandate and the Repurchase Mandate, the proposed re-election of Directors and proposed adoption of the Scheme 2012 and grant of mandate to issue Options
“Articles of Association”	the articles of association of the Company, and “Article” shall mean an article of the Articles of Association
“associate(s)”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Companies Ordinance”	the Companies Ordinance, Cap. 32 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
“Directors”	the directors of the Company
“General Mandate”	the general mandate proposed to be granted to the Directors at the AGM to allot, issue and otherwise deal with additional Shares up to a maximum of 20% of the aggregate nominal share capital of the Company in issue at the date of the passing of such resolution
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	24 April 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Option(s)”	option(s) granted or to be granted to subscribe for Share(s) under the Scheme 2002, and following its adoption, under the Scheme 2012
“PRC”	the People’s Republic of China (which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan)

DEFINITIONS

“Repurchase Mandate”	the repurchase mandate proposed to be granted to the Directors at the AGM to repurchase up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing such resolution
“Scheme 2002”	the share option scheme adopted by the Company on 28 May 2002
“Scheme 2012”	the share option scheme proposed to be adopted by the Company at the AGM, a summary of the principal terms of which is set out in Appendix III to this circular
“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

* *The English transliteration of the Chinese name(s) in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*



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. Wang Da Yong
Mr. Tian Wenwei
Mr. Wang Tongtian
Mr. Chen Marlon Ray

*Registered office and principal place of
business in Hong Kong:*

Suite 3603, 36th Floor
One Exchange Square
Central
Hong Kong

Non-Executive Directors:

Mr. Li Yi
Mr. Su Bin
Mr. Wong Chun Hung

Independent Non-Executive Directors:

Mr. Chiu Sui Keung
Mr. Li Peiming
Mr. Lee Chi Hwa, Joshua
Mr. Lam Ka Wai, Graham

27 April 2012

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED GRANT OF GENERAL MANDATES TO ISSUE NEW SHARES
AND REPURCHASE BY THE COMPANY OF ITS OWN SHARES;
(2) PROPOSED RE-ELECTION OF DIRECTORS; AND
(3) PROPOSED ADOPTION OF NEW SHARE OPTION SCHEME AND
GRANT OF MANDATE TO ISSUE OPTIONS**

INTRODUCTION

At the AGM to be held at Suite 3603, 36th Floor, One Exchange Square, Central, Hong Kong on Wednesday, 30 May 2012 at 11:30 a.m., resolutions will be proposed, among other matters:

- (a) to grant the General Mandate to the Directors;

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- (b) to grant the Repurchase Mandate to the Directors;
- (c) to increase the number of Shares to be allotted and issued under the General Mandate by an additional number representing such number of Shares repurchased under the Repurchase Mandate;
- (d) to re-elect the Directors; and
- (e) to adopt the Scheme 2012 and to grant a general mandate to the Directors to issue Options under the Scheme 2012.

The purpose of this circular is to provide you with information in relation to the resolutions to be proposed at the AGM for the grant of the General Mandate and the Repurchase Mandate, the re-election of Directors, the adoption of the Scheme 2012 and the grant of a general mandate to issue Options under the Scheme 2012 and to give you the notice of the AGM.

GENERAL MANDATE AND REPURCHASE MANDATE

The General Mandate and the Repurchase Mandate shall be effective until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company; or
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association, the Companies Ordinance or any other applicable laws to be held; or
- (c) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors.

General Mandate

The Company had in issue an aggregate of 1,428,729,168 Shares as at the Latest Practicable Date. Subject to the passing of the proposed resolution for the approval of the General Mandate at the AGM, the Company would be allowed to allot and issue up to a maximum of 285,745,833 Shares, representing 20% of the aggregate nominal amount of the issued Shares at the time of the passing of the resolution approving the General Mandate at the AGM on the basis that no further Shares will be issued or repurchased by the Company prior to the AGM. In addition, subject to the passing of the relevant proposed resolution, the General Mandate would be extended so that the Company can allot, issue and deal with Shares repurchased pursuant to the Repurchase Mandate.

