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If you have sold or transferred all your shares in King Stone Energy Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or 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)

PLACING OF NEW SHARES UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON

**Independent financial adviser to
the Independent Board Committee and Independent Shareholders**

Nuada Limited

Corporate Finance Advisory

A letter of advice from the Independent Board Committee is set out on pages 14 to 15 of this circular. A letter of advice from Nuada Limited, the independent financial adviser, containing its opinion and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 34 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Unit 7603, 76th Floor, The Center, 99 Queen's Road Central, Hong Kong on Wednesday, 23 December 2015 at 11:30 a.m. is set out on pages 39 to 40 of this circular. A form of proxy for use at the extraordinary general meeting is also enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so wish.

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 6 November 2015 in relation to the Placing
“associates”	has the meaning ascribed thereto under the Listing Rules
“Belton Light”	Belton Light Limited, which is a controlling Shareholder within the meaning of the Listing Rules interested in 1,885,555,000 Shares or approximately 47.0% of the issued share capital of the Company
“Board”	the board of Directors
“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
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to approve, amongst others, the Placing Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Chiu Sui Keung, Mr. Lu Binghui, Mr. Lee Ping and Mr. Liu Shengming, established to give recommendation to the Independent Shareholders regarding terms of the Placing Agreement and the transactions contemplated thereunder and as to voting
“Independent Shareholders”	Shareholders other than the Placees and their respective associates

DEFINITIONS

“Last Trading Day”	6 November 2015, being the last trading day for the Shares immediately prior to the issue of the Announcement
“Latest Practicable Date”	3 December 2015, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nuada”	Nuada Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Placing Agreement and the transactions contemplated thereunder and as to voting
“Placees”	any individual(s), institutional or other investor(s) (including Belton Light) to be procured by the Placing Agent to subscribe for any of the Placing Shares pursuant to the Placing Agreement
“Placing”	the placing, on a best effort basis, of up to 2,500,000,000 Shares pursuant to the terms of the Placing Agreement
“Placing Agent”	Fulixin Securities Limited, a licensed corporation to carry on business in in dealing in securities, advising on securities and asset management
“Placing Agreement”	the conditional placing agreement dated 6 November 2015 and entered into between the Company and the Placing Agent in relation to the Placing
“Placing Completion”	completion of the Placing in accordance with the terms and conditions as set out in the Placing Agreement
“Placing Price”	HK\$0.168 per Placing Share
“Placing Shares”	up to 2,500,000,000 Shares to be placed under the Placing
“PRC”	the People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, Taiwan and Macau Special Administrative Region

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate to be sought at the EGM for the issue of the Placing Shares to the Placees
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stone Paper Business”	the possible investment project in relation to manufacturing of eco-friendly stone paper in the PRC
“Takeovers Code”	the Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

LETTER FROM THE BOARD



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. Zhang Wanzhong
Mr. Zong Hao
Mr. Xu Zhuliang
Mr. Benjamin Clark Danielson

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

Unit 7603, 76th Floor
The Center
99 Queen's Road Central
Hong Kong

Independent non-executive Directors:

Mr. Chiu Sui Keung
Mr. Lu Binghui
Mr. Lee Ping
Mr. Liu Shengming

7 December 2015

To the Shareholders

Dear Sir or Madam,

PLACING OF NEW SHARES UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON

INTRODUCTION

On 6 November 2015, the Board announced that the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent agreed to place up to 2,500,000,000 Placing Shares to the Placee(s) at a price of HK\$0.168 each on a best effort basis.

The purpose of this circular is (i) to provide you with further information relating to the Placing; (ii) to set out the recommendations of the Independent Board Committee to the Independent Shareholders; (iii) to set out the recommendations of Nuada to the Independent Board Committee and the Independent Shareholders; and (iv) to give the notice of the EGM.

LETTER FROM THE BOARD

THE PLACING AGREEMENT

Date: 6 November 2015

Parties

The Company: King Stone Energy Group Limited

Placing Agent: Fulixin Securities Limited

The Placing Agent has been appointed to place the Placing Shares on a best effort basis.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are independent third parties who are not connected persons of the Company and are independent of and not connected with the Company and its connected persons.

Placees

There will be not less than six Placees. As Belton Light has indicated that it will participate in the Placing of up to 1,300,000,000 Placing Shares, the Placees will include connected person of the Company. Save for Belton Light, the other Placees will be third parties independent of, and not connected or acting in concert with the Company and its connected persons. No undertaking has been given by Belton Light to subscribe for the Placing Shares. However, the subscription of any Placing Shares by Belton Light will be subject to the compliance with the 2% creeper restriction under the Takeovers Code. Priority will be given to Belton Light in allocating the Placing Shares (subject to the 2% creeper restriction). It is expected that no Placee (other than Belton Light) will become a substantial shareholder of the Company immediately after the completion of the Placing.

Number of Placing Shares

Up to 2,500,000,000 Shares, representing approximately 62.3% of the issued share capital of the Company as at the Latest Practicable Date and approximately 38.4% of the Company's enlarged issued share capital immediately after the Placing Completion (assuming there being no issue or repurchase of Shares other than the issue of the Placing Shares).

Placing price

The Placing Price of HK\$0.168 per Placing Share represents:

- (i) a discount of approximately 15.1% to the closing price of HK\$0.198 per Share as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE BOARD

- (ii) a discount of approximately 17.6% to the average of the closing prices of HK\$0.204 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately before the Last Trading Day; and
- (iii) a discount of approximately 28.5% to the closing price of HK\$0.235 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Placing Price was determined and negotiated on an arm's length basis between the Company and the Placing Agent with reference to the prevailing market price of the Shares. The Board considers that the Placing Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

After taking into account all the related expenses of the Placing, the net Placing Price is approximately HK\$0.167 per Placing Share.

Conditions precedent

The Placing is conditional upon: (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Placing Shares; (ii) the passing by the Independent Shareholders of the relevant resolution(s) at the EGM to approve the Placing Agreement and the transaction contemplated thereunder including the grant of the Specific Mandate; and (iii) all necessary consents and approval having been obtained by the Company and the Placing Agent in respect of the Placing.

None of the conditions precedent are waivable. In the event that the above conditions are not fulfilled in full by 31 January 2016, all rights, obligations and liabilities of the Company and the Placing Agent under the Placing Agreement shall cease and determine and neither of the parties shall have any claim against the others in respect of the Placing save for any antecedent breach and/or any rights or obligations which may accrue under the Placing Agreement prior to such termination.

As at the Latest Practicable Date, none of the above conditions precedent have been fulfilled.

Placing Completion

The Placing Completion will take place on the third business day after the Placing Agreement has become unconditional (or such other date as may be agreed by the parties), which in any event will not be more than three weeks after all the conditions precedent of the Placing are fulfilled.

Ranking of the Placing Shares

The Placing Shares rank *pari passu* among themselves and with Shares in issue as at the date of the allotment.

LETTER FROM THE BOARD

Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

Force majeure

The Placing Agent may, in its reasonable opinion, after consultation with the Company, terminate the Placing Agreement by notice in writing to the Company at any time up to 8:00 a.m. on the day of Placing Completion if: (i) there is any material adverse change in national, international, financial, exchange control, political, economic conditions in Hong Kong; or (ii) there is any breach of the warranties, representations and undertakings given by the Company in the Placing Agreement; or (iii) there is any material adverse change (whether or not forming part of a series of changes) in market conditions; or (iv) any statement contained in the previous announcements issued the Company since the publication of the annual results announcement for the year ended 31 December 2014 has become or been discovered to be untrue, incorrect or misleading in any material respect, which, in the reasonable opinion of the Placing Agent, would materially and prejudicially affect the Placing or makes it inadvisable or inexpedient for the Placing to proceed

If notice is given pursuant to the above, the Placing Agreement shall terminate and be of no further effect and neither party shall be under any liability to any other party in respect of the Placing Agreement save for any rights or obligations which may accrue under the Placing Agreement prior to such termination.

