

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in King Stone Energy Group Limited (the "Company"), you should at once hand this circular, together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**KING STONE ENERGY GROUP LIMITED**

**金山能源集團有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 00663)**

**REFRESHMENT OF GENERAL MANDATE TO ISSUE NEW SHARES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser  
to the Independent Board Committee and the Independent Shareholders**



**高銀融資有限公司**  
GOLDIN FINANCIAL LIMITED

A letter from the Board is set out on pages 4 to 8 of this circular and a letter from the Independent Board Committee is set out on page 9 of this circular. A letter of advice from Goldin Financial containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 10 to 15 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at Suite 3603, 36th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong at 12:00 noon on 25 March 2010 is set out on pages 16 to 18 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

8 March 2010

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## DEFINITIONS

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

“Articles of Association”	the memorandum and articles of association of the Company as amended, supplemented or modified from time to time
“Associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	King Stone Energy Group Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Suite 3603, 36th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong at 12:00 noon on 25 March 2010 to consider and, if thought fit, pass the resolution to approve the grant of the Issue Mandate
“Existing General Mandate”	the general mandate granted by the Shareholders at the annual general meeting of the Company held on 5 June 2009 to issue or deal with up to a maximum of 641,948,674 new Shares
“Goldin Financial”	Goldin Financial Limited, a company incorporated in Hong Kong with limited liability and a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the refreshment of the Existing General Mandate
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong

## DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors, namely, Mr. Jacobsen William Keith, Mr. Cao Kuangyu and Mr. Chiu Sui Keung
“Independent Shareholder(s)”	any Shareholders other than controlling shareholder and its associates or, where there are no controlling shareholders, any Shareholders other than the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates
“Issue Mandate”	a general and unconditional mandate to grant to the Directors to exercise all powers of the Company to allot and issue new Shares not exceeding 20% of the issued share capital of the Company as at the date of the EGM
“Latest Practicable Date”	4 March 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nianpanliang Project”	the Nianpanliang Project which is located in the Dongsheng District of Ordos City on the eastern edge of the Maowusu Desert, Inner Mongolia, the PRC, an area covering approximately 10.1 sq. km. Measuring approximately 3.0 km from east to west and 5.5 km from north to south
“No.1 Mine”	the mining area of approximately 3.556 sq. km. situated at the northernmost area within the Nianpanliang Project, measuring 1.8 km from east to west and 2.1 km from south to north
“No.2 Mine”	the mining area of approximately 3.3911 sq. km. situated at the southernmost area within the Nianpanliang Project, measuring 1.9 km from east to west and 1.8 km from south to north
“November Circular”	the circular of the Company dated 18 November 2009
“PRC”	the People’s Republic of China and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

## DEFINITIONS

“Register of Members”	the register of members of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

*This circular contains translations between RMB and HK\$ at the rate of RMB1.00 = HK\$1.14. The translation rate is for indication purposes only and should not be taken as a representation that the relevant currency could actually be converted into HK\$ at that rate or at all.*



**KING STONE ENERGY GROUP LIMITED**

**金山能源集團有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 00663)**

*Executive Directors:*

Mr. Wang Da Yong  
Mr. Tian Wenwei  
Ms. Liu Yee Nee  
Ms. Louie Mei Po

*Non-Executive Directors:*

Mr. Wang Tongtian  
Mr. Li Yi

*Independent Non-Executive Directors:*

Mr. Jacobsen William Keith  
Mr. Cao Kuangyu  
Mr. Chiu Sui Keung

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

Room 1211,  
12/F, Tower 1,  
New World Tower,  
18 Queen's Road Central,  
Hong Kong

8 March 2010

*To the Shareholders, and for information only, the holders  
of the convertible notes issued by the Company*

Dear Sir or Madam,

**REFRESHMENT OF GENERAL MANDATE TO ISSUE NEW SHARES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

The Directors proposed the Existing General Mandate be refreshed by way of grant of the Issue Mandate at the EGM.

The purpose of this circular is (i) to provide you with information on the granting of the Issue Mandate and (ii) to set out recommendations of the Independent Board Committee and the advice of Goldin Financial in relation to the grant of the Issue Mandate.

