

# **KAISUN ENERGY GROUP LIMITED**

**凱順能源集團有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 8203)

## **FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 JUNE 2009**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This announcement, for which the directors (the “Directors”) of Kaisun Energy Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* *For identification purpose only*

## **HIGHLIGHTS**

- Turnover of the Group for the three months ended 30 June 2009 amounted to approximately HK\$11.3 million (2008: HK\$14.0 million), representing a decrease of approximately 19.3% as compared to the same period last year.
- Net loss attributable to equity holders of the Company for the three months ended 30 June 2009 amounted to approximately HK\$(12.5) million (2008: HK\$(6.2) million).
- Loss per share of the Group was approximately HK cents (1.62) (2008: HK cents (1.05)) for the three months ended 30 June 2009.

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 30 JUNE 2009

The board of directors (the “Board” or the “Directors”) of Kaisun Energy Group Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries and associates (collectively, the “Group”) for the three months ended 30 June 2009, together with the unaudited comparative figures for the corresponding period in 2008 as follows:

		<b>Unaudited</b>	
		<b>Three months ended</b>	
		<b>30 June</b>	
	<i>Note</i>	<b>2009</b>	2008
		<b>HK\$'000</b>	<b>HK\$'000</b>
			(Restated)
Turnover	4	<b>11,340</b>	13,957
Cost of goods sold and services rendered		<u>(2,681)</u>	<u>(3,719)</u>
<b>Gross profit</b>		<b>8,659</b>	10,238
Other income		<b>51</b>	659
Selling and distribution costs		<b>(360)</b>	(551)
Administrative and other operating expenses		<b>(10,673)</b>	(10,858)
Finance costs		<b>(8,742)</b>	(1,927)
Share of loss of an associate		<b>(1,188)</b>	–
<b>Profit before tax</b>		<b>(12,253)</b>	(2,439)
Income tax expense	5	<u>–</u>	<u>–</u>
<b>Loss for the period</b>		<b>(12,253)</b>	(2,439)
<b>Other comprehensive income</b>			
Share based payment		<u>–</u>	<u>(3,478)</u>
<b>Other comprehensive income for the period, net of tax</b>		<u>–</u>	<u>(3,478)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b><u>(12,253)</u></b>	<b><u>(5,917)</u></b>
Loss attributable to:			
Equity holders of the Company		<b>(12,471)</b>	(2,748)
Non-controlling interest		<b>218</b>	309
		<b><u>(12,253)</u></b>	<b><u>(2,439)</u></b>
Total comprehensive income attributable to:			
Equity holders of the Company		<b>(12,471)</b>	(6,226)
Non-controlling interest		<b>218</b>	309
		<b><u>(12,253)</u></b>	<b><u>(5,917)</u></b>
Dividend	6	<u>–</u>	<u>–</u>
Loss per share (HK cents)	7		
– basic		<b><u>(1.62)</u></b>	<b><u>(1.05)</u></b>
– diluted		<b><u>(0.23)</u></b>	<b><u>(0.32)</u></b>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 5/F., 31C-D Wyndham Street, Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### **2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

During the three months ended 30 June 2009, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting periods beginning on 1 April 2009. HKFRSs comprise of Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the three months ended 30 June 2009 and the same period in last year.

The Group has not applied new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

### **3. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies.

The accounting policies and basis of the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2009.

#### 4. TURNOVER

An analysis of the Group's turnover are as follows:

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Provisions of auto beauty and repairs operations services	<b>11,004</b>	13,052
Trading of printer assessories and battery	<b>336</b>	905
	<b><u>11,340</u></b>	<b><u>13,957</u></b>

#### 5. INCOME TAX

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current tax - Hong Kong Profits Tax	<b><u>-</u></b>	<b><u>-</u></b>

No provision for profit tax in the British Virgin Islands, Cayman Islands, Hong Kong or People's Republic of China is required as the Group has no assessable profit arising in or derived from these jurisdictions for the relevant periods.

#### 6. DIVIDENDS

The Directors do not recommend the payment of dividend for the three months ended 30 June 2009 (2008: HK\$Nil).