Specific Mandate to issue the Placing Shares

The issue of the Placing Shares is subject to Independent Shareholders' approval.

The Placing Shares will be issued under the Specific Mandate to be sought at the EGM.

LETTER FROM THE BOARD

FUND RAISING EXERCISE BY THE COMPANY IN THE PAST TWELVE MONTHS

Other than the proposed placing of new Shares and the proposed rights issue announced by the Company dated 26 June 2015 but were terminated on 8 July 2015, the Company has conducted the following equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date:

Date of announcement	Fund raising activity	Net proceeds raised	Intended use of proceeds	Actual use of proceeds
24 October 2014	Subscription for new Shares with bonus warrants	HK\$82 million	As to 80% for funding the oil and gas projects and as to 20% for funding any new acquisitions or business ventures when opportunities arise and as general working capital	Fully utilized as intended (Note)
4 August 2015	Placing of new Shares	HK\$179.06 million	For financing the Stone Paper Business	Fund kept at the Group's bank accounts to be used as intended

Note: 80% of the funds raised had been applied for drilling the second well in East Texas, the United States from December 2014 to March 2015 and the related operating expenses for the oil and gas project. The second well was put into production in March 2015 as disclosed in management and discussion section in the interim report of the Company for the six months ended 30 June 2015. The remaining 20% of the fund had been used as general working capital of the Group.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Company is an investment holding company with its subsidiaries principally engaged in the mining and selling of silver, oil and gas extraction and production, oil extraction technology research and development and provision of finance leasing.

LETTER FROM THE BOARD

As disclosed in the announcement of the Company dated 4 August 2015, the Stone Paper Business will involve an establishment of a joint venture with one or more business partners, who are independent third parties, to build a manufacturing plant in the PRC to manufacture stone paper products. As compared with traditional paper made from wood pulp paper, stone paper possesses the nature of both paper and plastic and therefore is said to be safe, green, non-toxic, water-resistant and tearproof. Considering the redundant supply of stone powder in the PRC, its cost of sourcing is relatively low, making it an alternative to wood and timber as the primary raw material for manufacturing paper. With the rise in environmental awareness and authorities' growing concern over environmental protection in the PRC, the Directors are of the view that stone paper is an environmentally sustainable solution in the near future and therefore is optimistic about the future growth and development in the Stone Paper Business.

The Board considers that the Placing represents an opportunity to raise additional long term funds for the Company for its new business while broadening the Shareholder and capital base of the Company. The Board has considered other financing alternatives such as rights issue when it announced on 26 June 2015 to conduct a proposed rights issue to raise a net proceeds of about HK\$200 million to finance part of the investment in the Stone Paper Business. However, such proposed rights issue was terminated on 8 July 2015 due to the then adverse market conditions. Debt financing is not desirable as it is not long term fund with interest burden. As such, the Board considers that the Placing will provide more certainty of the Company to raise fund with no interest burden.

Given the size of the Placing and the funding need, the Company has approached Belton Light to see if it would approve the Placing and if it is interested to participate in the Placing. As the Directors understand, Belton Light is optimistic about the prospects of the Stone Paper Business and is willing to support the Company by investment in the Company while preserving or even increase its shareholding in the Company. The possible participation by Belton Light in the Placing has demonstrated the long term commitment and support of the controlling Shareholder for the development and growth of the Group. As the net proceeds of the Placing will be used mainly for the Stone Paper Business, which is a new business to the Group, the participation by Belton Light is expected to give confidence and comfort to the other Placees to invest in the Company for this new venture of the Group. Taking into account the certainty of Belton Light to honour its agreement to complete the Placing (as compared to other independent Placees which might default in payment), the Board considers that it would be in the interests of the Company and its shareholders as a whole to involve Belton Light in the Placing. It is expected that no Placee (other than Belton Light) will become a substantial shareholder of the Company immediately after the completion of the Placing. The Placing will not proceed if the Company would fail to meet the minimum public float requirement as a result of the Placing.

LETTER FROM THE BOARD

The Directors (other than (i) Mr. Zong Hao and Mr. Xu Zhuliang who abstained from voting at the Board meeting to approve the Placing in view of their equity interest in Jade Bird Strategic Investment (“JBSI”) which is the general partner of Jade Bird Energy Fund II, L.P., the holding company of Belton Light; and (ii) Mr. Zhang Wanzhong, who is the director of JBSI and also abstained from voting at the Board meeting to approve the Placing in view of his common directorship in both the Company and JBSI) consider that the terms of the Placing (including the Placing Price) and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Save for the Placing, the Board has no plan for any further equity fund raising activities as at the Latest Practicable Date.

The net proceeds from the Placing, after the deduction of the placing commission and other related expenses, are estimated to be approximately HK\$418.5 million which will be used as to 75% for the capital contribution to the joint venture to be set up for the Stone Paper Business and as to the remaining 25% for general working capital of the Group. Before the net proceeds are to be so applied (which depend on the terms of the joint venture agreement), such proceeds will be kept by the Company for its general working capital.

As at the Latest Practicable Date, the Directors are negotiating with the terms (including the size) of the joint venture to be set up for the Stone Paper Business. Based on the negotiation between the parties, the initial capital contribution by the Group in the joint venture is approximately RMB400 million, which would be applied as to about RMB110.1 million for the acquisition of a land in Dongguan, the PRC as its production base and construction of manufacturing plant and other facilities, as to about RMB233.9 million for the purchase of machinery and other capital expenditure, and as to the remaining as general working capital for the joint venture. In the event that the joint venture for the Stone Paper Business is not materialized, the net proceeds from the Placing would be utilized as to 50% for funding the oil and gas projects of the Group, as to 25% for funding any new acquisitions or business ventures when opportunities arise; and as to 25% as general working capital of the Group and/or repayment of the Group’s debts. Further announcement will be made by the Company when the joint venture agreement is entered into and/or when the joint venture acquires the land in future in compliance with the requirements under the Listing Rules.

The existing Directors and senior management of the Company do not have the expertise on the Stone Paper Business. Nevertheless, the Group has consulted certain technical advisers including one industry association and a professor of a university in the PRC on the Stone Paper Business and will continue to consult them from time to time, and the Business Partner (as defined below) will have its technical staff to be assigned to the joint venture for operation. Depending on the need for the operation and future development of the Stone Paper Business, it is expected that more expertise will also be employed by the joint venture to manage and operate the Stone Paper Business.

