
THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

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



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 ON REVISED TERMS UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON

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



川盟融資有限公司

Chanceton Capital Partners Limited

A letter of advice from the Independent Board Committee is set out on pages 15 to 16 of this circular. A letter of advice from Chanceton, the independent financial adviser, containing its opinion and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 38 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 Friday, 8 April 2016 at 11:30 a.m. is set out on pages 43 to 44 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.

3 March 2016

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Introduction	4
The Placing Agreement.....	5
Fund raising exercise by the Company in the past twelve months.....	8
Reasons for the Placing and use of proceeds	8
Effects on shareholding structure of the Company.....	12
Listing Rules implication.....	13
EGM.....	13
Recommendation.....	14
Further information.....	14
Letter from the Independent Board Committee.....	15
Letter from Chanceton Capital Partners Limited.....	17
Appendix – General information.....	39
Notice of EGM.....	43

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 25 January 2016 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
“Chanceton”	Chanceton Capital Partners 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
“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

DEFINITIONS

“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
“Last Trading Day”	25 January 2016, being the last trading day for the Shares immediately prior to the issue of the Announcement
“Latest Practicable Date”	29 February 2016, 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
“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 3,000,000,000 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, as supplemented by the Supplemental Agreement, 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\$0.139 per Placing Share

DEFINITIONS

“Placing Shares”	up to 3,000,000,000 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
“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
“Supplemental Agreement”	the supplemental agreement dated 25 January 2016 and entered into between the Company and the Placing Agent to revise certain terms of the Placing Agreement
“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

3 March 2016

To the Shareholders

Dear Sir or Madam,

PLACING OF NEW SHARES ON REVISED TERMS UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON

INTRODUCTION

References are made to: (i) the announcement and the circular of the Company dated 6 November 2015 and 7 December 2015 respectively in relation to the Placing Agreement entered into between the Company and the Placing Agent for the proposed placing of up to 2,500,000,000 new Shares at a price of HK\$0.168 per Share under specific mandate; and (ii) the announcement of the Company dated 20 January 2016 in relation to the re-negotiating with new terms and/or size of the Placing.

LETTER FROM THE BOARD

The Board wishes to inform that the Supplemental Agreement is entered into between the Company and the Placing Agent on 25 January 2016 (after trading hours of the Stock Exchange) to revise the Placing Price, the Placing Shares and the long stop date of fulfilling the conditions precedent under the Placing Agreement.

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 Chanceton to the Independent Board Committee and the Independent Shareholders; and (iv) to give the notice of the EGM.

THE PLACING AGREEMENT

Date: 6 November 2015 (as supplemented by the Supplemental Agreement on 25 January 2016)

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 1,550,000,000 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.

LETTER FROM THE BOARD

Number of Placing Shares

Up to 3,000,000,000 Shares, representing approximately 74.8% of the issued share capital of the Company as at the Latest Practicable Date and approximately 42.8% 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\$0.139 per Placing Share represents:

- (i) a discount of approximately 15.76% to the closing price of HK\$0.165 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 19.84% to the average of the closing prices of HK\$0.1734 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 12.03% to the closing price of HK\$0.158 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 in view of the stock market condition. 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\$0.1385 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 30 April 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.

LETTER FROM THE BOARD

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 the date of EGM.

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.

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, and the Placing as first announced by the Company dated 6 November 2015 which is supplemented by the Supplemental Agreement, the Company has conducted the following equity fund raising activity 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
4 August 2015	Placing of new Shares	HK\$179.06 million	For financing the Stone Paper Business	To be used as intended

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.

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.

LETTER FROM THE BOARD

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.

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 and the Company has not had any agreement, arrangement, understanding, intention or negotiation (included or otherwise) about any disposal, termination, and/or scaling-down of the existing business and major assets of the Group as at the Latest Practicable Date.