## LETTER FROM THE BOARD

The Independent Board Committee, comprising Mr. Jacobsen William Keith, Mr. Cao Kuangyu and Mr. Chiu Sui Keung, being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the refreshment of the Existing General Mandate. Goldin Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

### REFRESHMENT OF THE EXISTING GENERAL MANDATE

At the annual general meeting of the Company held on 5 June 2009, the Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Existing General Mandate to allot up to a maximum of 641,948,674 Shares, which is equivalent to 20% of the then aggregate nominal amount of the share capital of the Company as at the date of the said annual general meeting.

As at the Latest Practicable Date, no Shares have been issued under the Existing General Mandate. The Board proposes to grant to the Directors the Issue Mandate to issue and allot new Shares not exceeding 20% of the issued share capital of the Company as at the date of the EGM. As the refreshment of the Existing General Mandate is proposed to the Shareholders before the Company's next annual general meeting, pursuant to Rule 13.36(4) of the Listing Rules, the refreshment of the Existing General Mandate will be subject to the Independent Shareholders' approval by way of poll at the EGM.

As at the Latest Practicable Date, there were 11,529,743,370 Shares in issue. Convertible notes in the aggregate amount of HK\$1,805,000,000 were issued by the Company on 21 December 2009 and as at the Latest Practicable Date, HK\$520,000,000 of which have been converted, resulting in the issue of 8,320,000,000 Shares. The following table sets out the shareholding structure of the Company as at the Latest Practicable Date:

	<b>As at the Latest Practicable Date</b>	
	<i>No. of Shares</i>	<i>Approximate %</i>
Mr. Zhao Ming	2,440,000,000	21.16
CCB International Asset Management Limited ("CCB") (Note 1)	1,688,000,000	14.64
China Coal and Coke Investment Holding Company Limited ("China Coal") (Note 2)	800,000,000	6.94
Public	6,601,743,370	57.26
<b>Total</b>	<b>11,529,743,370</b>	<b>100.00</b>

*Notes:*

1. CCB is a wholly-owned subsidiary of China Construction Bank Corporation.
2. China Coal is a wholly-owned subsidiary of Sino Bridge Investments Limited which in turn is beneficially owned by Mr. Wang Da Yong, the Chairman and an executive Director of the Company.

## LETTER FROM THE BOARD

Based on the 11,529,743,370 Shares in issue as at the Latest Practicable Date and assuming there is no further allotment and issue or repurchase of Shares on or before the date of the EGM, subject to the passing of the relevant resolution to approve the grant of the Issue Mandate at the EGM, the Directors will be granted an authority to allot and issue up to a maximum of 2,305,948,674 Shares under the Issue Mandate.

### REASONS FOR REFRESHMENT OF THE EXISTING GENERAL MANDATE

As announced by the Company on 21 December 2009, the Company has completed its acquisition of Triumph Fund A Limited, which through its subsidiaries holds mining rights in No.1 Mine and No.2 Mine in Dongsheng District of Ordos City on the Eastern edge of the Maowusu Desert, Inner Mongolia, the People's Republic of China. As disclosed in the November Circular, the capital requirement to complete the production requirements for the said coal mines is approximately RMB452.9 million (equivalent to approximately HK\$516.3 million) (subject to adjustment). Please refer to the technical report set out in Appendix VI of the November Circular for more details.

Although the Existing General Mandate has yet been utilized, in view of the funding requirement of the coal mining business of the Group, the Directors consider that the grant of the Issue Mandate will give the Company more flexibility to tap into the equity market at such time or times in accordance with the funding requirements for general working capital and expansion of the coal mining business of the Group as and when appropriate, although a issue of new Shares under the Issue Mandate will dilute the shareholdings of the existing Shareholders.