LETTER FROM THE BOARD

The technology involved in the Stone Business Paper is a relatively new one and is developed and owned by the independent business partner and/or its associates (the “Business Partner”). To the best information available to the Directors, the Business Partner commenced the research and development of the stone paper since 1991 and now owns various registered patents all over the world. Its commercial production of stone paper started in 2006 and up to the date hereof, the Business Partner has promoted its stone paper project in many other countries and regions. The Stone Paper Business to be developed by the Group will involve the formation of a joint venture in which the Group will own a majority stake (i.e. more than 50% shareholding, and thus the joint venture when formed is expected to become a subsidiary of the Company) and the Group intends to capitalise on the technological expertise of the Business Partner in the early stage of the Stone Paper Business. It is expected that the Business Partner will be responsible for the operation of the joint venture during the first three years while the Group will at the same time train and nurture its own production team.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company as at the Latest Practicable Date and immediately after the Placing Completion (assuming there being no issue or repurchase of Shares other than the issue of the Placing Shares) is as follows:

Shareholders	As at the Latest Practicable Date		Immediately after Placing Completion (assuming Belton Light subscribed for 1,300,000,000 Placing Shares)		Immediately after Placing Completion (assuming Belton Light does not subscribe for any Placing Shares)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Belton Light (<i>Note 1</i>)	1,885,555,000	47.0	3,185,555,000	48.9	1,885,555,000	28.9
The Placees (<i>Note 2</i>)	–	–	1,200,000,000	18.4	2,500,000,000	38.4
Existing public Shareholders	2,124,500,568	53.0	2,124,500,568	32.7	2,124,500,568	32.7
Total	4,010,055,568	100.0	6,510,055,568	100.0	6,510,055,568	100.0

LETTER FROM THE BOARD

Notes:

1. Belton Light Limited, which is wholly-owned by Jade Bird Energy Fund II, L.P., holds 1,885,555,000 Shares and 330,000,000 warrants which each entitling the holder to subscribe for one Share at the subscription price of HK\$0.339 per Share, subject to adjustment and payable in cash, within 24 months from the date of issue on 19 December 2014. Belton Light will not subscribe for the maximum of 1,300,000,000 Placing Shares if there is no other Placee because such number of the Placing Shares would exceed the 2% creeper restriction set under the Takeovers Code. If no Placee other than Belton Light is procured by the Placing Agent, the maximum number of Placing Shares as may be subscribed by Belton Light would be 157,266,064 Placing Shares, representing approximately 3.92% of existing share capital of the Company or approximately 3.77% of enlarged share capital of the Company.
2. Subject to confirmations by the Placees, the Placees (other than Belton Light) may be existing Shareholders. The shareholding of the Placees (other than Belton Light) only refers to the Placing Shares under the Placing Agreement, without taking into account the existing shareholding of the Placees (other than Belton Light), if any.

LISTING RULES IMPLICATIONS

As the Placees will include Belton Light which is a connected person of the Company under Rule 14A.07(1) of the Listing Rules, the Placing constitutes a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

Set out on pages 39 to 40 of this circular is a notice convening the EGM which will be held at Unit 7603, 76th Floor, The Center, 99 Queen's Road Central, Hong Kong on Wednesday, 23 December 2015 at 11:30 a.m. at which ordinary resolution will be proposed to approve, among others, the Placing Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate). To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon its ultimate beneficial owners and their respective associates; and (ii) no obligation or entitlement of its ultimate beneficial owners and their respective associates as at the Latest Practicable Date, whereby it or he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its or his Shares to a third party, either generally or on a case-by-case basis.

The form of proxy for use at the EGM is enclosed with this circular. Such form is also available at the website of the Stock Exchange at www.hkex.com.hk. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company's share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the EGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so desire.

LETTER FROM THE BOARD

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in relation to the Placing and as to voting. Nuada has been appointed as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

The voting in relation to the Placing at the EGM will be conducted by way of a poll whereby the Placees and their respective associates shall abstain from voting on the relevant resolution to be proposed at the EGM to approve the Placing. To the best information, knowledge and belief of the Directors, save for Belton Light which held 1,885,555,000 Shares or approximately 47.0% of the issued share capital of the Company as at the Latest Practicable Date, none of the Placees has any shareholding in the Company. Accordingly, Belton Light and its associates shall abstain from voting at the EGM. If any Placee has any shareholding in the Company at the EGM, he/she/it shall also abstain from voting at the EGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 14 to 15 of this circular. The Independent Board Committee, having taken into account the advice of Nuada, the text of which is set out on pages 16 to 34 of this circular, considers that the Placing Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties and that the terms of the Placing Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Placing, which is not conducted in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Placing Agreement and the transactions contemplated thereunder

FURTHER INFORMATION

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

Yours faithfully
For and on behalf of the Board
King Stone Energy Group Limited
Mr. Zong Hao
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

7 December 2015

To the Independent Shareholders

Dear Sir or Madam,

PLACING OF NEW SHARES UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON

We refer to the circular dated 7 December 2015 issued by the Company (the “**Circular**”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Placing Agreement including the grant of the Specific Mandate (together the “**Transaction**”) and to advise the Independent Shareholders as to the fairness and reasonableness of the Transaction, and to recommend how the Independent Shareholders should vote at the EGM. Nuada has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Transaction.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 13 of the Circular, and the letter from Nuada to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Transaction, as set out on pages 16 to 34 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of Nuada, we consider that the terms of the Transaction are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the Transaction, which is not conducted in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. Chiu Sui Keung

Mr. Lu Binghui

Mr. Lee Ping

Mr. Liu Shengming

LETTER FROM NUADA

The following is the letter of advice from Nuada Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Nuada Limited

Corporate Finance Advisory

Unit 1805-08, 18/F
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協成行上環中心 18 樓 1805-08 室

7 December 2015

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION:
PLACING OF NEW SHARES UNDER SPECIFIC MANDATE**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Placing Agreement, the particulars of which are set out in the letter from the Board (the “Letter”) contained in the circular of the Company to the Shareholders dated 7 December 2015 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

On 6 November 2015, the Board announced that the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent agreed to place up to 2,500,000,000 Placing Shares to the Placee(s) at a price of HK\$0.168 each on a best effort basis.

As at the Latest Practicable Date, Belton Light was interested in 1,885,555,000 approximately 47.0% of the issued share capital of the Company. As Belton Light has indicated that it will participate in the Placing of up to 1,300,000,000 Placing Shares, the Placees will include connected person of the Company, the Placing would constitute a non-exempted connected transaction on the part of the Company under the Listing Rules and is subject to reporting, announcement and Independent Shareholders’ approval requirements. All the Placees including Belton Light and their respective associates shall abstain from voting at the EGM for the Placing Agreement and the transactions contemplated thereunder including the grant of the Specific Mandate.

LETTER FROM NUADA

The Independent Board Committee, comprising all of the four independent non-executive Directors, namely Mr. Chiu Sui Keung, Mr. Lu Binghui, Mr. Lee Ping and Mr. Liu Shengming has been established to make a recommendation to the Independent Shareholders as to whether the terms of the Placing Agreement are fair and reasonable in so far as the Independent Shareholders are concerned and to recommend how the Independent Shareholders should vote at the EGM. We, Nuada Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, we acted as the independent financial adviser of the Company in respect of two engagements. In November 2014, Nuada Limited acted as the independent financial adviser of the Company relating to a connected transaction involving subscription for new shares with bonus warrants, the circular of which was despatched on 14 November 2014. In late August 2015, Nuada Limited was engaged to give an independent opinion, for internal reference of the Company, on the calculation of the adjustment to the exercise price of the warrants of the Company upon completion of the placing of new shares conducted by the Company in August 2015. Apart from normal professional fees for our services to the Company in connection with the engagements described above, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, to the best of our knowledge, information and belief having made all reasonable enquiries, we are not aware of any relationships or interests between us and the Company or its substantial Shareholders, Directors or chief executive, or any of their respective associates. We are independent under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Placing.

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible for, were true, accurate and complete at the time when they were made and continue to be so as at the date hereof.

LETTER FROM NUADA

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular and provided to us by the management of the Company and the Directors, or the reasonableness of the opinions expressed by the management of the Company and the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinion and we have relied on such information and opinions. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial conditions or the future prospects of the Group, the Placees and/or their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Placing Agreement are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Group is principally engaged in the mining and selling of silver, oil and gas extraction and production, oil extraction technology research and development and provision of finance leasing.