LETTER FROM THE BOARD

The net proceeds from the Placing, after the deduction of the placing commission and other related expenses, are estimated to be approximately HK\$415.5 million which will be used as originally intended, i.e. 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 terms (including the size) of the joint venture to be set up for the Stone Paper Business are yet to be finalised and the joint venture for the Stone Paper Business has yet to be formed. As the formation of the joint venture will involve signing of a joint venture agreement with the counterparty and thereby incurring capital commitment upon the formation of the joint venture, it has always been the intention of the Board to secure sufficient funding before committing itself to the Stone Paper Business. Based on the negotiation between the parties before, 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. While the Company has secured part of the capital requirement from the fund raising exercise in August 2015, there is still a shortfall of approximately RMB250 million in order to meet the initial capital contribution for the Stone Paper Business. It is estimated that the joint venture agreement will be signed within three months after completion of the Placing and the joint venture will be formed after all necessary consents and approval (including the PRC regulatory approval and compliance with the requirements under the Listing Rules) having been obtained. 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.

As mentioned in the announcement of the Company dated 20 January 2016, the Placing under the original terms of the Placing Agreement could not proceed due to the recent stock market volatility. In particular, the Hang Seng Index dropped from about 22,867 points on 6 November 2015, being the date of the original Placing Agreement, to about 18,542 points on 21 January 2016, or about 18.9%. The closing price per Share also dropped from HK\$0.198 on 6 November 2015 to HK\$0.155 on 21 January 2016, or about 21.7%. Such stock market volatility has affected the investment sentiment globally and the Placing is of no exception. The decrease in the price of the Shares, as well as the uncertainty of the performance of the stock market, have led to the reluctance of the potential placees to proceed with the subscription of the new Shares under the Placing. Given the 2% creeper restriction on Belton Light, even if Belton Light alone applied for the maximum amount of the Placing Shares (i.e. 157,266,064 Placing Shares under the original terms of the Placing) allowed under the Takeovers Code, the Company could not raise sufficient funds enough to proceed with the Stone Paper Business without the participation of the other independent Placees. In order to have funds to proceed with the Stone Paper Business and to attract new investors to commit the investment in the Company, the Company re-negotiated with the Placing Agent to agree on the new terms of the Placing under the Supplemental Agreement in response to the changing market conditions.

The Directors consider that the terms of the Placing Agreement (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 THE BOARD

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 1,550,000,000 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	3,435,555,000	49.0	1,885,555,000	26.9
The Placees (<i>Note 2</i>)	–	–	1,450,000,000	20.7	3,000,000,000	42.8
Existing public Shareholders	2,124,500,568	53.0	2,124,500,568	30.3	2,124,500,568	30.3
Total	4,010,055,568	100.0	7,010,055,568	100.0	7,010,055,568	100.0

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 1,550,000,000 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.

LETTER FROM THE BOARD

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 43 to 44 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 Friday, 8 April 2016 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.

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. Chanceton 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.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 15 to 16 of this circular. The Independent Board Committee, having taken into account the advice of Chanceton, the text of which is set out on pages 17 to 38 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)

3 March 2016

To the Independent Shareholders

Dear Sir or Madam,

PLACING OF NEW SHARES ON REVISED TERMS UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON

We refer to the circular dated 3 March 2016 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. Chanceton 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 14 of the Circular, and the letter from Chanceton 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 17 to 38 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of Chanceton, 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 CHANCETON CAPITAL PARTNERS LIMITED

The following is the text of a letter of advice from Chanceton Capital Partners Limited to the Independent Board Committee and the Independent Shareholders in respect of the Placing Agreement and the transactions contemplated thereunder, which has been prepared from the purpose of incorporation in this circular.



Room 801B, 8/F
West Wing
Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui Hong Kong

3 March 2016

King Stone Energy Group Limited
Unit 7603, 76/F
The Center
99 Queen's Road Central
Hong Kong

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

PLACING OF NEW SHARES ON REVISED TERMS UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Placing Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" (the "**Letter**") contained in the circular issued by the Company dated 3 March 2016 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 6 November 2015, 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. On 25 January 2016, the Company entered into the Supplemental Agreement with the Placing Agent to revise the terms of the Placing Agreement pursuant to which the Placing Agent agreed to place up to 3,000,000,000 Placing Shares to the Placee(s) at a price of HK\$0.139 each on a best effort basis.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

As at the Latest Practicable Date, Belton Light was interested in 1,885,555,000 Shares, 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 1,550,000,000 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.