Apart from equity financing through the use of the Issue Mandate, the Directors will also consider other alternatives, such as debt financing, bank borrowings, open offer and rights issue. The Directors are of the view that alternatives such as debt financing and bank borrowing will depend on the financial position of the Group, the cost of funding of the Group and the market conditions, and may have to be subject to a relatively lengthy negotiation process. Due to these reasons, the Directors consider that debt financing would be relatively uncertain and time-consuming compared to equity financing, such as placement of new Shares, for the Group to obtain additional funding. The Directors also consider that rights issue/open offer may take a longer time to complete and will incur substantially more costs such as underwriting commission and there is the likely chance of a highly dilutive pricing of the offer established by an underwriter and there is no certainty that the Company will be able to procure favourable terms under such commercial underwriting.

In view of the aforesaid, the Directors are of the view that the grant of the Issue Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors will in any event exercise due and careful consideration when choosing the best method of financing for the Group.

## LETTER FROM THE BOARD

### EGM

A notice convening the EGM to be held at Suite 3603, 36th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong on 25 March 2010 at 12:00 noon is set out on pages 16 to 18 of this circular for the purpose of considering and, if thought fit, passing the resolution as set out therein.

A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

Pursuant to the Listing Rules, any controlling shareholders and their associates, or where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive and their respective associates shall abstain from voting at the EGM. To the best of the Company's information and belief after having made reasonable enquiries, as at the Latest Practicable Date, the Company has no controlling shareholder. Mr. Wang Da Yong, an executive Director and Chairman of the Company, together with his associates, China Coal and Coke Investment Holding Company Limited and Sino Bridge Investments Limited are interested in 800,000,000 Shares. Other than Mr. Wang Da Yong, as at the Latest Practicable Date, no other Directors or chief executive of the Company or their respective associates hold any Shares. Accordingly, assuming the Company has no controlling shareholder as at the date of the EGM, Mr. Wang Da Yong and his associates shall abstain from voting in relation to the granting of the Issue Mandate at the EGM.

The vote of the Independent Shareholders to approve the resolution for the grant of the Issue Mandate at the EGM will be taken on a poll pursuant to Rules 13.36(4)(c) and 13.39(4) of the Listing Rules. The results of the poll will be announced by the Company after the EGM.

### RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## LETTER FROM THE BOARD

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 9 of this circular which contains its recommendation to the Independent Shareholders on the proposed grant of the Issue Mandate. Your attention is also drawn to the letter of advice from Goldin Financial as set out on pages 10 to 15 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the proposed grant of the Issue Mandate.

The Directors consider that the resolution as set out in the notice of the EGM is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend all Shareholders to vote in favour of such resolution to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**King Stone Energy Group Limited**  
**Wang Da Yong**  
*Chairman*



**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)**

8 March 2010

*To the Shareholders, and for information only, the holders of  
the convertible notes issued by the Company*

Dear Sir or Madam,

**REFRESHMENT OF GENERAL MANDATE TO ISSUE NEW SHARES**

We refer to the circular of the Company dated 8 March 2010 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee and to advise the Independent Shareholders in respect of the grant of the Issue Mandate which will enable the Board to exercise the power of the Company to allot and issue Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the EGM.

Goldin Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the grant of the Issue Mandate is fair and reasonable as far as the Independent Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 10 to 15 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 4 to 8 of the Circular.

Having considered the terms of the Issue Mandate and the advice of Goldin Financial, we are of the opinion that the grant of the Issue Mandate is fair and reasonable so far as the Independent Shareholders are concerned and that the grant of the Issue Mandate 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 grant of the Issue Mandate.

Yours faithfully,  
the Independent Board Committee

**Mr. Jacobsen William Keith**  
*Independent  
Non-executive Director*

**Mr. Cao Kuangyu**  
*Independent  
Non-executive Director*

**Mr. Chiu Sui Keung**  
*Independent  
Non-executive Director*

## LETTER FROM GOLDIN FINANCIAL

*The following is the full text of the letter from Goldin Financial setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the refreshment of the Existing General Mandate, which has been prepared for the purpose of inclusion in this circular.*



**Goldin Financial Limited**  
20/F, York House  
The Landmark  
15 Queen's Road Central  
Hong Kong

8 March 2010

*To: the Independent Board Committee and the Independent Shareholders of  
King Stone Energy Group Limited*