Set out below is a summary of financial highlights of the Group for the two years ended 31 December 2013 and 2014 and for the six months ended 30 June 2015 as extracted from the annual report of the Group for the year ended 31 December 2014 (the “2014 Annual Report”) and the interim report for the six months ended 30 June 2015 (the “2015 Interim Report”) respectively.

	Year ended 31 December 2013 (HK\$'000)	Year ended 31 December 2014 (HK\$'000)	Six months ended 30 June 2015 (HK\$'000) (unaudited)
Revenue	150,306	39,838	25,574
Gross profit/(loss)	(226,117)	(133,027)	(29,189)
Profit/(loss) for the year/period	(1,468,039)	(1,803,259)	2,341,371

LETTER FROM NUADA

	As at 31 December 2013 (HK\$'000)	As at 31 December 2014 (HK\$'000)	As at 30 June 2015 (HK\$'000) <i>(unaudited)</i>
Cash and cash equivalents	292,595	156,072	124,942
Net current assets/(liabilities)	(2,304,657)	(3,171,787)	67,698
Net assets/(liabilities) attributable to the owners of the Company	122,289	(1,509,337)	572,221

The results

For the year ended 31 December 2013, the Group recorded total revenue of approximately HK\$150.3 million, representing a significant decrease of approximately HK\$420.8 million as compared with that of last year, mainly attributable to the significant drop in revenue from coal mining business. Of the total revenue of HK\$150.3 million, the Group recorded revenue of approximately HK\$135.8 million from coal mining during the year, representing a significant decrease of 76% compared with that of last year. Eerduosi Hengtai Coal Company Limited (“Hengtai”) and Inner Mongolia Liaoyuan Coal Mining Company Limited (“Liaoyuan”), the two subsidiaries of the Company operating the coal mining business, contributed revenue of approximately HK\$99.7 million and approximately HK\$36.1 million respectively and both recorded significant decreases in average selling prices and sales volumes mainly because of persistent weak demand in coal market during the year. Hengtai and Liaoyuan recorded sales volumes of approximately 0.94 million tons (Mt) and 0.24 Mt respectively, representing a decrease of around 62% and 47% of the sales volume of the preceding financial year. The Million Grow Group, which was acquired by the Group in May 2013, generated revenue of approximately HK\$14.5 million from selling by-product ores in the Fu'an Silver Mine (the “West Mine”) during the year.

For the year ended 31 December 2013, the Group had recorded gross loss of approximately HK\$226.1 million and loss after tax of approximately of HK\$1,468 million. The gross loss was due to the cost of inventories sold of approximately HK\$376.4 million, which primarily consists of depreciation and amortisation of property, plant and equipment and mining rights, related labour cost and subcontracting fee for the production, taxes, supplies, utilities and other incidental expenses in relation to production of coal and trial production in the West Mine. Cost of inventories sold for coal mining and silver mining business was approximately HK\$365.5 million and HK\$10.9 million respectively during the year. The loss for the year was mainly attributable to the incurrence of other expenses of approximately HK\$1,004.5 million, which mainly comprised aggregate impairments of property, plant and equipment and mining rights of Hengtai and Liaoyuan and trade and other receivables of approximately HK\$983.6 million and HK\$20.9 million respectively during the year.

LETTER FROM NUADA

For the year ended 31 December 2014, the Group recorded total revenue of approximately HK\$39.8 million. During the year, the Group recorded revenue of approximately HK\$28 million from coal mining and selling, representing a significant decrease of 80% compared with last year. With persistent weak demand in coal market, average selling prices and sales volumes of coal both decreased significantly to approximately RMB81 and approximately 0.27 Mt, respectively. The Group recorded revenue of approximately HK\$1.8 million from selling 126 tons of silver concentrates in the second half of this year. In 2013, revenue of approximately HK\$14.5 million was generated from selling by-product ores in the West Mine. For the oil and gas extraction and production business which commenced operation in July 2014, the Group, net to its ownership interests, has produced approximately 2,200 Bbl of oil, and approximately 240 million cubic feet of natural gas. All of which in aggregate generated revenue of approximately HK\$9.2 million during the year. The Group also recorded revenue of approximately HK\$0.8 million from provision of finance leasing business during the year.

For the year ended 31 December 2014, the Group had recorded gross loss of approximately HK\$133.0 million and loss after tax of approximately of HK\$1,803.3 million. Cost of inventories sold primarily consists of depreciation and amortisation of property, plant and equipment and mining rights, related labour cost and subcontracting fee for the production, taxes, supplies, utilities and other incidental expenses in relation to our production. Cost of inventories sold for coal mining, silver mining and oil and gas extraction and production was approximately HK\$161.9 million, HK\$3.8 million and HK\$7.1 million, respectively during the year. There was no cost of provision of finance leasing recognised during the year. Other expenses mainly comprised impairments of property, plant and equipment, mining and exploration rights, goodwill, and trade and other receivables in aggregate of approximately HK\$1,290.6 million, HK\$14.2 million and HK\$16.1 million, respectively, during the year. The Group also recorded oneoff costs associated with drilling prior to moving the drilling rig for oil and gas E&P of the first well of approximately HK\$20.5 million during the year.

For the six months ended 30 June 2015, the Group recorded total revenue of approximately HK\$25.6 million, representing an increase of 27% compared with last comparable period. Revenue from selling of coal and silver ores was approximately HK\$7.3 million and HK\$9.3 million respectively. Coal and silver ores sales volume was approximately 93,800 tons and approximately 572 tons respectively. For the oil and gas E&P which commenced in July 2014, the Group, net to its ownership interests, has produced approximately 4,271 Bbl of oil and approximately 341.7 million cubic feet of natural gas. All of which in aggregate generated revenue of approximately HK\$8.6 million during the period for the six months ended 30 June 2015. During the period, the Group also recorded revenue of approximately HK\$0.4 million from provision of finance leasing business.

LETTER FROM NUADA

During the six months ended 30 June 2015, the Group recorded a gross loss of approximately HK\$29.2 million. Cost of inventories sold primarily consists of depreciation and amortisation, salaries and related labour cost for the production, taxes, supplies, utilities and other incidental expenses in relation to production. During the period, cost of sales of coal and silver production was approximately HK\$32.8 million and HK\$15.5 million respectively. The production cost for the oil and gas E&P was approximately HK\$6.5 million for the period ended six months ended 30 June 2015. Other income and gains was approximately HK\$2,466.8 million during the period. The significant increase was mainly attributable to gain on the disposal of the coal mining business of approximately HK\$2,445.8 million and gain on disposal of available-for-sale equity investments of approximately HK\$13.6 million.

The financial position

As at 31 December 2013, the cash and cash equivalents of the Group were approximately HK\$292.6 million. The net asset value attributable to the shareholders of the Company as at 31 December 2013 was approximately HK\$122.3 million. Nevertheless, the Group was in net current liability position of approximately HK\$2,304.7 million as at 31 December 2013. The Group had outstanding interest-bearing borrowings amounting to approximately HK\$1,633.1 million as at 31 December 2013. Of the Group's interest-bearing borrowings, 70%, 24% and 6% were repayable on demand or within one year, in the second year and in the third to the fifth year, inclusive, respectively. At 31 December 2013, certain loans of approximately HK\$256 million raised by Hengtai have been overdue and were not yet repaid up to publication date of the 2013 Annual Report.