## 7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted loss per share is based on the loss for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period are used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted loss per share are based on the following data:

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year attributable to the equity holders of the Company for calculation of basic loss per share	<b>(12,471)</b>	(6,226)
Interest on convertible bonds	<u><b>8,741</b></u>	<u>1,921</u>
Loss for the year attributable to the equity holders of the Company for calculation of diluted loss per share	<u><u><b>(3,730)</b></u></u>	<u><u>(4,305)</u></u>
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	<b>770,000</b>	593,077
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	<b>770,000</b>	770,000
Share options	<u><b>53,005</b></u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of calculating diluted loss per share	<u><u><b>1,593,005</b></u></u>	<u><u>1,363,077</u></u>

## 8. RESERVE

Attributable to equity holders of the Company								
	Share capital	Share premium	Foreign currency translation reserve	Share-based payment reserve	Retained profits	Total	Non-controlling interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	5,400	9,536	-	5,859	107,167	127,962	12,352	140,314
Translation difference	-	-	-	-	-	-	-	-
Net income recognized directly in equity	-	-	-	-	-	-	-	-
(Loss)/profit for the period	-	-	-	-	(6,226)	(6,226)	309	(5,917)
Total recognized income and expenses for the year	-	-	-	-	(6,226)	(6,226)	309	(5,917)
Issue of shares	2,300	133,400	-	-	-	135,700	-	135,700
Share-based payment	-	-	-	3,478	-	3,478	-	3,478
At 30 June 2008 (Restated)	<u>7,700</u>	<u>142,936</u>	<u>-</u>	<u>9,337</u>	<u>100,941</u>	<u>260,914</u>	<u>12,661</u>	<u>273,575</u>
At 1 April 2009	7,700	142,936	(273)	12,981	116,145	279,489	39,707	319,196
Translation difference	-	-	37	-	-	37	-	37
Net expense recognised directly in equity	-	-	37	-	-	37	-	37
(Loss)/profit for the period	-	-	-	-	(12,471)	(12,471)	218	(12,253)
Total recognised income and expense for the year	-	-	37	-	(12,471)	(12,434)	218	(12,216)
At 30 June 2009	<u>7,700</u>	<u>142,936</u>	<u>(236)</u>	<u>12,981</u>	<u>103,674</u>	<u>267,055</u>	<u>39,925</u>	<u>306,980</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Outlook

During the period, the Group generated its income from its auto beauty and repairs operations in Hong Kong while implementing its business strategy to reposition itself as an integrated coke producer in the People's Republic of China ("PRC").

On 7 July 2009, Joy Harvest Holdings Limited ("Joy Harvest"), an indirect wholly-owned subsidiary of the Group, and Shanghai Yiou Auto Sales Limited ("Yiou Auto") entered into a Sale and Purchase Agreement whereby Joy Harvest has conditionally agreed to purchase, and Yiou Auto has conditionally agreed to sell its 21% equity interest in Inner Mongolia Mengxi Minerals Limited ("Mengxi Minerals"), a Sino-foreign joint venture company set up to own and operate a coal mine with 99.6 million tonnes of reserve (based on estimation under the PRC coal reserves standard) for cash consideration in the sum of RMB 16.80 million (equivalent to approximately HK\$18.98 million).

Mengxi Minerals is currently a 49%-owned associate company of the Group. Upon the Acquisition Completion, the Group will indirectly hold 70% equity interest in Mengxi Minerals and thus Mengxi Minerals will become a subsidiary of the Group.

The Group intends to finance the entire cash consideration of the Acquisition of RMB16.80 million (equivalent to approximately HK\$18.98 million) by internal resources.

The Group's coal mine which is located in Ordos in Inner Mongolia can be extracted using both the open pit and underground mining techniques. Excavation of overburden in the north open pit coal mine had begun and the Group expects to produce 600,000 tonnes of raw coal in 2009. We are actively seeking approval to enable the Group to produce an additional 300,000 tonnes of raw coal from our south open pit mine in 2009.