The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under: (i) the convertible notes issued by the Company; (ii) the Scheme 2002; and (iii) any scrip dividend scheme as may be approved by the Shareholders.

Repurchase Mandate

Under the Listing Rules, the Company is required to give to the Shareholders all information which is reasonably necessary to enable Shareholders to make an informed decision as to whether to vote for or against the resolution to renew the grant to the Directors of the Repurchase Mandate. The explanatory statement required by the Listing Rules to be included in this circular is set out in Appendix I.

LETTER FROM THE BOARD

RE-ELECTION OF DIRECTORS

As announced by the Company on 30 September 2011, 21 December 2011, 9 January 2012, 16 April 2012 and 23 April 2012, Mr. Li Peiming, Mr. Chen Marlon Ray, Mr. Lee Chi Hwa, Joshua, Mr. Wong Chun Hung and Mr. Lam Ka Wai, Graham were appointed as independent non-executive Director, executive Director, independent non-executive Director, non-executive Director and independent non-executive Director respectively. According to Article 94, any Director appointed to the Board shall hold office until the first general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting of the Company (in case of an addition to the existing Board) and shall then be eligible for re-election.

According to Article 103, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three year. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. A retiring Director shall be eligible for re-election.

In accordance with Article 94 and Article 103, Mr. Li Peiming, Mr. Chen Marlon Ray, Mr. Lee Chi Hwa, Joshua, Mr. Wong Chun Hung, Mr. Lam Ka Wai, Graham, Mr. Wang Tongtian and Mr. Chiu Sui Keung shall retire from their offices as Directors. Being eligible, Mr. Wang Tongtian and Mr. Chen Marlon Ray would offer themselves for re-election as executive Directors, Mr. Wong Chun Hung would offer himself for re-election as non-executive Director and Mr. Li Peiming, Mr. Chiu Sui Keung, Mr. Lee Chi Hwa, Joshua and Mr. Lam Ka Wai, Graham would offer themselves for re-election as independent non-executive Directors. At the AGM, an ordinary resolution will be proposed to re-elect each of Mr. Wang Tongtian and Mr. Chen Marlon Ray as executive Director, Mr. Wong Chun Hung as non-executive Director, and each of Mr. Chiu Sui Keung, Mr. Li Peiming, Mr. Lee Chi Hwa, Joshua and Mr. Lam Ka Wai, Graham as independent non-executive Director.

Particulars relating to Mr. Wang Tongtian, Mr. Chen Marlon Ray, Mr. Wong Chun Hung, Mr. Chiu Sui Keung, Mr. Li Peiming, Mr. Lee Chi Hwa, Joshua and Mr. Lam Ka Wai, Graham are set out in Appendix II to this circular.

ADOPTION OF THE SCHEME 2012 AND GRANT OF MANDATE TO ISSUE OPTIONS

Pursuant to an ordinary resolution passed by the Shareholders at a general meeting on 28 May 2002, the Company had adopted the Scheme 2002, pursuant to which the Board was authorised to grant Options to any employee, director of the Company or any of its subsidiaries and any supplier, shareholder or customer who, in the sole discretion of the Board, have contributed to the Company and/or any of its subsidiaries (the “Eligible Participants”).

As at the Latest Practicable Date, the Company had an aggregate of 24,616,000 Options granted under the Scheme 2002 which remained outstanding and unexercised.

As the Scheme 2002 is due to expire on 27 May 2012, no further Options can thereafter be offered or granted under the Scheme 2002 but in all other respects the provisions of the Scheme 2002 shall remain in full force and effect. It is proposed by the Directors that at the AGM, an ordinary resolution

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will be proposed for the Company to approve and adopt the Scheme 2012, which will take effect on the date of its adoption at the AGM subject to the Stock Exchange granting approval for the listing of and dealing in the Shares which may fall to be allotted and issued upon the exercise of Options in accordance with the terms and conditions of the Scheme 2012.