Dear Sirs,

### **REFRESHMENT OF GENERAL MANDATE TO ISSUE NEW SHARES**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the grant of the Issue Mandate, details of which are set out in the Letter from the Board contained in this circular (the "**Circular**") dated 8 March 2010 issued by the Company, of which this letter forms a part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Pursuant to the Listing Rules, the grant of the Issue Mandate is subject to the approval of the Independent Shareholders at the EGM by way of poll. Accordingly, the Independent Board Committee (comprising Mr. Jacobsen William Keith, Mr. Cao Kuangyu and Mr. Chiu Sui Keung, being all the independent non-executive Directors) has been established to advise the Independent Shareholders as to (i) whether the grant of the Issue Mandate is fair and reasonable as far as the Independent Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole; and (ii) whether the Independent Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the grant of the Issue Mandate. We, Goldin Financial, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

#### **BASIS OF OUR ADVICE**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have assumed that all information, representations and opinions contained

## LETTER FROM GOLDIN FINANCIAL

or referred to in the Circular, which have been provided by the Company, Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true as at the date of the EGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In assessing the refreshment of the Existing General Mandate and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

#### **1. Background of the grant of the Issue Mandate**

Following the completion of the acquisition of Triumph Fund A Limited, which through its subsidiaries holds certain mining rights in two local mines located in Dongsheng District of Ordos City on the Eastern edge of the Maowusu Desert, Inner Mongolia, the PRC, details of which are set out in the announcements dated 23 September 2009 and 21 December 2009, and the November Circular, the Company expanded its business into coal mining.

The Existing General Mandate to issue and allot up to 641,948,674 Shares was approved by ordinary resolution at the annual general meeting of the Company held on 5 June 2009 ("AGM"). As at the Latest Practicable Date, no Shares have been issued under the Existing General Mandate.

As at the Latest Practicable Date, the Company had 11,529,743,370 Shares in issue. On the basis that no Share would be issued and/or repurchased by the Company from the Latest Practicable Date up to the date of the EGM, the granting of the Issue Mandate would allow the Directors to issue, allot and deal with up to 2,305,948,674 new Shares, representing 20% of the aforesaid total issued share capital of the Company.

**2. Reason for the grant of the Issue Mandate**

We noted from the Letter from the Board that in order to maintain the Company's flexibility for any possible fund raising activities, including but not limited to further placing of Shares, for the purposes of general working capital and expansion of coal mining business, it is proposed that the Board should seek the approval from the Independent Shareholders for the grant of the Issue Mandate at the EGM to authorize the Directors to further issue Shares not exceeding 20% of the issued share capital of the Company as at the date of the EGM. The Issue Mandate is proposed to the Shareholders prior to the Company's next annual general meeting, and therefore, under Rule 13.36(4) of the Listing Rules, the grant of the Issue Mandate will be subject to the Independent Shareholders' approval at the EGM.

We also noted from the November Circular that according to the technical report set out in appendix VI to the November Circular, the capital requirement to complete the production requirements for the coal mines is approximately RMB452.9 million (equivalent to approximately HK\$516.3 million) (subject to adjustment). We also understand from the November Circular that coal mining business requires significant and continuous capital investment, such as maintaining the mining operation, environmental protection, etc. Given that as at the Latest Practicable Date only 641,948,674 new Shares can be issued and approximately HK\$110 million can be raised based on the recent Share price under the Existing General Mandate, we concur with the Directors' view and consider that the refreshment of Existing General Mandate will provide an additional means of financing available to the Group for its future business development as well as for general working capital.

In addition, the Directors consider that the issue of new Shares is an alternative to provides additional funds for the use of the Group to achieve its business plans as and when appropriate. Taking into account that the procedures for seeking the specific mandate from the Shareholders for issuing new Shares would inevitably lengthen the fund raising exercise, which may impact on the bargaining position of the Company during the investment plan negotiation process, we concur with the Directors' view and consider that the refreshment of Existing General Mandate will provide an additional means of financing available to the Group for its future business development as well as for general working capital.

**3. Fund raising exercise by the Company during the past twelve months**

The Directors confirmed that the Company had not effected any other fund raising exercise involving the issue of new Shares during the past twelve months immediately prior to the Latest Practicable Date.