Civil work for the beneficiation plant had begun with construction completion targeted for January of 2010. Capital expenditure for the plant is estimated to be RMB50 million.

Construction contracts for the three underground mine shafts have been finalized. It will take 11 months of construction to complete these shafts and an additional six months to complete the balance of the underground mine. The capital expenditure is estimated to be RMB400 million. Annualized underground mine production is 1.5 million tonnes with trial production scheduled to begin in 2010 and full production in 2011.

China Construction Bank has provided a RMB300 million loan to the Group to partially fund the construction of the beneficiation plant and the underground mine. The Group is funding the balance of the capex requirements with its internal resources.



The construction of the 1.0 mt/annum coking plant is targeted to commence in 2010. Construction will require 12 months to complete at an anticipated capital expenditure of approximately RMB300 million. We anticipate that the bank will provide about RMB200 million of financing with the balance to come from our operating cash flow.

Raw coal price in the Ordos/Wuhai region has improved since the historical price collapse triggered by an industry wide de-stocking effect back in 3Q08. Currently, raw coal is trading around RMB350/tonne. Prior to the onset of the price collapse, raw coal was trading in the range of RMB 400 to RMB450/tonne.

We are encouraged by the emerging improvement in market dynamics in the coking coal sector. An industry specialist reported that the prices of coking coal and coke have regained momentum, after plunging as much as 44% from summer's peak. Benchmark coking coal (Liulin) price is holding up well at RMB1290/tonne. Benchmark coke (Taiyuan) price also jumped 65% from the recent low to RMB1650/tonne. Comparable coking coal in the Ordos/Wuhai region is trading at RMB950/tonne and coke is trading at RMB1500/tonne respectively.

In January and February of 2009, the coking coal sector in China, led by the Shanxi government, made unprecedented supply cutbacks to restore the supply-and-demand balance. Shanxi has strengthened its clampdown on small coal mines, many of which produce coking coal. On 16 April 09, Shanxi's governor Wang Jun, a former Director of the State Work Safety Supervision and the deputy director of Production Safety Commission of the State Council, vowed to consolidate the total number of coal mines from 2,600 to 1,000 by the end of 2011.

Industry experts believe that about half of China's coking coal supply comes from Shanxi and about 50%-60% of Shanxi's production comes from small mines. With the government's ongoing and determined crackdown/consolidation of small mines in Shanxi, the reduction in supply country wide will be structural as opposed to temporary.

China's RMB4.0 trillion stimulus package and revitalization initiatives for industries are beginning to show results, revving up purchases of residential properties and automobiles – the key end-users of steel and coking coal. Coking coal players have been reporting a revival in orders since January as demand from the downstream steel industry recovers.

Industry experts recently reported:

1. Improved forecast for China crude steel production;
  - 2009 revised forecast – 541 mt (previous forecast 510 mt; 2008 actual 500 mt)
  - 2010 revised forecast – 605 mt (previous forecast 550 mt)
2. Newly started housing construction has turned positive for the first time in June after 11 months of negative growth;

3. Steel industry's capex cycle is favorable at 4.6% ytd yoy growth, the lowest it has been since early 2007. A similar reading in early 2006 led to a two-year steel upcycle.
4. Mid to long-term loans (usually used to fund infrastructure) have increased to 48% of the total loan increase in 2Q09;

We believe the valuation for coking coal assets in Inner Mongolia remains attractive. Accordingly, we are looking for acquisition opportunities including further consolidation of our interest in Mengxi Minerals and Mengxi Chemical. Enhancement of our reserve base and operation at favourable prices will generate the requisite economies of scale to position the Group to be as an industry leading cost efficient coking coal producer.

During the audit of the financial statements of the Group for the year ended 31 March 2009 (the "**Annual Report 2009**"), the auditors of the Company (the "**Auditors**"), advised that, among others, (i) the Deferred Tax amounted to approximately HK\$244.53 million is required to be taken into account when preparing for the Group's consolidated financial statements for the reason that the tax effect of Excess Net Fair Value on Mengxi Minerals is a temporary difference, (ii) the Share Premium, