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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)

CONNECTED TRANSACTION: SUBSCRIPTION FOR NEW SHARES WITH BONUS WARRANTS

On 24 October 2014 (after trading hours of the Stock Exchange), the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for 330,000,000 Subscription Shares, at the Subscription Price of HK\$0.25 per Subscription Share, with Bonus Warrants to be issued entitling it to subscribe for up to 330,000,000 Bonus Warrants Shares.

The 330,000,000 Subscription Shares represent approximately 11.0% of the issued share capital of the Company as at the date of this announcement and approximately 9.9% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares upon Completion. Assuming full exercise of the subscription rights attaching to the Bonus Warrants, at the initial Bonus Warrants Subscription Price of HK\$0.35 per Share, a total of 330,000,000 Bonus Warrants Shares will be allotted and issued, representing: (i) approximately 11.0% of the entire issued share capital of the Company as at the date of this announcement; (ii) approximately 9.9% of the entire issued share capital of the Company as enlarged by the allotment and issue of the Bonus Warrants Shares; and (iii) approximately 9.0% of the entire issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Bonus Warrants Shares.

The Subscription Price of HK\$0.25 per Subscription Share represents (i) a premium of approximately 2.5% over the closing price of HK\$0.244 per Share as quoted on the Stock Exchange on the date of this announcement; (ii) a premium of approximately 3.3% over the average of the closing prices of approximately HK\$0.242 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to (and not including) the date of this announcement; and (iii) a premium of approximately 3.3% over the average of the closing prices of approximately HK\$0.242 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to (and not including) the date of this announcement.

The Subscription Price was determined after arm's length negotiation between the Company and the Subscriber with reference to the prevailing market price of the Share. The Directors consider that the Subscription Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

The gross proceeds from the Subscription will be HK\$82,500,000. The estimated net proceeds from the Subscription, after the deduction of relevant expenses of approximately HK\$500,000, will be approximately HK\$82,000,000 (equal to a net Subscription Price of approximately HK\$0.248 per Subscription Share). The estimated net proceeds are intended to be utilised towards: (i) funding the oil and gas projects of the Group in the United States; (ii) funding any new acquisitions or business ventures when opportunities arise; and/or (iii) as general working capital of the Group.

Assuming full exercise of the subscription rights attaching to the Bonus Warrants, it is expected that a further fund of HK\$115,500,000 will be raised. It is intended that the net proceeds of approximately HK\$115,500,000 (with a net Bonus Warrants Subscription Price of approximately HK\$0.35 per Bonus Warrants Share) for the subscription of Bonus Warrants Shares would be used for funding any new acquisitions or business ventures when opportunities arise and/or general working capital of the Group.

The Subscription Shares and the Bonus Warrants Shares falling to be allotted and issued upon exercise of the subscription rights attaching to the Bonus Warrants will be allotted and issued under the Specific Mandate. An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares and the Bonus Warrant Shares.

The EGM will be convened at which ordinary resolution will be proposed to seek approval from Independent Shareholders of, among other things, the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Subscription Shares, the Bonus Warrants and the Bonus Warrants Shares to be allotted and issued upon the exercise of the subscription rights attaching to the Bonus Warrants.

LISTING RULES IMPLICATIONS

As the Subscriber is a substantial Shareholder interested in approximately 51.6% of the entire issued share capital of the Company as at the date of this announcement and is therefore a connected person of the Company, the Subscription Agreement including the issue of the Subscription Shares and the Bonus Warrants to the Subscriber constitutes 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.

The Independent Board Committee comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the Subscription Agreement. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other matters, further information on the Subscription Agreement and the Bonus Warrants, the letter from the Independent Board Committee to the Independent Shareholders, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and other general information of the Group will be dispatched to the Shareholders as soon as practicable within 15 Business Days after the date of this announcement, i.e. on or before 14 November 2014.

As the Subscription may or may not complete, holders of securities of the Company and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

The Board is pleased to announce that, on 24 October 2014 (after trading hours of the Stock Exchange), the Company and the Subscriber entered into the Subscription Agreement with particulars set out as follows:

THE SUBSCRIPTION AGREEMENT

Date

24 October 2014

Parties

Issuer: the Company

Subscriber: Belton Light Limited

The Subscriber is an investment holding company incorporated in the British Virgin Islands with limited liability and is the controlling Shareholder interested in about 51.6% of the issued Shares. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber is wholly-owned by Jade Bird Energy Fund II, L.P. which is a partnership formed for the purpose of investing in the Company and in other short term investments.

Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 330,000,000 Subscription Shares at the Subscription Price of HK\$0.25 per Subscription Share with bonus issue of the Bonus Warrants to subscribe for up to 330,000,000 Bonus Warrants Shares at the initial Bonus Warrants Subscription Price of HK\$0.35 per Bonus Warrants Share.

The 330,000,000 Subscription Shares represent approximately 11.0% of the issued share capital of the Company as at the date of this announcement and approximately 9.9% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares upon Completion. Assuming full exercise of the subscription rights attaching to the Bonus Warrants, at the initial Bonus Warrants Subscription Price of HK\$0.35 per Share, a total of 330,000,000 Bonus Warrants Shares will be allotted and issued, representing: (i) approximately 11.0% of the entire issued share capital of the Company as at the date of this announcement; (ii) approximately 9.9% of the entire issued share capital of the Company as enlarged by the allotment and issue of the Bonus Warrants Shares; and (iii) approximately 9.0% of the entire issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Bonus Warrants Shares.

The Subscription Shares and the Bonus Warrants Shares falling to be allotted and issued upon exercise of the subscription rights attaching to the Bonus Warrants will be allotted and issued under the Specific Mandate.

The Subscription Shares, when issue and fully paid, will rank *pari passu* in all respects amongst themselves and with the Shares in issue on the date of allotment and issue of the Subscription Shares.

An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares and the Bonus Warrant Shares which fall to be allotted and issued upon exercise of the subscription rights attaching to the Bonus Warrants.

Subscription Price

The Subscription Price of HK\$0.25 per Subscription Share represents:

- (i) a premium of approximately 2.5% over the closing price of HK\$0.244 per Share as quoted on the Stock Exchange on the date of this announcement;
- (ii) a premium of approximately 3.3% over the average closing price of approximately HK\$0.242 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to (not including) the date of this announcement; and
- (iii) a premium of approximately 3.3% over the average closing price of approximately HK\$0.242 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to (not including) the date of this announcement.

The Subscription Price was determined after arm's length negotiation between the Company and the Subscriber with reference to the prevailing market price of the Share. The Directors consider that the Subscription Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Conditions precedent to the Subscription

Completion of the Subscription is conditional upon the fulfillment of the following conditions:

- (i) the Listing Committee granting the approval for the issue of the Bonus Warrants (if required) and the listing of and permission to deal in the Subscription Shares and the Bonus Warrants Shares falling to be issued upon the exercise of the subscription rights attaching to the Bonus Warrants, either unconditionally or subject to conditions to which the Subscriber and the Company may accept (all acting reasonably);
- (ii) the Independent Shareholders passing a resolution approving the Subscription Agreement and the transactions contemplated thereunder at the EGM; and
- (iii) all necessary consents and approvals required to be obtained by the Company and the Subscriber in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained.

The above conditions are not waivable. If any of the aforesaid conditions is not fulfilled by 5:00 p.m. on 31 December 2014 (or such other time and date as may be agreed by the Company and the Subscriber), all rights, obligations and liabilities of the parties to the Subscription Agreement shall cease and none of the parties thereto shall have any claim against the other, save for any antecedent breaches of the terms thereof.

Completion

Completion of the Subscription Agreement shall take place at 4:00 p.m. on the third Business Day (or such other date and time as may be agreed by the Company and the Subscriber) after the satisfaction of the above conditions.

Principal terms of the Bonus Warrants

The principal terms of the Bonus Warrants are summarised as follows:

Issuer:	The Company
Number of Bonus Warrants:	330,000,000
Bonus Warrants Subscription Price:	<p>Each Bonus Warrant carries the right to subscribe for one (1) Bonus Warrant Share at the Bonus Warrants Subscription Price</p> <p>HK\$0.35, being the initial Bonus Warrants Subscription price per Bonus Warrants Share but subject to adjustment. The initial Subscription Price of HK\$0.35 was determined after arm's length negotiations between the Company and the Subscriber, having considered the market condition, the recent share price performance of the Share and liquidity of the Shares</p> <p>The Bonus Warrants Subscription Price represents a premium of approximately 43.4% over the closing price of HK\$0.244 per Share as quoted on the Stock Exchange on the date of this announcement, and a premium of approximately 44.6% over the average of the closing prices of approximately HK\$0.242 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to (not including) the date of this announcement</p>

Adjustment of Bonus
Warrants Subscription
Price:

The Bonus Warrants Subscription Price shall from time to time be adjusted upon the occurrence of any of the following events: (i) alteration to the number of the Shares by reason of any subdivision or consolidation of Shares; (ii) an issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund); (iii) capital distribution to all Shareholders or grant to Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries; (iv) an offer of new Shares for subscription by way of rights issue, or a grant of options or warrants to subscribe for new Shares, at a price which is less than 90% of the market price of the Shares on the date of the announcement of the terms of the offer or grant being made by the Company to Shareholders; (v) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per new Share initially receivable for such securities is less than 90% of the market price of the Shares on the date of the announcement of the terms of issue of such securities, or the conversion, exchange or subscription rights of any such issue are altered so that the said total effective consideration is less than 90% of such market price; (vi) an issue of Shares being made wholly for cash (other than pursuant to any share option scheme) at a price less than 90% of the market price of the Shares on the date of the announcement of the issue; or (vii) the purchase by the Company of Shares or securities convertible into Shares or any rights to acquire Shares (excluding any such purchase made on the Stock Exchange or any recognized stock exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Bonus Warrant Subscription Price

Exercise Period:

24 months from the date of issue of the Bonus Warrants

Ranking:

The Bonus Warrants Shares, when fully paid and allotted, will rank *pari passu* in all respects with the Shares then in issue

Voting rights:

Other than meeting of Warrantholders, the Warrantholders shall not be entitled to attend or vote at the general meetings of the Company by reason only of being the Warrantholders

Listing:

The Bonus Warrants will not be listed on the Stock Exchange or any other stock exchange

Transferability: The Bonus Warrants are transferable in integral multiples of 1,000,000 Bonus Warrants

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are the shareholding structures of the Company (i) as at the date of this announcement; (ii) immediately after Completion; and (iii) immediately after Completion and upon full exercise of the subscription rights attaching to the Bonus Warrants (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares at Completion and the issue of the Bonus Warrants Shares):

Name of Shareholder	As at the date of this announcement		Immediately after Completion		Immediately after Completion and upon full exercise of the subscription rights attaching to the Bonus Warrants	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Belton Light Limited	1,555,555,000	51.6	1,885,555,000	56.4	2,215,555,000	60.3
Public Shareholders	<u>1,456,500,568</u>	<u>48.4</u>	<u>1,456,500,568</u>	<u>43.6</u>	<u>1,456,500,568</u>	<u>39.7</u>
Total	<u><u>3,012,055,568</u></u>	<u><u>100.0</u></u>	<u><u>3,342,055,568</u></u>	<u><u>100.0</u></u>	<u><u>3,672,055,568</u></u>	<u><u>100.0</u></u>

INFORMATION ON THE GROUP

The Group is principally engaged in the mining and selling of coal and silver in the PRC. Since 2013, the Company has built up a new management team with strong and comprehensive oil and gas background, and has been actively seeking opportunity to acquire heavy oil extraction technology and pursuing upstream oil and gas exploration and production projects in North America to further strengthen the asset portfolio of the Group.

REASON FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The gross proceeds from the Subscription will be HK\$82,500,000. The estimated net proceeds from the Subscription, after the deduction of relevant expenses of approximately HK\$500,000, will be approximately HK\$82,000,000. The net price of each Subscription Share, calculated by dividing the estimated net proceeds from the Subscription by the number of Subscription Shares, will be approximately HK\$0.248.

The Directors consider that the Subscription (including the issue of the Bonus Warrants) represents an opportunity to raise long term capital for the Company. The Subscription by the Subscriber, who is the controlling Shareholder, can demonstrate its long term commitment and support to the Company. The Board considers that the terms of the Subscription Agreement are fair and reasonable and that the Subscription together with the issue of the Bonus Warrants are in the interests of the Company and the Shareholders as a whole. There will not be any change to the Board as a result of the Subscription.

The estimated net proceeds are intended to be utilised towards: (i) funding the oil and gas projects of the Group in the United States; (ii) funding any new acquisitions or business ventures when opportunities arise; and/or (iii) as general working capital of the Group.

Assuming full exercise of the subscription rights attaching to the Bonus Warrants, it is expected that a further sum of HK\$115,500,000 will be raised. It is intended that the net proceeds of approximately HK\$115,500,000 (with a net Bonus Warrants Subscription Price of approximately HK\$0.35 per Bonus Warrants Share) for the subscription of Bonus Warrants Shares would be used for funding any new acquisitions or business ventures when opportunities arise and/or general working capital of the Company.