**4. Financial flexibility and other possible alternatives**

Given that equity financing is interest free and security free by nature, the Directors also consider that equity financing serves as a cost effective means of raising additional capital for the Group as general working capital and to fund any additional investment requirements of existing or other new business opportunities that may be identified in the future.

## LETTER FROM GOLDIN FINANCIAL

Apart from equity financing through the use of the Issue Mandate, the Directors have also confirmed that they have considered other alternatives, such as debt financing, bank borrowings, open offer and rights issue. However, debt financing and bank borrowings depend on the financial position, the cost of funding of the Group and the market conditions. These alternatives are also subject to a relatively lengthy negotiation process. Furthermore, the Directors have considered equity fund-raising on a pro-rata basis such as rights issue or open offer as a channel for obtaining financial resources so that existing Shareholders will have a choice to participate in the Group's future development to a greater extent. The Directors are aware that negotiations with potential brokerage firms to act as underwriter(s) can be lengthy and it highly depends on the prevailing market conditions to arrive at favourable terms. As such, we are of the view that the proposed grant of the Issue Mandate is in the interests of the Company and the Shareholders as a whole. The Directors have also confirmed that they would exercise due and careful consideration when choosing the best method of financing for the Group.

Given the next annual general meeting will not be held until May and the number of issued Shares has been substantially increased since the last AGM, and having considered that the refreshment of the Existing General Mandate may (i) enhance the flexibility of the Company to raise additional funds and/or to allot and issue new Shares as consideration for funding any future business opportunities, acquisitions and/or corporate transaction exercises in a timely manner, as and when such opportunities arise; and (ii) enable the Group further strengthen its capital base, we believe that the grant of the Issue Mandate offers the Company a flexible financing option which is beneficial to the Group. As such, we are of the view that the grant of Issue Mandate is in the interests of the Company and the Shareholders as a whole.

Furthermore, we have been advised by the Directors that in order to have the Company to raise funds to finance any future investment opportunities, acquisitions and/or corporate transaction exercises by way of allotment and issue of new Shares, which when such opportunity materialises and as abovementioned, as at the Latest Practicable Date only 641,948,674 new Shares can be issued and approximately HK\$110 million can be raised based on the recent Share price under the Existing General Mandate, a specific mandate may have to be sought and there would be no certainty as to whether the requisite Shareholders' approval could be obtained in a timely manner. In view of the above, we concur with the Directors' view that the Issue Mandate, if granted, will provide discretion to the Directors to issue new Shares under the refreshed limit as and when necessary, without seeking further approval from the Shareholders. This could give the Company the flexibility and ability to capture any investment or business opportunity as and when it arises.

## LETTER FROM GOLDIN FINANCIAL

### 5. Potential dilution effect to the Shareholders

Set out below is a table showing the shareholdings of the Company as at the Latest Practicable Date and, for illustration purpose, the potential dilution effect on the shareholdings upon full utilization of the Issue Mandate assuming no Shares are issued or repurchased during the period between the Latest Practicable Date and the date of the EGM:

Shareholders	As at the Latest Practicable Date		Upon full utilization of the Issue Mandate	
	No. of Shares	Approximate Percentage	No. of Shares	Approximate Percentage
Mr. Zhao Ming	2,440,000,000	21.16%	2,440,000,000	17.63%
CCB International Asset Management Limited (Note 1)	1,688,000,000	14.64%	1,688,000,000	12.20%
China Coal and Coke Investment Holding Company Limited (Note 2)	800,000,000	6.94%	800,000,000	5.78%
Public Shareholders	6,601,743,370	57.26%	6,601,743,370	47.72%
Shares to be issued under the Issue Mandate	–	–	2,305,948,674	16.67%
<b>Total</b>	<b>11,529,743,370</b>	<b>100.00%</b>	<b>13,835,692,044</b>	<b>100.00%</b>

Notes:

1. CCB International Asset Management Limited is a wholly-owned subsidiary of China Construction Bank Corporation.
2. China Coal and Coke Investment Holding Company Limited is a wholly-owned subsidiary of Sino Bridge Investments Limited which in turn is beneficially owned by Mr. Wang Da Yong, the Chairman and an executive Director of the Company.

As illustrated in the table above, assuming no Shares will be issued or repurchased by the Company from the Latest Practicable Date to the date of the EGM, 2,305,948,674 new Shares can be issued upon full utilization of the Issue Mandate, representing 20% and approximately 16.67% of the existing issued share capital as at the Latest Practicable Date and the enlarged issued share capital of the Company respectively, and the aggregate shareholding of the existing public Shareholders will be diluted from approximately 57.26% as at the Latest Practicable Date to approximately 47.72% upon full utilization of the Issue Mandate.

Taking into account that (i) the grant of the Issue Mandate will provide an alternative to increase the amount of capital which may be raised under the Existing General Mandate; (ii) the refreshment of the Existing General Mandate will provide more flexibility of the Company to raise additional funds for future business

## LETTER FROM GOLDIN FINANCIAL

development and general working capital of the Group; and (iii) the shareholding of all existing Shareholders will be diluted proportionately to their respective shareholdings upon any utilization of the Issue Mandate, we consider that such potential dilution to shareholdings of the public Shareholders to be acceptable.

### RECOMMENDATIONS

Taking into consideration of the above mentioned principal factors and reasons, we consider that the grant of the Issue Mandate is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the grant of the Issue Mandate.

Yours faithfully,  
For and on behalf of  
**Goldin Financial Limited**  
**Billy Tang**  
*Director*



**KING STONE ENERGY GROUP LIMITED**

**金山能源集團有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 00663)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of King Stone Energy Group Limited (the “Company”) will be held at Suite 3603, 36th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong on 25 March 2010 at 12:00 noon for the purpose of considering and, if thought fit, pass with or without amendments, the following resolution:

**ORDINARY RESOLUTION**

1. **“THAT:**

- (a) the authority given by the resolution set out as Resolution No.4(A) in the notice of the annual general meeting of the Company held on 5 June 2009 be and is hereby revoked to the extent that such authority has not been exercised;
- (b) subject to paragraph (d) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares of the Company, and to make or grant offers, agreements and options (including warrants, bonds, notes and debentures convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (c) the approval in paragraph (b) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, notes and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (b) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an

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issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any bonds, notes, debentures and securities which are convertible into shares of the Company; or (iii) an issue of shares of the Company as scrip dividends pursuant to the Articles of Associations of the Company from time to time; or (iv) an issue of shares of the Company under any share option scheme or similar arrangement for the time being adopted for the grant or issue to eligible persons of shares of the Company or rights to acquire shares of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution, and the said approval shall be limited accordingly; and

(e) for the purposes of this resolution:

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

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

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

By Order of the Board  
**Wang Da Yong**  
*Chairman*

Hong Kong, 8 March 2010

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*As at the date of this Notice, the executive directors of the Company are Mr. Wang Da Yong, Mr. Tian Wenwei, Ms. Liu Yee Nee and Ms. Louie Mei Po and the non-executive directors of the Company are Mr. Wang Tongtian and Mr. Li Yi and the independent non-executive directors of the Company are Mr. Jacobsen William Keith, Mr. Cao Kuangyu and Mr. Chiu Sui Keung.*

*Registered Office and Principal Place  
of Business in Hong Kong:*  
Room 1211, 12/F, Tower 1  
New World Tower  
18 Queen's Road Central  
Hong Kong

*Notes:*

- (1) A shareholder entitled to attend and vote at the meeting may appoint one or more than one proxy to attend and to vote instead of him. A proxy need not be a shareholder of the Company.
- (2) In the case of joint holders of any share, any one of such persons may vote at the said meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders is present at the said meeting, personally or by proxy, that one of the said persons so present whose name stands first on the Register of Members in respect of such share shall alone be entitled to vote in respect thereof.
- (3) In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and return of a form or proxy will not preclude shareholders from attending and voting in person should they so desire.
- (4) A form of proxy for use at the meeting is enclosed herewith.