As at 31 December 2014, the cash and cash equivalents of the Group were approximately HK\$156.1 million. Nevertheless, the Company was in net current liability position of approximately HK\$3,171.8 million. As at 31 December 2014, the Group had outstanding interest-bearing borrowings amounting to approximately HK\$1,614.1 million. Of the Group's interest-bearing borrowings, 98%, and 2% were repayable on demand or within one year and in the second year respectively. As at 31 December 2014, certain bank loans of approximately HK\$669 million and other payables of approximately HK\$275 million have been overdue and were not yet repaid up to date of the 2014 Annual Report. The Group had been at its best effort trying to negotiate with the banks and lenders to extend the maturity dates of such loans.

As disclosed in the 2015 Interim Report, the cash and cash equivalents of the Group were approximately HK\$124.9 million as at 30 June 2015. During the period, the Group recorded a net cash outflow generated from its operating activities of approximately HK\$46.7 million. The disposal of the coal mining business was completed on 26 June 2015 and since then the Company has ceased to consolidate the results, assets and liabilities of its coal mining business into the consolidated financial statements. The unaudited net asset value attributable to the shareholders of the Company as at 30 June 2015 was approximately HK\$572.2 million.

LETTER FROM NUADA

Based on the above, we note that the Group has been loss making and recorded gross losses for the previous two financial years ended 31 December 2014 and the six months ended 30 June 2015. The unaudited profit recorded for the six months ended 30 June 2015 and the improvement in the financial position was mainly attributable to the one off disposal of the coal mining business.

Outlook

The Group is principally engaged in the mining and selling of silver, oil and gas extraction and production, oil extraction technology research and development and provision of finance leasing. Pursuant to the 2015 Interim Report, it was stated that since the beginning of 2015, the Company has moved proactively to restructure its assets portfolio and strengthen its financial position. The principal activities engaged by the Group with the current development as stated in the 2014 Annual Report and the 2015 Interim Report were highlighted as below.

Oil and Gas E&P Projects

Leveraging on the strong and comprehensive oil and gas expertise and investment background of the management team, since the fourth quarter of 2013, the Group has been actively developing an upstream oil and gas E&P project in North America. By 31 December 2014, the Group has secured leases over 7,000 acres in East Texas, the United States, and targets to ultimately lease 12,500 acres which can sustain drilling of up to 80 wells. During the year, the Company started drilling the first well, production of which began in July 2014 and it generated revenue of approximately HK\$9.2 million during production for six months in 2014. The Company started drilling the second well in January 2015. Up to 30 June 2015, the Company has invested over US\$15 million in the project and has secured leases over 7,300 acres. In the first half of 2015, the Group completed the drilling of the second well which was put into production since March 2015. The Group will continue to monitor the output of the first two wells and will be prepared to launch full development of the project should results warrant.

HydroFlame Technology

The Company acquired HydroFlame technology in 2013. HydroFlame is a new heavy oil extraction technology that burns a fuel directly inside a rotating stream of water. The HydroFlame technology has yet to be commercialized, but has several new engineering process applications including hot water heaters, compact steam generators, produced water treatment processes and efficient power generation systems. It has successfully passed the surface test at an abandoned well with very promising results. During the year of 2014, the Company completed two tests of HydroFlame at Louisiana and Texas in the United States, respectively, and concluded with a meaningful list of improvements and modifications. The Company also collated the patent rights of HydroFlame obtained in the United States, Canada, Mexico, Brazil and India in order to safeguard the Company's interest in this advance technology. Further patent applications may be made in China and other countries. The Company will endeavor to develop and commercialize the HydroFlame technology both for oil extraction as well as other applications in near future.

LETTER FROM NUADA

Silver Mining

The Group operates two quality silver mines via its subsidiary – Fujian Leixin Mining Company Limited, in Fujian Province, the PRC, namely the West Mine and the East Mine. The West Mine has a valid mining permit with approved production capacity of 100,000 ton per annum (“tpa”) and a processing plant with daily ore processing capacity of 300 tons per day is already in place. With replacement of engineering team and technical upgrade of certain equipments and facilities, the Group carried out production for around two months and approximately 17,000 tons of ores were processed during the year of 2014. During the first half of 2015, approximately 23,924 tons of ores were processed at the West Mine.

The East Mine is an advanced development project with an exploration permit valid until October 2016. The Group was carrying out further exploration work at the East Mine during the year of 2014. During the first half of 2015, the Group continued to conduct more in-depth exploration work with increased drilling coverage and density in the East Mine.

Coal Mining

The coal mining business of the Group has remained in a straitened condition in past few years. Outputs and average selling prices of coal mines in Hengtai and Liaoyuan both slumped and the Group has been suffering from significant losses from its mining business. It was announced that on 2 April 2015, the Company as the vendor and Jumbo Talent Group Limited as the purchaser entered into the disposal agreement in relation to, among other matters, the disposal of the entire interests in the coal mining business of the Group in Inner Mongolia, the PRC at a total cash consideration of HK\$1 (the “Disposal”). The performance of the coal mining business of the Group has been unsatisfactory and the Group recorded a significant drop in the revenue and incurred significant losses in its coal mining business in prior years, which was mainly contributed by the decrease in the total coal production and the decrease in the selling price of coal due to market factors. Given the slow recovery in the coal mining industry and the loss-making performance of its coal mining business, the Company considers that the Disposal on one hand provides an immediate exit to the Group to discard the financial burden from its coal mining business and improve the financial conditions of the Group, and on the other hand enables the Group to reallocate its resources and restructure its asset portfolio and focus on the development of its remaining businesses, which is in the interests of the Company and the shareholders as a whole. As a result of the Disposal, a one-off gain of approximately HK\$2,445.8 million was recognised in the first half of 2015. Reference is made to the announcements of the Company dated 2 April 2015 and 26 June 2015, and the circular of the Company dated 15 May 2015.

LETTER FROM NUADA

On 4 August 2015, the Company and a third party placing agent entered into a placing agreement, whereby the Company has conditionally agreed to place, through the placing agent, on a best effort basis, of up to 668,000,000 placing shares at the placing price of HK\$0.275 per placing Share. The placing was completed on 24 August 2015 raising net proceeds of HK\$179.06 million. The Company intends to apply the net proceeds to finance part of a possible investment project in relation to the eco-friendly stone paper business in the PRC, details of which have been disclosed in the announcement of the Company dated 4 August 2015 and 24 August 2015 respectively.

Based on the above, we note that the Company has been restructuring its investment portfolios and has taken steps to diversify its investment in order to bring values to the shareholders.

2. Terms of and Reasons for the Placing Agreement

Principal terms of the Placing Agreement

Date: 6 November 2015

Parties:

The Company: King Stone Energy Group Limited

The Placing Agent: Fulixin Securities Limited

The Placing Agent has been appointed to place the Placing Shares on a best effort basis. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are independent third parties who are not connected persons of the Company and are independent of and not connected with the Company and its connected persons.

Placees

There will be not less than six Placees. As Belton Light has indicated that it will participate in the Placing of up to 1,300,000,000 Placing Shares, the Placees will include connected person of the Company. Save for Belton Light, the other Placees will be third parties independent of, and not connected or acting in concert with the Company and its connected persons. No undertaking has been given by Belton Light to subscribe for the Placing Shares. However, the subscription of any Placing Shares by Belton Light will be subject to the compliance with the 2% creeper restriction under the Takeovers Code. Priority will be given to Belton Light in allocating the Placing Shares (subject to the 2% creeper restriction). It is expected that no Placee (other than Belton Light) will become a substantial shareholder of the Company immediately after the Placing Completion.

LETTER FROM NUADA

Number of Placing Shares

Up to 2,500,000,000 Placing Shares representing approximately 62.3% of the issued share capital of the Company as at the Latest Practicable Date and approximately 38.4% of the Company's enlarged issued share capital immediately after the Placing Completion (assuming there being no issue or repurchase of Shares other than the issue of the Placing Shares).

