



King Stone Energy Group Limited
Announces 1H 2010 Interim Results

Records Turnaround Profit from Operation
With over 900% increase in Revenue

(Hong Kong, 19 August 2010) King Stone Energy Group Limited (the “Company” or “King Stone Energy”, Stock Code: 00663.HK) today announced its interim results for the six months ended 30 June 2010 (“the period”). The Company has entered the coal mining industry since December last year. In the first half of this year, its coal mining business contributed substantial revenue and profit to the Company, making a turnaround profit from operation. Total revenue for the period was HK\$374,394,000, recording a sharp increase of over 900% compared to HK\$40,064,000 during the same period last year. Gross profit amounted to HK\$ 188,922,000, while that of last year was HK\$ 875,000 only. Gross margin of the first half was 50.5%, which was in line with our peers. The loss attributable to shareholders for the period was approximately HK\$521,535,000, mainly attributable to a fair value loss of convertible notes issued by the Company in December 2009, which will not affect the cash flow and operations of the company. Should the loss of convertible notes be excluded, profit attributable to equity holders for the period amounted to around HK\$ 100,835,000 (2009: loss of HK\$ 771,000). The Board of Directors does not recommend the payment of an interim dividend for the period.

The Company currently operates a sizable coal mine in Eerduosi City of Inner Mongolia, which produces high quality thermal coal for power generation. During the first half of 2010, the Company sold approximately 1.5 million tons of coal with an average price of RMB213, contributing significant profit and cash flow to the Group. Moreover, a new working face with production capacity of approximately 3 million tons per annum will commence production at the end of September. It is expected that the Group’s coal production volume will surge, driving the growth of income and operating profits. In addition, on 9 June, the Company entered into a Framework Agreement for the acquisition of two coal mines in Shanxi to further expand the Group’s coal business. The coal mines to be acquired primarily produce gas coal used for power generation as well as coal blending and coking, with total resources of approximately 230 million tons and a total designed production capacity of around 4.8 million tons per year.

Dr. Wang Da Yong, chairman and CEO of King Stone Energy, says, “After the successful transformation into a coal enterprise at the end of last year, the potential of the Group’s new business is apparent in the business performance for the first half of 2010. At the same time, we will continue to identify operating mines, and explore and study potential projects for mergers and acquisitions. We will seize opportunities to speed up negotiations with relevant mine operators with respect to mergers and acquisitions, in order to increase our production volume and broaden our product mix. Our aim is to establish the Group as a top diversified coal enterprise and achieve an annual production capacity of 20 million tons by 2012.”

After in-depth observation and studies conducted by the management team, in the middle of June this year, the Company disposed parts of its phosphorous chemical products business due to its unsatisfactory performance. At present, the Company’s financial position is sound and its cash and bank balance has increased from HK\$98,739,000 as of 31 December 2009 to

HK\$351,774,000, with a gearing ratio of 77%. The Group will strive to increase its efficiency through modern management and strict cost control.

King Stone Energy will continue to focus on the coal industry. In order to strengthen the development of its coal business, the Group has already recruited a number of eminent talents within the coal industry and established a strong and professional management team. These moves provide a sound foundation for long-term development and enable the company to take advantage of opportunities in the marketplace. During the period, Mr. Wang Tongtian, the former deputy general manager of China Shenhua Group Coal Transportation and Distribution Company, was re-designated from non-executive director to executive director. He will devote his time to optimizing the Company's coal operation and safety management. Moreover, the Company has appointed Mr. Su Bin, who has rich experience in corporate management, as non-executive director. Given Mr. Su's extensive experience and close relationship with China's political and business sectors, it is expected that he will contribute to the Company's future development. Meanwhile, the chairman and CEO of the Group, Dr. Wang Da Yong, as well as two executive directors, Mr. Tian Wenwei and Mr. Wang Tongtian have respectively entered into service contracts with the Group, demonstrating the long-term commitment of the management to King Stone Energy's development.

In addition to constantly recruiting leadership talent in the industry, the Group formed the Coal Mine Production Safety and Technical Committee and established the Coal Mine Production Safety and Technical Office in Taiyuan, Shanxi Province, the PRC. Experienced coal mine professionals were recruited to provide guidance and supervision with respect to production safety of the coal mines of the Group and environmental protection in order to further enhance overall production safety levels in the coal mines, guarantee their safe operation as well as improve corporate management.

Looking ahead, Dr. Wang says, "With the expansion in coal production capacity in the second half of the year, it is expected that the business performance of the Group will be even better. Our strong management team will make King Stone Energy a leading diversified coal enterprise with high capacity and efficiency. "

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In December 2009, King Stone Energy expanded its business in coal mining through the acquisition of Eerduosi Hengtai Coal Company Limited. Eerduosi Hengtai Coal Company Limited owns and operates coal mines located in Eerduosi, Inner Mongolia, a location with the richest coal reserves in China. On 9 June 2010, the Group entered into a framework agreement in respect of the acquisition of two coal mines in Shanxi. The coal mines to be acquired primarily produce thermal coal, with a total resource of approximately 230 million tons and a total designed production capacity of around 4.8 million tons per year. Under the leadership of a professional management team and backed by extensive operational and corporate governance experience, King Stone Energy Group aims at becoming a top diversified coal enterprise in China through organic growth and the synergies resulting from mergers and acquisitions.

Media Enquiry:

Ketchum Newscan Public Relations Ltd.

Sharon Fung / Polly Tong

Tel: 3141 8082 / 3141 8122

Fax: 2510 8199

Email: sharon.fung@knprhk.com / polly.tong@knprhk.com