The purpose of the Scheme 2012 is to replace the Scheme 2002 and to enable the Company to continue to grant Options to the Eligible Participants as incentives and/or rewards for their contribution to the Company and/or its subsidiaries. The rules of the Scheme 2012 provide that the Board 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 Scheme 2012. There is no performance target specified in the Scheme 2012. 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 Company does not at present intend to appoint any trustee to the Scheme 2012. The resolution to be proposed for the approval of the Scheme 2012 by the Shareholders at the AGM will also include the grant of the general mandate to the Board to grant Options under the Scheme 2012 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 Scheme 2002) as at the date of the passing of the relevant resolution upon their exercise.

As at the Latest Practicable Date, the Company had an aggregate of 1,428,729,168 Shares in issue. The total amount of Shares that may fall to be allotted and issued upon exercise in full of the Options that may be granted after the resolution authorising the Directors to allot and issue up to 10% of the issued share capital of the Company has been passed at the AGM would be 142,872,916, which is within the overall limit of 30% prescribed under Rule 17.03(3) of the Listing Rules.

The Directors consider that it is not appropriate to state the value of all Options that can be granted pursuant to the Scheme 2012 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 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.

The adoption of the Scheme 2012 is conditional upon:

- (i) the passing of an ordinary resolution by the Shareholders at the AGM approving the adoption of the Scheme 2012; and
- (b) the listing committee (the “Listing Committee”) of the Stock Exchange granting the 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 Scheme 2012.

Subject to the fulfilment of the above conditions, the total number of Shares which may be issued upon exercise of all Options to be granted under the Scheme 2012 and any other share option schemes of the Company must not in aggregate exceed 10% of the total issued capital of the Company as at the

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date on which the Scheme 2012 is adopted 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 Scheme 2012 together with any Options outstanding and yet to be exercised under the Scheme 2012 and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time.

None of the Directors is a trustee of the Scheme 2012 or has any direct or indirect interest in such trustee, if any.

With respect to the operation of the Scheme 2012, the Company will, where applicable, comply with the relevant requirements under Chapter 17 of the Listing Rules.

A summary of the principal terms of the Scheme 2012 which is proposed to be approved and adopted by the Company at the AGM is set out in the Appendix III to this circular. A copy of the rules of the Scheme 2012 is available for inspection at the Company's registered office and principal place of business in Hong Kong at Suite 3603, 36th Floor, One Exchange Square, Central, Hong Kong during normal business hours from the date hereof up to and including the date of the AGM.

Application will be made to the Listing Committee for granting the approval for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any Options that may be granted under the Scheme 2012.

ACTION TO BE TAKEN

Whether or not you intend to attend the AGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the share registrar of the Company, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the AGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the AGM or adjournment thereof in person if you so wish.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39 of the Listing Rules, all votes of the Shareholders at a general meeting must be taken by poll. Accordingly, all the resolutions put to vote at the AGM will be taken by way of poll. The chairman of the AGM will explain the detailed procedure for conducting a poll at the commencement of the AGM.

The Company will appoint scrutineers to handle the vote-taking procedures at the AGM. The results of the poll will be published after the conclusion of the AGM on the websites of the Stock Exchange and the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting on any resolutions to be proposed at the AGM.

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To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholder nor is there any obligation or entitlement of any such Shareholder as at the Latest Practicable Date, whereby he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his shares in the Company to a third party, either generally or on a case-by-case basis.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which he will control or will be entitled to exercise control over the voting right at the AGM.

RECOMMENDATION

The Directors believe that the proposed grant of the General Mandate and the Repurchase Mandate, the extension of the General Mandate, the proposed re-election of Directors and the proposed adoption of the Scheme 2012 and the grant of mandate to issue Options are in the best interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of all the resolutions to be proposed at the AGM.