Placing Price

The Placing Price of HK\$0.168 per Placing Share represents:

- (i) a discount of approximately 15.1% to the closing price of HK\$0.198 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 17.6% to the average closing price of approximately HK\$0.204 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to (not including) the Last Trading Day;
- (iv) a discount of approximately 28.5% to the closing price of HK\$0.235 per Share as quoted on the Stock Exchange on the Latest Practicable Date, and
- (v) a premium of approximately 17.5% over the unaudited net asset value of approximately HK\$0.143 per Share (based on the net asset value attributable to the shareholders of the Company as at 30 June 2015 of approximately HK\$572.2 million and 4,010,055,568 Shares in issue).

Use of proceeds

The Company is an investment holding company with its subsidiaries principally engaged in the mining and selling of silver, oil and gas extraction and production, oil extraction technology research and development and provision of finance leasing.

The net proceeds from the Placing, after the deduction of the placing commission and other related expenses, are estimated to be approximately HK\$418.5 million which will be used as to 75% for the capital contribution to the joint venture to be set up for the Stone Paper Business and as to the remaining 25% for general working capital of the Group. Before the net proceeds are to be so applied (which depend on the terms of the joint venture agreement), such proceeds will be kept by the Company for its general working capital.

LETTER FROM NUADA

As disclosed in the announcement of the Company dated 4 August 2015, the Stone Paper Business will involve an establishment of a joint venture with one or more business partners, who are independent third parties, to build a manufacturing plant in the PRC to manufacture stone paper products. As compared with traditional paper made from wood pulp paper, stone paper possesses the nature of both paper and plastic and therefore is said to be safe, green, non-toxic, water resistant and tearproof. Considering the redundant supply of stone powder in the PRC, its cost of sourcing is relatively low, making it an alternative to wood and timber as the primary raw material for manufacturing paper. With the rise in environmental awareness and authorities' growing concern over environmental protection in the PRC, the Directors are of the view that stone paper is an environmentally sustainable solution in the near future and therefore is optimistic about the future growth and development in the Stone Paper Business.

As advised by the management of the Company, the technology involved in the Stone Business Paper is a relatively new one and is developed and owned by the independent business partner in Taiwan and/or its associates. To the best information available to the Directors, such business partner commenced the research and development of the stone paper since 1991 and commenced commercial production in 2006. It now owns various registered patents relating to its developed technology and has promoted its stone paper project in many countries and regions. As for the Group, the potential investment in the Stone Paper Business will involve the formation of a joint venture in which the Group will own a majority stake (i.e. more than 50% shareholding). By way of the joint venture, the Group is intended to capitalise on the technological expertise of the business partner in the early stage and will subsequently assign its technical staff to the joint venture, subject to the need for the operation and future development. To our understanding, stone paper is environmentally-friendly in the production process as compared with the traditional paper. In addition to cutting trees, traditional paper production requires huge amounts of water and chemicals, thus not only destroying trees, but also causing water and air pollution. Furthermore, the applications of stone paper are broad and can be used for a great variety of products including but not limited to books, bags, posters and packaging materials. Stone paper is mainly composed of minerals powder and it is generally considered to be water and tear resistant. Based on the above particularly the usage and characteristics of stone paper, we consider that there is potential for its development and the prospect of the stone paper business is believed to be positive. We understand that the Company will conduct further review and study on the stone paper business while negotiating for the potential formation of the joint venture.

LETTER FROM NUADA

As at the Latest Practicable Date, the Directors are negotiating with the terms (including the size) of the joint venture to be set up for the Stone Paper Business. Based on the negotiation between the parties, the initial capital contribution by the Group in the joint venture is approximately RMB400 million, which would be applied as to about RMB110.1 million for the acquisition of a land in the PRC as its production base and construction of manufacturing plant and other facilities, as to about RMB233.9 million for the purchase of machinery and other capital expenditure and as to the remaining as general working capital for the joint venture. In the event that the joint venture for the Stone Paper Business is not materialized, the net proceeds from the Placing would be utilized as to 50% for funding the oil and gas projects of the Group, as to 25% for funding any new acquisitions or business ventures when opportunities arise; and as to 25% as general working capital of the Group and/or repayment of the Group's debts. Further announcement will be made by the Company when the joint venture agreement is entered into in compliance with the requirements under the Listing Rules.

As mentioned above, the Company has disposed of the coal mining business in late June 2015, which had been one of the principal businesses of the Company. After successfully offloading its coal mining business, the Company has been actively seeking opportunities to further strengthen the asset portfolio of the Group and enhance shareholders' values through continuously developing the existing businesses on the one hand, and exploring new potential investment opportunities on the other. We note that the Directors are optimistic about the future growth and development in the Stone Paper Business, and will further study the business while negotiating for the formation of the joint venture. We considered that the intended use of the net proceeds from the Placing is in line with the business strategy of the Company, which is in the interests of the Company and its Shareholders as a whole. In addition, the Placing, if completed, can provide the Company with more secure funding to make the investment in the joint venture for the Stone Paper Business as soon as the negotiations are successfully completed. In view of a recent event that a proposed rights issue of the Company had been terminated in July 2015, which will be further discussed in the section below headed "other financing alternatives", we concur with the view of the Board that the Placing represents an opportunity to raise additional long term funds for the Company for its new business while broadening the Shareholder and capital base of the Company.

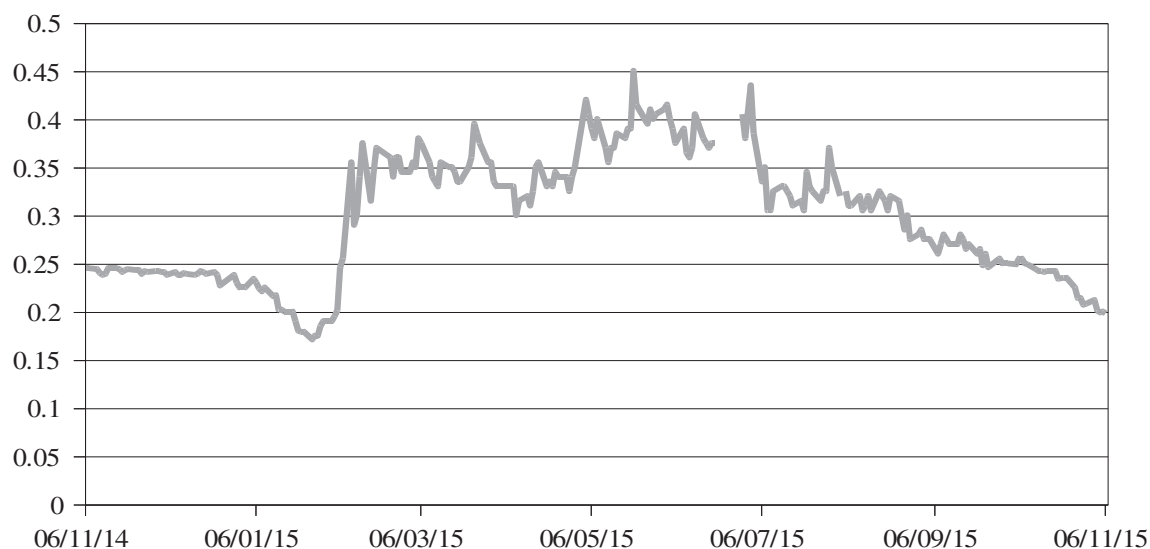
The Directors consider that the terms of the Placing (including the Placing Price) and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM NUADA

3. Review of historical closing price

Historical price movement

In assessing the fairness of the Placing Price, we conduct a review of the historical price movement of the Shares. Set out below is the diagram demonstrating the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 6 November 2014 up to and including the date of the Announcement.



