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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)

ANNOUNCEMENT JOINT VENTURE AGREEMENT

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

The Board is pleased to announce that in furtherance of the Strategic Cooperation Agreement, Shanxi Puhua (which is a subsidiary of the Company established in the PRC), CITIC Trust and Shanxi Mineral entered into the Joint Venture Agreement dated 2 June 2011, pursuant to which Shanxi Puhua, CITIC Trust and Shanxi Mineral agreed to establish a limited company in the PRC which will be responsible to establish and manage energy investment funds, develop high-quality coal mines both in the PRC and in the overseas, acquire and integrate coal resources, and invest in the areas of environmentally-clean production and integrated utilization of coal, clean energy and energy-saving emission reduction.

This announcement is made by King Stone Energy Group Limited (the “Company”, together with its subsidiaries, the “Group”) pursuant to Rule 13.09(1) of the Listing Rules.

Reference is made to the announcement (the “Announcement”) of the Company dated 26 April 2011 in relation to the Strategic Cooperation Agreement dated 26 April 2011 and entered into between the Company and CITIC Trust. Unless otherwise defined, all capitalised terms used herein shall have the same meanings as those defined in the Announcement.

THE JOINT VENTURE AGREEMENT

The Board is pleased to announce that in furtherance of the Strategic Cooperation Agreement, 山西普華德勤冶金科技有限公司 (Shanxi Puhua Deqin Metallurgy Technology Company Limited[#]) (“Shanxi Puhua”), which is a subsidiary of the Company established in the People’s Republic of China (the “PRC”), CITIC Trust and 山西朗乾礦業有限公司 (Shanxi Lang Qian Mineral Company Limited

Company[#]) (“Shanxi Mineral”), both being independent third parties not connected with the Company and its connected persons within the meaning of the Listing Rules, entered into a joint venture agreement (the “Joint Venture Agreement”) dated 2 June 2011, pursuant to which Shanxi Puhua, CITIC Trust and Shanxi Mineral agreed to form a joint venture (the “Joint Venture”) by establishing a limited company in the PRC (the “Fund Management Co.”) which will be responsible to establish and manage energy investment funds, develop high-quality coal mines both in the PRC and in the overseas, acquire and integrate coal resources, and invest in the areas of environmentally-clean production and integrated utilization of coal, clean energy and energy-saving emission reduction.

The Joint Venture Agreement sets out the following principal terms:

- (1) the registered capital of the Fund Management Co. will be Renminbi (“RMB”) 30,000,000;
- (2) the registered office of the Fund Management Co. will be in Taiyuan City, Shanxi Province, the PRC;
- (3) subject to the final confirmation and approval by the State Administration for Industry & Commerce of the PRC, the scope of businesses of the Fund Management Co. will include the management of investment funds, engagements in investment and fund-raising management and related consulting services;
- (4) Shanxi Puhua, CITIC Trust and Shanxi Mineral will invest RMB13,500,000, RMB13,500,000 and RMB3,000,000 respectively, and their equity interests in the Fund Management Co. will be 45%, 45% and 10% respectively;
- (5) the board of directors of the Fund Management Co. will consist of seven directors, three of them will be appointed by Shanxi Puhua, three of them will be appointed by CITIC Trust and one of them will be appointed by Shanxi Mineral;
- (6) the chairman of the Fund Management Co. will be the director appointed by CITIC Trust, and the general manager of the Fund Management Co. will be recommended by Shanxi Puhua and appointed by the board of directors of the Fund Management Co.;
- (7) Shanxi Puhua and Shanxi Mineral will provide the Fund Management Co. with coal-related consultancy and management services, while CITIC Trust will provide the Fund Management Co. with comprehensive financial services and tailored financial products for the coal-related or the clean-energy-related projects; and

- (8) after the establishment of the Fund Management Co., it is expected that CITIC Trust will coordinate all parties to raise approximately RMB2,000,000,000 in the first phase of the energy investment funds (the exact amount will be determined based on the projects involved and the then market conditions) for the acquisitions of high-quality coal mines in Shanxi, Guizhou and Inner Mongolia of the PRC. In this regard, CITIC Trust will provide financial support, through introduction of banks or trust funds, to the projects acquired by the Fund Management Co. The relevant filing and approval requirements will be handled by Shanxi Puhua and Shanxi Mineral.

REASONS FOR ENTERING INTO THE JOINT VENTURE AGREEMENT

The Group is principally engaged in the mining and selling of coal, trading of phosphorus products and trading of optical products.

As disclosed in the Announcement, one of the principal terms of the Strategic Cooperation Agreement is that the Company and CITIC Trust would jointly set up a fund for the development and investment of the projects in the areas of development of coal resources, environmentally-clean production and integrated utilization of coal, clean energy investment, energy-saving emission reduction. The Joint Venture Agreement was entered into as a first step to implement the business objective set out in the Strategic Cooperation Agreement.

The Directors consider that terms of the Joint Venture Agreement, which have been negotiated on an arm's length basis and on normal commercial terms, are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

The formation of the Joint Venture constitutes a transaction under the Listing Rules. The capital commitment on the Company under the Joint Venture Agreement is RMB13,500,000, representing the investment cost of the Group for its 45% equity interest in the Fund Management Co. As all the applicable percentage ratios as set out in Rule 14.07 of the Listing Rules are less than 5%, the formation of the Joint Venture does not fall into a notifiable transaction on the part of the Company under the Listing Rules.

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

Hong Kong, 2 June 2011

As at the date of this announcement, the executive Directors are Mr. Wang Da Yong, Mr. Tian Wenwei and Mr. Wang Tongtian, the non-executive Directors are Mr. Li Yi and Mr. Su Bin and the independent non-executive Directors are Mr. Jacobsen William Keith, Mr. Cao Kuangyu and Mr. Chiu Sui Keung.

[#] *The English name is provided for identification purposes only*