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 Group. 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.

GENERAL

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

Yours faithfully
For and on behalf of
the board of Directors of
King Stone Energy Group Limited
Wang Da Yong
Chairman

This Appendix serves as an explanatory statement, as required by the Listing Rules, to provide requisite information to you for your consideration of the Repurchase Mandate.

1. REPURCHASE OF SECURITIES FROM CONNECTED PARTIES

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a “connected person”, that is, a director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective associates and a connected person is prohibited from knowingly selling his/her/its securities to the Company.

No connected person of the Company has notified the Company that he/she/it has a present intention to sell any Shares to the Company nor has any such connected person undertaken not to sell any of the Shares held by him/her/it to the Company in the event that the Repurchase Mandate is passed.

2. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 1,428,729,168 fully paid Shares.

Subject to the passing of the proposed resolution for the approval of the Repurchase Mandate and on the basis that no further Shares are to be issued or repurchased by the Company prior to the AGM, the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 142,872,916 fully paid Shares.

3. REASONS FOR THE REPURCHASE

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

4. FUNDING OF REPURCHASES

Pursuant to the Repurchase Mandate, repurchases would be funded entirely from the Company’s available cash flow or working capital facilities which will be funds legally available under the Companies Ordinance and the Articles of Association for such purpose.

An exercise of the Repurchase Mandate in full could have a material adverse impact on the working capital and gearing position of the Company compared with that as at 31 December 2011, being the date of its latest published audited consolidated accounts. The Directors do not, however, intend to make any repurchase in circumstances that would have a material adverse impact on the working capital or gearing position of the Company.

5. 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:

	Highest HK\$	Lowest HK\$
2011		
April	4.06	3.48
May	3.74	2.70
June	3.14	1.99
July	2.15	1.47
August	2.03	1.53
September	1.80	1.10
October	1.11	0.78
November	0.87	0.58
December	0.92	0.61
2012		
January	0.76	0.69
February	1.20	0.68
March	1.02	0.70
April (up to the Latest Practicable Date)	0.72	0.60

6. DISCLOSURE OF INTERESTS AND MINIMUM PUBLIC HOLDING

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, their associates, have any present intention to sell to the Company or its subsidiaries any of the Shares in the Company if the Repurchase Mandate is approved at the AGM and exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchases pursuant to the Repurchase Mandate in accordance with the Listing Rules and all applicable laws of Hong Kong.

If a Shareholder's proportionate interest in the voting rights of the Company increases on the Company exercising its powers to repurchase Shares pursuant to the Repurchase Mandate, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory general offer in accordance with Rules 26 and 32 of the Takeovers Code.

To the best information, belief and knowledge of the Directors, as at the Latest Practicable Date, Mr. Wang Da Yong, together with his associates, is able to exercise or control the exercise of approximately 19.45% of the voting rights in general meeting of the Company. Other than Mr. Wang Da Yong, no other Shareholder held more than 10% of the Shares then in issue as at the Latest Practicable Date. An exercise of the Repurchase Mandate in full would not result in Mr. Wang Da Yong or any parties acting in concert with him becoming obliged to make a mandatory general offer under Rule 26 of

the Takeovers Code. The Directors have no intention to exercise any of the Repurchase Mandate to such an extent that will result in any Shareholder to make a mandatory general offer under the Takeovers Code.

Save as disclosed above, 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 Company will not repurchase Shares which would result in the amount of Shares held by the public being reduced to less than 25%.