The Independent Board Committee, comprising all the four independent non-executive Directors, namely Mr. Chiu Sui Keung, Mr. Lu Binghui, Mr. Lee Ping and Mr. Liu Shengming, has been formed to advise the Independent Shareholders as to whether the Placing Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the relevant resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Chanceton Capital Partners Limited did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Chanceton Capital Partners Limited. In the last two years, there was no engagement between the Group and Chanceton Capital Partners Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangements exist whereby we had received any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the Placing Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group and its advisers; (iii) the opinions expressed by and there presentations of the Directors and the management of the Group; and (iv) our review of the relevant public information.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those asset out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Placee(s) and/or their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have considered the following principal factors and reasons:

1. Background of and reasons for the Placing

1.1 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.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

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.

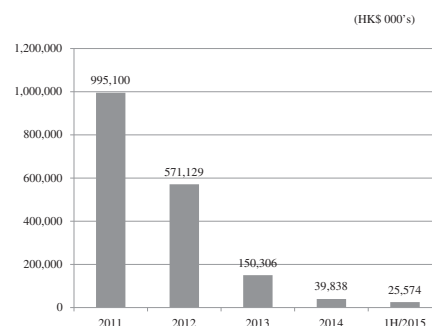
	Year ended 31 December 2013 <i>HK\$'000</i> (audited)	Year ended 31 December 2014 <i>HK\$'000</i> (audited)	Six months ended 30 June 2015 <i>HK\$'000</i> (unaudited)
Revenue	150,306	39,838	25,574
Gross loss	(226,117)	(133,027)	(29,189)
Profit/(loss) for the year/period	(1,468,039)	(1,803,259)	2,341,371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

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

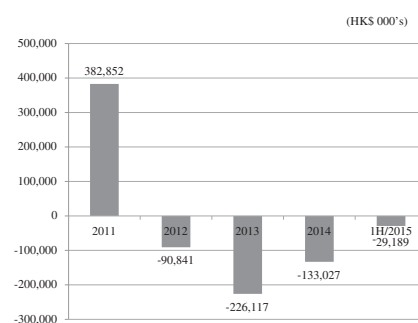
Our Analysis on the financial results of the Company:

Having reviewed the past annual reports of the Company, we have extracted certain figures and have compiled the graphs illustrated herein (on the right). As illustrated, revenue of the Group has dropped from approximately HK\$995.1 million during the financial year 2011 to approximately HK\$39.8 million during the financial year 2014. We noted that, the core business of the Group during these past years, being the coal mining business, has suffered from the decline in the outputs and also the selling prices. Based on the information as disclosed in the past annual reports of the Company, the Group has introduced new lines of business, namely the silver mining business and the oil and gas E&P projects in 2013 and 2014 respectively, however, we noted that these new businesses have yet to provide positive returns to the Company. As illustrated from the charts on the right, the revenue of the Group is on a clearly declining trend, and the Group no longer records positive gross profit since the financial year 2012. In April 2015, the Group has entered into a disposal agreement to dispose of the entire interests in the coal mining business of the Group in Inner Mongolia, the PRC.

Revenue



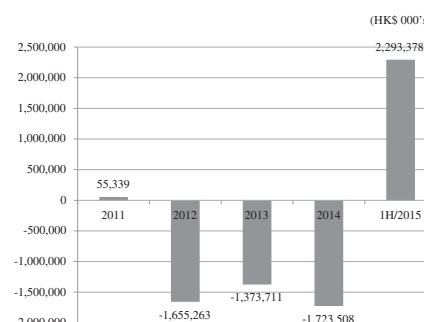
Gross Profit



LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

As illustrated from the chart on the right, the Group has not recorded any net profit since 2012. The abovementioned disposal of coal mining business contributed a one-off gain of approximately HK\$2,446 million to the Group's net profit for the half year ended 30 June 2015. After taking out the one-off gain, the Group recorded a net loss of HK\$152.4 million.