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company has not carried out any equity fund raising activity during the 12 months immediately before the date of this announcement.

EGM

The EGM will be convened at which ordinary resolution will be proposed to seek approval from Independent Shareholders of, among other things, the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Subscription Shares, the Bonus Warrants and the Bonus Warrants Shares to be allotted and issued upon the exercise of the subscription rights attaching to the Bonus Warrants. The Subscriber and its associates are required to abstain from voting at the EGM.

LISTING RULES IMPLICATIONS

As the Subscriber is a substantial Shareholder interested in approximately 51.6% of the entire issued share capital of the Company as at the date of this announcement and is therefore a connected person of the Company, the Subscription Agreement including the issue of the Subscription Shares and the Bonus Warrants to the Subscriber constitutes 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.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Bonus Warrants Shares to be issued upon the exercise of the subscription rights attaching to the Bonus Warrants, when aggregated with all other equity securities which remain to be issued on exercise of all other subscription rights, will not exceed 20% of the issued share capital of the Company.

The Independent Board Committee comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the Subscription Agreement. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other matters, further information on the Subscription Agreement and the Bonus Warrants, the letter from the Independent Board Committee to the Independent Shareholders, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and other general information of the Group will be dispatched to the Shareholders as soon as practicable within 15 Business Days after the date of this announcement, i.e. on or before 14 November 2014.

As the Subscription may or may not complete, holders of securities of the Company and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

“associate”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of the Directors
“Bonus Warrants”	the warrants to be issued (by way of bonus) in registered form with subscription rights entitling the holder thereof to subscribe for the Bonus Warrants Shares at the Bonus Warrants Subscription Price during the Exercise Period, subject to adjustment and the terms and conditions set out in the Warrant Instrument
“Bonus Warrants Share(s)”	the Shares(s) to be allotted and issued pursuant to the exercise of the subscription rights attaching to the Bonus Warrant(s) at the Bonus Warrants Subscription Price
“Bonus Warrants Subscription Price”	the initial subscription price of HK\$0.35 per Bonus Warrants Share (subject to adjustment)
“Business Day(s)”	a day other than a Saturday, Sunday or public holiday in Hong Kong on which licensed banks in Hong Kong are generally open for business
“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
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be convened at which ordinary resolution will be proposed to seek approval from Independent Shareholders of, among other things, the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Subscription Shares, the Bonus Warrants and the Bonus Warrants Shares to be allotted and issued upon exercise of the subscription rights attaching to the Bonus Warrants
“Exercise Period”	24 months commencing from the date of issue of the Bonus Warrants
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board comprising all the independent non-executive Directors to advise the Independent Shareholders as to fairness and reasonableness of the Subscription Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	the independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the issue of the Subscription Shares and the Bonus Warrants
“Independent Shareholders”	Shareholders other than the Subscriber and its associates
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, Taiwan and Macau Special Administrative Region
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) in the capital of the Company
“Specific Mandate”	the specific mandate to allot and issue the Subscription Shares and the Bonus Warrants Shares to be sought from the Independent Shareholders at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscriber”	Belton Light Limited, a company incorporated in the British Virgin Islands with limited liability
“Subscription”	the subscription for the Subscription Shares with Bonus Warrants by the Subscriber pursuant to the terms of and subject to the conditions of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 24 October 2014 entered into between the Company and the Subscriber in relation to the Subscription
“Subscription Price”	HK\$0.25 per Subscription Share
“Subscription Share(s)”	330,000,000 new Shares to be allotted and issued to the Subscriber pursuant to the Subscription Agreement
“Warrant Instrument”	the deed poll constituting the Bonus Warrants
“Warrantholder(s)”	holder(s) of the Bonus Warrants
“%”	per cent.

By order of the Board
King Stone Energy Group Limited
Xu Zhendong
Chairman

Hong Kong, 24 October 2014

As at the date of this announcement, the executive Directors are Mr. Xu Zhendong, Mr. Zhang Wanzhong, Mr. Zong Hao, Mr. Xu Zhulian, Mr. Benjamin Clark Danielson and Mr. Zhang Yongli and the independent non-executive Directors are Mr. Chiu Sui Keung, Mr. Lu Binghui, Mr. Lee Ping and Mr. Liu Shengming.