7. SHARES REPURCHASES 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.

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. Wang Tongtian — Executive Director

Mr. Wang, aged 63, worked and held senior position in Beijing Mining Bureau, China National Coal Industry Import and Export Group and China National Coal Development Company from 1975 to 1995. Mr. Wang was the deputy general manager of China Shenhua Group Coal Transportation and Distribution Company for the period of 1996 to 2009. Mr. Wang has more than 40 years experience and possesses extensive knowledge in area of project development, administration, design and engineering of coal mines and import and export of coal, coke and coal related products. He is also familiar with distribution networks and development of coal industry. Mr. Wang was appointed as a non-executive Director on 1 December 2009 and then an executive Director on 20 May 2010. He is a member of the strategy and investment committee and coal mine production safety and technical committee of the Company.

Save as disclosed above, Mr. Wang does not hold any position with the Group. Mr. Wang 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.

Mr. Wang has entered into service contract with the Company for a term of two years commencing on 14 July 2010. Currently, Mr. Wang is entitled remuneration of HK\$180,000 per annum which is determined by the Board with reference to prevailing market conditions, his roles and responsibilities.

As confirmed by Mr. Wang, Mr. Wang 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. Wang holds Options which entitle him to subscribe for 15,000,000 Shares. Save as disclosed above, as at the Latest Practicable Date, Mr. Wang does not have any interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Wang 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. Chen Marlon Ray — Executive Director

Mr. Chen, aged 45, graduated from China University of Mining and Technology with a Bachelor Degree in Ore Processing Engineering. From 1988 to 1994, Mr. Chen has worked for Yanzhou Coal Mining Bureau and China Coal Industry Import and Export Corporation (中國煤炭工業進出口總公司). Mr. Chen currently acts as the chairman of the board of directors in various companies respectively, including Reach Investment Limited (瑞辰投資有限公司), Aray Jet Limited (瑞捷公務航空有限公司) and Aray Capital Limited (瑞辰資本有限公司). He also works as the director of respective companies, including Staray Capital Limited (瑞澤資本有限公司), HD Mining International Ltd. and Link Trade Century Investment Group Limited (環貿世紀投資集團有限公司). Mr. Chen has extensive experience in the management and production of coal mining, sales and distribution of coal, international development of coal resources and the business of aviation industry in China. Mr. Chen has built a broad and solid network in the coal industry. Mr. Chen has been the executive Director since December 2011.

Save as disclosed above, Mr. Chen does not hold any position with the Group. Mr. Chen 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. Chen and the Company and he has no fixed term of service with the Company. Mr. Chen is not entitled to receive any remuneration for his appointment as the executive Director.

As confirmed by Mr. Chen, Mr. Chen 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. Chen does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Chen 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. Wong Chun Hung — Non-executive Director

Mr. Wong, aged 39, graduated from the Hong Kong Baptist University with honors degree in accounting in 1995. He is an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 10 years of experience in accounting, auditing and consulting. He is also a managing director of B&C Finance and Corporate Advisory Limited from November 2005 until now. He currently acts as an independent non-executive director of Pacific Plywood Holdings Limited (stock code: 767), which is a listed company in Hong Kong. For the period from 25 July 2007 to 7 January 2011, he was an independent non-executive director of Tech Pro Technology Development Limited (stock code: 3823), which is a listed company in Hong Kong. From 2 July 2010 to 30 June 2011, he was also an independent non-executive director of Bao Yuan Holdings Limited (stock code: 692), which is a listed company in Hong Kong. In addition, Mr. Wong was under employment as a financial controller of General Nice Group as well as its associate, Abterra Limited, which is a listed company in Singapore. Mr. Wong has been the non-executive Director since April 2012.

Save as disclosed above, Mr. Wong does not hold any position with the Group, and he 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. Wong and the Company and he has no fixed term of service with the Company. Mr. Wong is entitled to receive a director's fee of HK\$180,000 per annum which is determined with reference to the prevailing market rate and his duties and responsibilities in the Company.