Net Profit



Net profit in the first half of 2015 included a one-off gain of approximately HK\$2,446 million

Outlook of current Core Business

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. 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

Since the fourth quarter of 2013, the Group has been actively developing an upstream oil and gas E&P project in North America. 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.

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, and no revenue has been contributed from this sector for the Group.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

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 CHANCETON CAPITAL PARTNERS LIMITED

Stone Paper Business

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 tear proof. 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.

Based on our understanding, the stone paper industry is a relatively new industry. It 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. We enquired and the management of the Company represented that they will conduct further review and study on the stone paper business while negotiating for the potential formation of the joint venture.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

Our Analysis

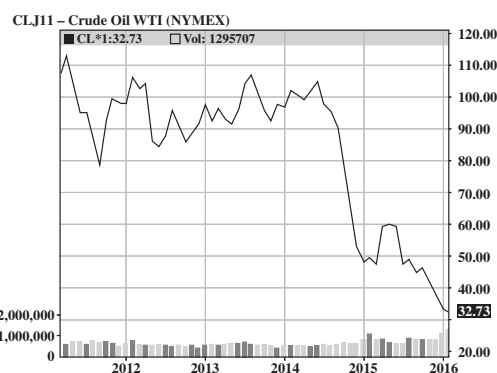
Having reviewed the past financial results of the Group, and having enquired with the Directors, we noted that it is the strategy of the Group, since 2015, to move proactively to restructure its asset portfolio and strengthen its financial position.

We have reviewed, amongst others, the commodity futures price quotes for crude oil on the NYMEX and the commodity futures price quotes for silver on the COMEX. We have re-produced these prices trend charts on the right. Given the competitive environment in 2015, the crude oil price has been dropping tremendously across the globe. We also noted that the price of silver has been on a clear downward trend as well. We believed that, under the global downturn of the energy sector, the operational environment of the current business of the Group is not optimistic, in this report we concur with the views of the Directors that diversification of the asset and business portfolio of the Group would be logical and justifiable.

With regard to the disposal of the coal mining business, we see the determination of the Group to transform their business from a competitive market into a developing market. The establishment of the joint venture would make the Group one of the pioneers of the stone paper market in China and diversify their risk in the principal business. We believed the strategic investment will be in the interests of the Company and the Shareholders.

Having considered the global downturn of the energy sector and the disappointing results of the Group's current principal activities, we are of the view that the Placing will enable the Company to strengthen its equity base and liquidity without incurring interest costs, thereby reinforcing its ability to capitalise on greater business opportunities associated with the potential investment in the Stone Paper Business.

End of day Commodity Futures Price Quotes for Crude Oil WTI (NYMEX)



Source: <http://www.nasdaq.com/markets/crude-oil.aspx?timeframe=5y>

End of day Commodity Futures Price Quotes for Silver (COMEX)



Source: <http://www.nasdaq.com/markets/crude-oil.aspx?timeframe=5y>

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

2. Terms of and Reasons for the Placing Agreement

Principal terms of the Placing Agreement

Date: 6 November 2015 (as supplemented by the Supplemental Agreement on 25 January 2016)

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 1,550,000,000 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.

Number of Placing Shares

Up to 3,000,000,000 Placing Shares representing approximately 74.8% of the issued share capital of the Company as at the Latest Practicable Date and approximately 42.8% 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).