Note: During the period, trading of Shares suspended from 22 June 2015 to 26 June 2015, and on 4 August 2015.

During the review period, the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.171 per Share recorded on 26 January 2015 and the highest closing price of the Shares was HK\$0.45 per Share recorded on 21 May 2015. It was noted that the Shares were trading at relatively higher prices between February 2015 and July 2015. On 9 February 2015, the Company issued an announcement, among other things, on the unusual price and trading volume movements and the update on possible disposal of coal mining business, and the Board was not aware of any reasons for such price movement. On 2 April 2015, the Company announced the disposal of the entire interests in the coal mining business of the Group. On 15 May 2015, the circular for the disposal was despatched and it was announced by the Company that the disposal was completed on 26 June 2015. Since early August 2014, the closing prices of the Shares showed a general downward trend. The closing price of the Shares on the Last Trading Day was HK\$0.198. We consider that the Placing Price had been determined with reference to the then prevailing market price of the Shares.

LETTER FROM NUADA

Comparison with other share placing exercises

As part of our analysis, we have also identified exercises regarding placing/subscription of new shares under specific mandate to connected persons or independent third parties during the period from 6 September 2015 up to the date of the Announcement as announced by companies listed on the Stock Exchange (the “**Comparables**”). We are of the view that the Comparables, which represent an exhaustive list, can reflect the prevailing market trend in relation to placing of new shares under specific mandate. To the best of our knowledge and as far as we are aware of, we found 17 transactions which met the said criteria.

Company name	Stock code	Date of announcement	Connected transaction	Premium/(Discount) of the issue/ placing price over/(to) closing price per share on the last trading day prior to/the date of announcement/ agreement in relation to the respective placing of share (%)
Kuangchi Science Limited	439	6 November 2015	Yes	(29.7)
LVGEM (China) Real Estate Investment Company Limited	95	5 November 2015	No	(8.71)
Harmonic Strait Financial Holdings Limited	33	5 November 2015	Yes	(28.57)
Redco Properties Group Limited	1622	2 November 2015	Yes	(16.10)
Tesson Holdings Limited	1201	26 October 2015	Yes	(27.27)
ChinaSoft International Limited	354	26 October 2015	Yes	(14.11)
China Smartpay Group Holdings Limited	8325	25 October 2015	No	(0.5)
SRE Group Limited	1207	12 October 2015	No	(74.36)
Link Holdings Limited	8237	8 October 2015	No	(65.63)
Hong Kong Resources Holdings Company Limited	2882	7 October 2015	No	(2.38)
China Everbright Bank Company Limited	6818	25 September 2015	Yes	42.75

LETTER FROM NUADA

Company name	Stock code	Date of announcement	Connected transaction	Premium/(Discount)
				of the issue/ placing price over/(to) closing price per share on the last trading day prior to/the date of announcement/ agreement in relation to the respective placing of share (%)
Petro-King Oilfield Services Limited	2178	24 September 2015	Yes	14.50
Global Strategic Group Limited	8007	29 September 2015	No	(82.90)
Jilin Qifeng Chemical Fiber Co., Ltd	549	29 September 2015	No	64.86
China For You Group Company Limited	572	22 September 2015	No	(19.64)
Ceneric (Holdings) Limited	542	15 September 2015	No	(42.86)
Zheda Lande Scitech Limited	8106	9 September 2015	No	(11.39)
Minimum				(82.9)
Maximum				64.86
Average				(17.77)
The Company	663	6 November 2015	Yes	(15.1)

As shown in the above table, the placing prices of the Comparables ranged from a discount of approximately 82.9% to a premium of approximately 64.86% to the respective closing prices of their shares on the last trading days prior to/on the date of the announcements/agreement in relation to the relevant placing of shares (the “**Market Range**”), with an average discount of 17.77% among the Comparables. The Placing Price of HK\$0.168, which represented a discount of approximately 15.1% over the closing price on the Last Trading Day, that falls within the Market Range and is relatively lower than the average of the Comparables.

In addition, regarding the Comparables involving connected transactions, we note that the placing prices ranged between a discount of approximately 29.7% and a premium of approximately 42.75% to the respective closing prices of their shares on the last trading days prior to/on the date of the announcement/agreement. Given the discount implied by the Placing Price lies within such range, our view on the Placing Price would not be affected.

LETTER FROM NUADA

Considering the prevailing market price of the Shares and based on the fact that the discount implied by the Placing Price to the closing price of the Shares on the Last Trading Day falls within the Market Range and is lower than the average of the Comparables, we are of the view that the Placing Price is fair and reasonable.

4. Other financing alternatives

As advised by the Company, other than Placing, the Board has considered other financing alternatives such as rights issue or open offer but it is difficult and relatively time consuming to find an underwriter for the rights issue or open offer. As stated in the Letter, on 26 June 2015, the Company announced a proposed rights issue to raise net proceeds of about HK\$200 million to finance part of the investment in the Stone Paper Business. However, due to the then adverse market conditions, such proposed rights issue was terminated on 8 July 2015. Debt financing is not desirable as it is not long term fund and with interest burden. As such, the Board considers that the Placing involving Belton Light as one of the Placees will provide the Company with more certainty to raise fund with no interest burden. This is so especially when the Group has been loss making in the past and the Group's net liabilities position in the past has just recently been turned into a net asset position after the disposal of the coal mining business in 2015. In addition, the possible participation by Belton Light in the Placing has demonstrated the long term commitment and support of the controlling Shareholder for the development and growth of the Group.

As mentioned above, the issue of new Shares to Belton Light can provide the Company with more certainty to raise fund with no interest burden. As discussed with the management of the Company, the possible participation of Belton Light can demonstrate its support for this fund raising exercise. The participation by Belton Light is expected to give confidence and comfort to the other Placees to invest in the Company for the new venture of the Group. It is generally viewed that the support from a controlling shareholder can pose positive effect on the response of the potential placees. As mentioned in the Letter, it is expected that the certainty of Belton Light to honour its agreement to complete the Placing is higher as compared to other independent Placees which might default in payment. It is stated in the Letter that given the size of the Placing and the funding need, the Company has approached Belton Light to see if it would approve the Placing and if it is interested to participate in the Placing. As the Directors understand, Belton Light is optimistic about the prospects of the Stone Paper Business and is willing to support the Company by investment in the Company while preserving or even increase its shareholding in the Company. As discussed with the management of the Company, we note that the primary reason for Belton Light's participation in the Placing is to support the Company while preserving its shareholding in the Company. The intention to maintain or even increase its shareholding in the Company can reflect Belton Light's confidence in the Company, and it is reasonably believed that Belton Light will continuously express its concern about the development and growth of the Group and its long term commitment could be regarded as a stabilising factor for the Group. Having considered the above and taking into account that the participation by the Belton Light can demonstrate its long term commitment and support for the Group and is regarded as a favourable factor for the Placing, we consider that the issue of new shares to Belton Light is justifiable.

LETTER FROM NUADA

Based on the above, we concur with the views of the Directors that debt financing or rights issue were less desirable for the Group under the current circumstances.

On the other hand, the Placing itself can result in a better financial position with an enhancement to the net asset value of the Company, which will be discussed in the section headed “Financial effects of the Placing” below.

5. Financial effects of the Placing

Effect on net asset value

The Placing will have an overall positive impact on the net asset value of the Group. It is expected that the net asset value of the Group would increase by the net proceeds from the Placing of approximately HK\$418.5 million.