As confirmed by Mr. Wong, Mr. Wong 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. Wong does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Saved as disclosed above, Mr. Wong 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. Chiu Sui Keung — Independent non-executive Director

Mr. Chiu, aged 45, has over 15 years experience in the strategic management in listed companies, financial industry and accounting field. He possessed extensive experience in corporate finance including initial public offerings, takeovers, mergers and acquisitions, fund raising and corporate advisory. Mr. Chiu graduated with a Bachelor's Degree in Commerce from the University of Melbourne, Australia and has obtained a Master's Degree in Applied Finance from Macquarie University in Sydney, Australia. He has also obtained a Diploma in Practices in Chinese Laws and Regulations Affecting Foreign Businesses jointly organized by Southwest University of Political Science and Law, the PRC and the Hong Kong Management Association. He is a member of CPA Australia and the American Institute of Certified Public Accountants and the fellow member of Hong Kong Institute of Certified Public Accountants. At present, he is the executive director and chief executive officer of Sino Resources Group Limited (stock code: 223) and was the non-executive director of China New Energy Power Group Limited (stock code: 1041) during the period from September 2008 to July 2009, both companies are listed on the Stock Exchange. Mr. Chiu has been the independent non-executive Director since January 2010 and is the chairman of the audit committee and remuneration committee, a member of nomination committee of the Company.

Save as disclosed above, Mr. Chiu does not hold any position with the Group, and he 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.

Mr. Chiu is appointed for a term of one year. He is entitled to receive a director's fee of HK\$180,000 per annum which is determined with reference to the prevailing market rate and his duties and responsibilities in the Company.

As confirmed by Mr. Chiu, Mr. Chiu 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. Chiu holds Options which entitle him to subscribe for 500,000 Shares. Save as disclosed above, as at the Latest Practicable Date, Mr. Chiu does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Saved as disclosed above, Mr. Chiu 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. Li Peiming — Independent non-executive Director

Mr. Li Peiming, aged 60, has served in the People's Liberation Army for 15 years. After his service in the army, Mr. Li worked in National Audit Office of the People's Republic of China ("CNAO") and possess over 20 years of experience in auditing. During his tenure in CNAO, he has been the director of Tourism and Overseas Chinese Affairs Audit Office and Economic Law Implementation Audit office, and the executive secretary to the Party Committee for CNAO. He is

currently the independent director of Wuhan Kaidi Electric Power Co., Ltd, a listed company on Shenzhen Stock Exchange (stock code 000939.sz). Mr. Li has been the independent non-executive Director since September 2011 and is the chairman of the nomination committee, a member of the audit committee and remuneration committee of the Company.

Save as disclosed above, Mr. Li does not hold any position with the Group. Mr. Li 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 agreement nor any fixed terms of service entered into between Mr. Li and the Company. He is entitled to receive a director fee of HK\$180,000 per annum. The remuneration of Mr. Li is determined by the Board with reference to prevailing market conditions, his roles and responsibilities.

As confirmed by Mr. Li, Mr. Li 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. Li does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Li 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 Chi Hwa, Joshua — Independent non-executive Director

Mr. Lee, aged 39, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has extensive experience in the fields of auditing, accounting and finance. Mr. Lee is an independent non-executive director of China Public Healthcare (Holdings) Limited (stock code: 8116) and CODE Agriculture (Holdings) Limited (stock code: 8153), which are listed on the Growth Enterprise Market board of the Stock Exchange. Mr. Lee has been the independent non-executive Director since January 2012 and is a member of the nomination committee of the Company.

Save as disclosed above, Mr. Lee does not hold any position with the Group, and he 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 and he has no fixed term of service with the Company. Mr. Lee is entitled to receive a director's fee of HK\$100,000 per annum which is determined with reference to the prevailing market rate and his duties and responsibilities in the Company.

As confirmed by Mr. Lee, Mr. Lee 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 of the Company within the meaning of Part XV of the SFO.

Saved 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.