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

Placing Price

The Placing Price of HK\$0.139 per Placing Share represents:

- (i) a discount of approximately 15.76% to the closing price of HK\$0.165 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 19.84% to the average closing price of approximately HK\$0.1734 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to (not including) the Last Trading Day;
- (iii) a discount of approximately 12.03% to the closing price of HK\$0.158 per Share as quoted on the Stock Exchange on the Latest Practicable Date, and
- (iv) a discount of approximately 2.8% 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\$415.5 million which will be used as originally intended, i.e. 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 terms (including the size) of the joint venture to be set up for the Stone Paper Business are yet to be finalised and the joint venture for the Stone Paper Business has yet to be formed. As the formation of the joint venture will involve signing of a joint venture agreement with the counterparty and thereby incurring capital commitment upon the formation of the joint venture, it has always been the intention of the Board to secure sufficient funding before committing itself to 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

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

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. While the Company has secured part of the capital requirement from the fund raising exercise in August 2015, there is still a shortfall of approximately RMB250 million in order to meet the initial capital contribution for the Stone Paper Business. It is estimated that the joint venture agreement will be signed within three months after completion of the Placing and the joint venture will be formed after all necessary consents and approval (including the PRC regulatory approval and compliance with the requirements under the Listing Rules) having been obtained. 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 off loading 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.

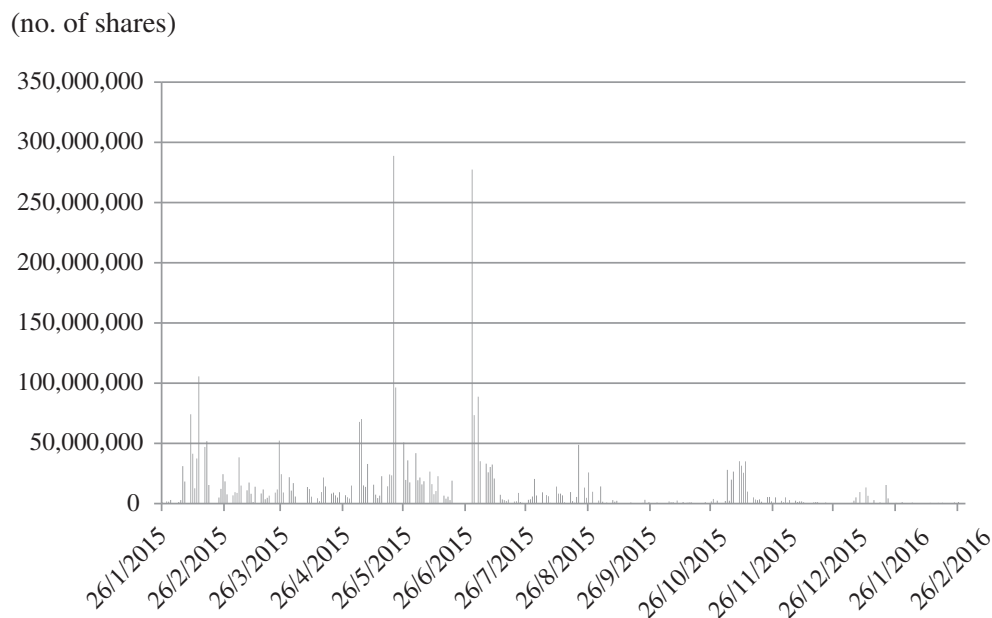
LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

3. Review of historical closing price and volume

In assessing the fairness of the Placing Price, we conduct a review of the historical price movement and volume of the Shares. Set out below are the diagram demonstrating the daily closing price and volume of the Shares as quoted on the Stock Exchange during the period commencing from 25 January 2015 up to and including the Latest Practicable Date.



Source: Yahoo! Finance



Source: Yahoo! Finance

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

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

During the review period, the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.150 per Share recorded on 23 February 2016 and the highest closing price of the Shares was HK\$0.445 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\$0.165. During the review period up to the Last Trading Day, the average daily volume of the Shares on the Stock Exchange was 12.7 million, comparing to the outstanding shares of the Company as of the Last Practicable Date, being 4,010.1 million, represent only 0.32%; if comparing to the public float held by existing public shareholders, being 2,124.5 million, represent only 0.60%. Other than the share price, the volume of the Shares showed a downward trend comparing the first half of the review period to that of second half.

The sharp decrease in the then prevailing market price of the Shares, as well as the uncertainty of the performance of the stock market, have led to the reluctance of the potential placees to proceed with the subscription of the new Shares under the Placing. The closing price of Shares has been fallen by nearly 50% in the past six months.

With reference to the thin trading liquidity of the Shares during the review period, by considering the average daily trading volume of the Shares during the aforementioned period was approximately 12.7 million Shares, or 0.32% of the total number of issued Shares, this result represents an extremely thin trading volume which might affect the ability of the potential investor(s) to realize their investments in the Group and thus require a deeper discount to the price per Placing Share comparing to the prevailing market price of the Shares, in order to attract or procure potential investors or Placees.

Furthermore, the controlling Shareholder Belton Light may take up to 1,550 million or 51.7% of the Placing Shares. With regard to the poor performance of the Shares and low trading volume, the participation of Belton Light in the Placing will convey positive message to the Shareholders.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

Review of the Indices

We have conducted a review on the performance of Hang Seng Index in the review period, which are shown in the following diagram.

The performance of Hang Seng Index



Source: Yahoo! Finance

During the review period, the Hang Seng Index has been fallen by 23.3%. The negative sentiment throughout the period has significantly affected the investors' confidence on the Hong Kong stock market which reduce the ability of the Company to raise capital from the public market.

We noted that the Placing Price has been amended from HK\$0.168 to HK\$0.139 pursuant to the Supplemental Agreement on 25 January 2016. The table below shows the change in Placing Price relative to other indicators.

	Last Trading Price HK\$	Hang Seng Index at respective Last Trading Day	Placing Price HK\$
Placing Agreement on 6 November 2015	0.198	22,867.33	0.168
Supplemental Agreement on 25 January 2016	0.165	19,340.14	0.139
Change	-16.7%	-15.4%	-17.3%

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

The change in Placing Price is -17.3%, which was more or less the same as the change in the Last Trading Price in the respective agreements. We also noted that the decrease in the Placing Price is also aligned with the fall of Hang Seng Index.

Based on all the above factors, we believe the change in the Placing Price is fair and reasonable.

Comparison with other share placing exercises

As part of our analysis, we have, to the best of our knowledge, identified exercises regarding placing/subscription of new shares under specific mandate during the period from 1 December 2015 up to the date of the Announcement, being the recent period around the time the Supplemental Agreement was entered into, as announced by companies listed on the main board of the Stock Exchange (the “**Comparables**”). We are of the view that the Comparables, which represent an exhaustive list as far as we are aware of, 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 23 transactions which met the said criteria.

Date of Announcement	Company Name	Stock Code	Connected transaction	Premium/(Discount) of the placing price to the share price as at the date of subscription agreement ("Last Closing Price")
2016/1/24	Changgang Dunxin Enterprise Company Limited	2229	No	-3.92%
2016/1/18	Huajun Holdings Limited	377	No	-14.77%
2016/1/18	Hsin Chong Construction Group Limited	404	Yes	-35.14%
2016/1/14	REX Global Entertainment Holdings Limited	164	No	-84.08%
2016/1/11	Comtec Solar Systems Group Limited	712	No	-20.48%
2016/1/6	Blue Sky Power Holdings Limited	6828	No	-11.76%
2016/1/5	Addchance Holdings Limited	3344	No	-60.84%
2016/1/5	Kong Sun Holdings Limited	295	Yes	6.45%
2015/12/29	Top Spring International Holdings Limited	3688	No	9.40%
2015/12/21	China Sandi Holdings Limited	910	No	-17.50%
2015/12/17	CNQC International Holdings Limited	1240	No	-9.80%
2015/12/17	North Mining Shares Company Limited	433	No	-
2015/12/15	Noble Century Investment Holdings Limited	2322	No	-44.44%
2015/12/15	Huscoke Resources Holdings Limited	704	No	-62.96%
2015/12/14	Optics Valley Union Holding Company Limited	798	No	-15.80%
2015/12/13	Co-Prosperity Holdings Limited	707	Yes	-25.00%
2015/12/11	TCL Multimedia Technology Holdings Limited	1070	No	31.31%