Effect on working capital

As the Placing will raise net proceeds of approximately HK\$418.5 million. Immediately after completion of the Placing, the liquidity and cash position of the Group will improve.

Based on the above, we are of the view that the Placing will have an overall positive effect on the financial position of the Group and consider that the Placing is in the interests of the Company and the Shareholders a whole.

It should be noted that the aforementioned analyses are based on the published and available information for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Placing.

LETTER FROM NUADA

6. Effects on shareholding structure of the Company

Set out below are the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately after Placing Completion (assuming that there is no change in the issued share capital of the Company other than the issue of the Placing Shares):

Name of Shareholder	As at the Latest Practicable Date		Immediately after Placing Completion (assuming Belton Light subscribed for 1,300,000,000 Placing Shares)		Immediately after Placing Completion (assuming Belton Light does not subscribe for any Placing Shares)	
	No. of Shares	Approx.%	No. of Shares	Approx.%	No. of Shares	Approx.%
Belton Light Limited (Note 1)	1,885,555,000	47.0	3,185,555,000	48.9	1,885,555,000	28.9
The Placees (Note 2)	–	–	1,200,000,000	18.4	2,500,000,000	38.4
Existing public Shareholders	2,124,500,568	53.0	2,124,500,568	32.7	2,124,500,568	32.7
Total	<u>4,010,055,568</u>	<u>100</u>	<u>6,510,055,568</u>	<u>100</u>	<u>6,510,055,568</u>	<u>100</u>

Notes:

1. Belton Light Limited, which is wholly-owned by Jade Bird Energy Fund II, L.P., holds 1,885,555,000 Shares and 330,000,000 warrants which each entitling the holder to subscribe for one Share at the subscription price of HK\$0.339 per Share, subject to adjustment and payable in cash, within 24 months from the date of issue on 19 December 2014. The shareholding table above assumes that Belton Light subscribed for a maximum of 1,300,000,000 Placing Shares under the Placing. Belton Light will not subscribe for the maximum of 1,300,000,000 Placing Shares if there is no other Placee because such number of the Placing Shares would exceed the 2% creeper restriction set under the Takeovers Code. If no Placee other than Belton Light is procured by the Placing Agent, the maximum number of Placing Shares as may be subscribed by Belton Light would be 157,266,064 Placing Shares, representing approximately 3.92% of the existing issued share capital of the Company or approximately 3.77% of the enlarged issued share capital of the Company.
2. Subject to confirmations by the Placees, the Placees (other than Belton Light) may be existing Shareholders. The shareholding of the Placees (other than Belton Light) only refers to the Placing Shares under the Placing Agreement, without taking into account the existing shareholding of the Placees (other than Belton Light), if any.

LETTER FROM NUADA

We note that the shareholding interest of the Independent Shareholders will be diluted from approximately 53.0% to approximately 32.7% as a result of the issue of the Placing Shares immediately after Placing Completion. As discussed above, the Group was loss making and was either in net current liability or net liability position as at the preceding two financial year end dates and the position has just shown improvement as a result of the one off disposal of the coal mining business. Furthermore, it is considered that the Placing represents an opportunity to raise additional long term funds for the Company for its new business while broadening the Shareholder and capital base of the Company. In light of the expected enhancement to the financial position of the Group and that the issue of the Placing Shares would not result in additional gearing or finance costs to the Group which may otherwise be incurred if the Group were to adopt other alternatives, we concur with the Directors' view that the Placing is in the interest of the Company and the Shareholders as a whole, and consider that the dilution to Independent Shareholders is justifiable.

OPINION

Having taking into account the above principal factors and reasons, we consider that the terms of the Placing Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Placing Agreement, which is not conducted in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Placing Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
Nuada Limited

Andrew Yeung
Associate Director

Mr. Andrew Yeung is a person licensed under the SFO to carry out type 6 (advising on corporate finance) registered activities under the SFO and regarded as a responsible officer of Nuada Limited and has over 8 years of experience in corporate finance industry. Mr. Andrew Yeung has participated in and completed various financial advisory and independent financial advisory transactions.

APPENDIX-GENERAL INFORMATION

1. 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.

2. DISCLOSURE OF INTERESTS

(a) Director's and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors, chief executive and their respective associates had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO): (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

APPENDIX-GENERAL INFORMATION

(b) Persons who have an interest or short position which is disclosable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	No. of Shares held	Position	Approximate percentage of issued share capital
Belton Light	Beneficial owner	2,215,555,000*	Long	55.25%
Jade Bird Energy Fund II, L.P.	Interest of controlled corporation	2,215,555,000*	Long	55.25%
Wang Da Yong	Beneficial owner/ Interest of controlled corporation/interest of spouse	220,719,500	Long	5.50%

* including 330,000,000 warrants which may be exercisable into 330,000,000 Shares at the subscription price of HK\$0.339 per Share.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such share capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and none of the Directors or proposed Director is a director or employee of the above-mentioned companies.

(c) Director's interests in competing business, contracts and assets

As at the Latest Practicable Date,

- (a) none of the Directors or their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group;
- (b) there is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group; and

APPENDIX-GENERAL INFORMATION

- (c) none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

3. MATERIAL ADVERSE CHANGE

Save as disclosed in the interim report of the Company for the six months ended 30 June 2015 in which it was disclosed that the Company has disposed of its coal mining business due to unsatisfactory performance, the Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financial or trading position of the Group since 31 December 2014, being the date of which the latest audited financial statement of the Group were made up.

4. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. EXPERT'S QUALIFICATION AND CONSENT

Nuada is a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO which has provided its opinion contained in this circular.

Nuada has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Nuada was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2014, being the date to which the latest published audited financial statements of the Group were made up.

APPENDIX-GENERAL INFORMATION

6. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Placing Agreement will be available for inspection during normal business hours (Saturdays and public holidays excluded) from 10:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 5:00 p.m. at the registered officer, head office and principal place of business of the Company in Hong Kong for a period of 14 days from the date of this circular.

NOTICE OF EGM



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 EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of King Stone Energy Group Limited (the “**Company**”) will be held at Unit 7603, 76th Floor, The Center, 99 Queen’s Road Central, Hong Kong on Wednesday, 23 December 2015 at 11:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the placing agreement (the “**Placing Agreement**”) entered into between the Company and Fulixin Securities Limited (the “**Placing Agent**”) dated 6 November 2015 in relation to the placing of up to 2,500,000,000 new ordinary shares (the “**Placing Shares**”) in the share capital of the Company at HK\$0.168 per share, a copy of the Placing Agreement having been produced to the EGM and marked “A” and initialed by the chairman of the EGM for the purpose of identification, and the transaction contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the allotment and issue of the Placing Shares to the placees (including up to 1,300,000,000 Placing Shares to Belton Light Limited) pursuant to the terms of the Placing Agreement and the transactions contemplated thereby be and are hereby approved; and

NOTICE OF EGM

- (c) any one or more directors of the Company be and is/are hereby authorised to allot and issue the Placing Shares in accordance with the terms of the Placing Agreement and to do all such acts and things as he/they consider(s) necessary or expedient for the purpose of giving effect to the Placing Agreement and completing the transactions contemplated thereby.”

By order of the Board
King Stone Energy Group Limited
Mr. Zong Hao
Executive Director

Hong Kong, 7 December 2015

Registered office, head office and principal place of business in Hong Kong:

Unit 7603, 76th Floor
The Center
99 Queen's Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the Articles of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the EGM, 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 holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. The resolution at the EGM will be conducted by way of a poll.