Mr. Lam Ka Wai, Graham — Independent non-executive Director

Mr. Lam, aged 44, graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is a member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lam is currently the Managing Director and Head of Corporate Finance of an investment bank and has around 18 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also the independent non-executive director of Cheuk Nang (Holdings) Limited (stock code: 131), China Fortune Financial Group Limited (stock code: 290), Pearl Oriental Oil Limited (stock code: 632), Value Convergence Holdings Limited (stock code: 821), Nan Nan Resources Enterprise Limited (stock code: 1229), Trasy Gold Ex Limited (stock code: 8063) and China Railway Logistics Limited (stock code: 8089), companies listed on the Stock Exchange. In addition, Mr. Lam was the independent non-executive director of Applied Development Holdings Limited (stock code: 519) from 1 October 2005 to 12 December 2011, China Oriental Culture Group Limited (stock code: 2371) from 29 January 2008 to 5 October 2010, Hao Wen Holdings Limited (stock code: 8019) from 17 November 2010 to 16 May 2011 and Finet Group Limited (stock code: 8317) from 5 August 2009 to 24 January 2011, companies listed on the Stock Exchange. Mr. Lam has been the independent non-executive Director since April 2012 and is a member of the audit committee, remuneration committee and nomination committee of the Company.

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

There is no service contract between Mr. Lam and the Company and he has no fixed term of service with the Company. Mr. Lam is entitled to receive a director's fee of HK\$120,000 per annum which is determined with reference to the prevailing market rate and his duties and responsibilities in the Company.

As confirmed by Mr. Lam, Mr. Lam 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. Lam does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Saved as disclosed above, Mr. Lam is not aware of any other matters that need to be brought to the attention of the shareholders of the Company 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 Scheme 2012 but does not form part of, nor was it intended to be, part of the Scheme 2012 nor should it be taken as effecting the interpretation of the rules of the Scheme 2012.

(a) Purpose of the Scheme 2012

The purpose of the Scheme 2012 is to enable the Company to grant Options to certain employees of the Company and its subsidiaries (including any directors, whether executive or non-executive and whether independent or not, of the Company and its subsidiaries) and any suppliers, consultants, agents and advisers or any person who, in the sole discretion of the Board, has contributed or may contribute to the Group in recognition of their contribution to the Company and its subsidiaries.

(b) Administration of the Scheme 2012

The Scheme 2012 shall be subject to the administration of the Directors whose decision on all matters arising in relation to the Scheme 2012 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 Scheme 2012 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 Scheme 2012 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 Scheme 2012 or the termination of the Scheme 2012. 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.

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 Scheme 2012 (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 Scheme 2012 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 Scheme 2012) 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 Scheme 2012 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 Scheme 2012 (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 Scheme 2012 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 Scheme 2012. However, the total number of Shares which may be issued upon exercise of all Options to be granted under the Scheme 2012 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 connected persons or any of their 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 (excluding any independent non-executive Director who is the grantee of the Options). Where Options are proposed to be granted to a substantial Shareholder or an independent non-executive Director or any of their 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. All connected persons of the Company must abstain from voting at such general meeting (except where any 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 (excluding any independent non-executive Director who is a grantee) 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 Scheme 2012, 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 Scheme 2012 (the "Option Period").

There is no specified minimum period under the Scheme 2012 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 Scheme 2012.

(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. An Option shall not be sold, transferred, charged, mortgaged, encumbered or created with any interest in favour of any third party.

(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 proposed 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 issued 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 Scheme 2012

The Scheme 2012 shall continue in force for the period commencing from the date of adoption of the Scheme 2012 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 Scheme 2012 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 Scheme 2012

- (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 Scheme 2012 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 Scheme 2012.
- (3) Any change to the authority of the Directors in relation to any alteration to the terms of the Scheme 2012 must be approved by Shareholders in a general meeting.
- (4) Any alterations to the terms and conditions of the Scheme 2012 shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

Save as the above, the Scheme 2012 may be altered in any respect by a resolution of the Board.