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

Date of Announcement	Company Name	Stock Code	Connected transaction	Premium/(Discount) of the placing price to the share price as at the date of subscription agreement ("Last Closing Price")
2015/12/10	China Jiu hao Health Industry Corporation Limited	419	No	-90.91%
2015/12/9	HC International, Inc.	2280	Yes	-8.26%
2015/12/9	Freeman Financial Corporation Limited	279	No	-25.70%
2015/12/4	Yuhua Energy Holdings Limited	2728	Yes	-
2015/12/3	North Asia Resources Holdings Limited	61	No	-83.33%
2015/12/2	Innovative Pharmaceutical Biotech Limited	399	No	-23.08%
Minimum				-90.91%
Maximum				31.31%
Average				-25.68%
The Company				-15.76%
6 November 2015 (as supplemented by the Supplemental Agreement on 25 January 2016)				

As shown in the above table, the placing prices of the Comparables ranged from a discount of approximately 90.91% to a premium of approximately 31.31% 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 25.68% among the Comparables. The Placing Price of HK\$0.139, which represented a discount of approximately 15.76% to 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 35.4% and a premium of approximately 6.45% to the respective closing prices of their shares on the last trading days prior to/on the date of the announcement/agreement, with an average discount of 12.39%. Given the discount implied by the Placing Price lies within such range and is just slightly higher than the average of the Comparables involving connected transactions, our view on the Placing Price would not be affected.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

Considering 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.

Considering that:

- (i) the market price of the Shares was on a downward trend;
- (ii) the liquidity of Shares was extremely low;
- (iii) the Hong Kong stock market was on a downward trend;
- (iv) the change in Placing Price in line with the change of the price of Shares and the performance of Indices;
- (v) the discount of Placing Price to the closing price on the Last Trading Day falls within the Market Range and is less than the average of the Comparables;
- (vi) the discount of Placing Price to the closing price on the Last Trading Day is though slightly higher than the average of the Comparables involving connected transactions, it falls within the Market Range of such comparables;
- (vii) the Placing Price is approximately in line with the unaudited net asset value per Share of the Company as at 30 June 2015,

we are of the view that the Placing Price is fair and reasonable.

4. Other financing alternatives

Upon our enquiry with the Directors in respect of financing alternatives, we understand that the Group had considered a number of measures to improve its financial position and alleviate its liquidity pressure, including bank borrowing and equity financing. We noted that, from the Interim Report 2015 of the Company, the Group did not have any bank borrowing and has a gearing ratio of merely 0.1 as at 30 June 2015. Given the low gearing of the Group it might be desirable for the Directors to consider the possibility of debt financing. Nonetheless, the Board considers that debt financing is not desirable as it is not long term fund but a liability that needs to be refinanced in the future and there is interest burden whereas that the Placing involving Belton Light as one of the Placees will provide the Company with long term equity fund without the need for repayment and any continuous interest burden but only one-off placing commission and administrative cost. This is so especially when the Federal Open Market Committee has raised the target federal funds rate by 25 basis points on 16 December 2015, which we see as a sign of increasing interest rate in the future as well as the interest burden of debt financing.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

In relation to equity financing, we noted that, on 26 June 2015, the Company announced a proposed rights issue to raise net proceeds of approximately HK\$200 million. However due to the then adverse market conditions, such proposed rights issue was terminated on 8 July 2015. As such, it could reasonably be expected that of carrying out a similar fund raising through rights issued or open offer might be difficult and time consuming, and commercial underwriting would be costly to be achieved. We understand from the Directors that they are of the view that the Placing is the most appropriate fund raising method currently available of the Group. As mentioned in the announcement of the Company dated 20 January 2016, the Placing under the original terms of the Placing Agreement dated 6 November 2015 could not be proceeded due to the recent stock market volatility which has affected the investment sentiment globally and the Placing is of no exception. As stated in the letter, in order to have funds to proceed with the Stone Paper Business and to attract new investors to commit the investment in the Company, the Company has been re-negotiating with the Placing Agent to agree on the new terms of the Placing in response to the changing market conditions.