(v) Conditions of the Scheme 2012

The Scheme 2012 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 Scheme 2012; and
- (2) the passing of the necessary resolution to approve and adopt the Scheme 2012 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 Scheme 2012 and in such event no further Options will be offered but in all other respects the provisions of the Scheme 2012 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 Scheme 2012 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 Scheme 2012 (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 Scheme 2012 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.



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 IS HEREBY GIVEN that the annual general meeting of King Stone Energy Group Limited (the “Company”) will be held at Suite 3603, 36th Floor, One Exchange Square, Central, Hong Kong on Wednesday, 30 May 2012 at 11:30 a.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and reports of the directors (the “Directors”) and auditors of the Company for the year ended 31 December 2011;
2.
 - (a) to re-elect Mr. Wang Tongtian as executive Director;
 - (b) to re-elect Mr. Chen Marlon Ray as executive Director;
 - (c) to re-elect Mr. Wong Chun Hung as non-executive Director;
 - (d) to re-elect Mr. Chiu Sui Keung as independent non-executive Director;
 - (e) to re-elect Mr. Li Peiming as independent non-executive Director;
 - (f) to re-elect Mr. Lee Chi Hwa, Joshua as independent non-executive Director;
 - (g) to re-elect Mr. Lam Ka Wai, Graham as independent non-executive Director; and
 - (h) to authorise the board of Directors to fix the Directors’ remuneration;
3. To re-appoint Messrs. Ernst & Young as the auditors of the Company and to authorise the board of Directors to fix their remuneration;
4. To, as special business, consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (c) below, pursuant to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares

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of the Company (the “Shares”) and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any options granted under the existing share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:
 - (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and
 - (bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of resolution no. 5),

and the authority pursuant to paragraph (a) of this resolution 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, the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”) or any applicable laws to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;

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“**Rights Issue**” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”;

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

“**THAT:**

- (a) the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the Companies Ordinance and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (c) 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, the Companies Ordinance or any applicable laws to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.”;

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

“**THAT** subject to the ordinary resolutions nos. 4 and 5 above being duly passed, the unconditional general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with unissued Shares pursuant to resolution no. 4 above be and is hereby extended by the addition thereon of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company subsequent to the passing of this resolution, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued Shares on the date of the passing of resolution no. 5.”; and

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

“**THAT:**

- (a) conditional upon the Stock Exchange granting the listing of and permission to deal in the Shares falling to be issued pursuant to the new share option scheme (the “Scheme 2012”), the terms of which are set out in the document marked “A” which has been produced to this meeting and signed by the chairman of this meeting for the purpose of identification, the rules of the Scheme 2012 be and are hereby approved and adopted and the Directors be and are hereby authorised to grant options and to allot, issue and deal with Shares pursuant to the exercise of any option granted thereunder and to take all such steps as they may consider necessary or expedient to implement the Scheme 2012; and
- (b) the aggregate nominal amount of share capital to be allotted and issued pursuant to resolution numbered 7(a) above, together with any issue of Shares upon the exercise of any options granted under any other share option schemes of the Company as may from time to time adopted by the Company, shall not exceed 10 per cent. of the Shares in issue as at the date of passing of this resolution.”

By order of the Board
King Stone Energy Group Limited
Wang Da Yong
Chairman

Hong Kong, 27 April 2012

***Registered office and principal place of
business in Hong Kong:***

Suite 3603, 36th Floor
One Exchange Square
Central
Hong Kong

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Notes:

- 1 A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
- 2 In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's share registrar, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. In relation to proposed resolutions nos.4 and 6 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of shares under the Listing Rules. The Directors have no immediate plans to issue any Shares other than the Shares which may fall to be issued: (i) the convertible notes issued by the Company; (ii) the share option scheme of the Company; and (iii) any scrip dividend scheme as may be approved by the shareholders of the Company.
4. In relation to proposed resolution no.5 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate for the benefit of the shareholders of the Company. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules is set out in Appendix I to this circular.