As mentioned above, the issue of new Shares to Belton Light can provide the Company with long term equity fund without the need for repayment and any interest burden. As discussed with the management of the Company, the Placing Agent has approached potential investor(s) for the Placing in which the controlling Shareholder, Belton Light may take up to 1,550 million or 51.7% of the Placing Shares, the possible participation of Belton Light can demonstrate its support for the Placing and is expected to give confidence to the independent Placees to invest in the Company. 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. 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 and long term commitment in the Company, and it is reasonably believed that Belton Light will continuously commit itself to the development and growth of the Group.

Having taken into the account that (i) the Placing can provide the Company an opportunity to raise long term capital with no interest costs; (ii) the participation of the controlling Shareholder of the Company in this fund raising exercise can demonstrate its willingness to provide long term support to the Company; (iii) the pros and cons of other financing alternatives as discussed above; (iv) the reasons of and the benefits of the Placing as stated in the section headed "Background of and reasons for the Placing" above, we consider that the Placing and the issue of new Shares to Belton Light is in this interest of the Company and the Shareholders as a whole and is justifiable.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

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\$415.5 million.

Effect on working capital

As the Placing will raise net proceeds of approximately HK\$415.5 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.

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 subscribes for 1,550,000,000 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	3,435,555,000	49.0	1,885,555,000	26.9
The Placees (Note 2)	–	–	1,450,000,000	20.7	3,000,000,000	42.8
Existing public Shareholders	2,124,500,568	53.0	2,124,500,568	30.3	2,124,500,568	30.3
Total	<u>4,010,055,568</u>	<u>100</u>	<u>7,010,055,568</u>	<u>100</u>	<u>7,010,055,568</u>	<u>100</u>

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

Notes:

1. Belton Light, 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 subscribes for a maximum of 1,550,000,000 Placing Shares under the Placing. Belton Light will not subscribe for the maximum of 1,550,000,000 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.

We note that the shareholding interest of the Independent Shareholders will be diluted from approximately 53.0% to approximately 30.3% as a result of the issue of the Placing Shares immediately after Placing Completion. Having considered that (a) the Placing Price is fair and reasonable, based on our analysis set out in the section above headed “Terms of and Reasons for the Placing Agreement”; (b) considering the Group has been loss making for the past consecutive years and had a weak capital base, the Placing represents an opportunity to raise new capital for the Company for its new business which, as analysed above under the section headed “Background of and reasons for the Placing”, derived a potential mitigation to the business risks posed by the oil and gas business of the Company; and (c) the Placing would not result in additional financing costs to the Group which may otherwise be incurred, the Group were to adopt other alternatives, it is expected that the Placing illustrated the Controlling Shareholder’s long term commitment to the Company and at the same time broadening the Shareholder and capital base of the Company, in addition to the improvement to the liquidity, gearing and net asset value of the Company, 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.

LETTER FROM CHANCETON CAPITAL PARTNERS LIMITED

OPINION

Having taking into account the above principal factors and reasons, in particular (i) the global downturn of the energy sector and the disappointing results of the Group's current principal activities, while the Placing represents an opportunity to raise additional long term funds for the Company for its potential investment in the Stone Paper Business; (ii) the downward trend of the Share price and the trading volume of the Shares; (iii) the unsatisfactory historical financial performance of the Group; (iv) the negative sentiment on the Hong Kong stock market which reduce the ability of the Company to raise capital from the public market; and (v) the discount ratio on the Placing Price is within the Market Range as discussed above, 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

Chanceton Capital Partners Limited

Wong Kam Wah

Managing Director

Mr. Wong Kam Wah is a licensed person registered with the SFC and regarded as are sponsible officer of Chanceton Capital Partners Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

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

Chanceton 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.

Chanceton 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, Chanceton 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 including the Supplemental 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 Friday, 8 April 2016 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, as supplemented by the supplemental agreement dated 25 January 2016, in relation to the placing of up to 3,000,000,000 new ordinary shares (the “**Placing Shares**”) in the share capital of the Company at HK\$0.139 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 1,550,000,000 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, 3 March 2016

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.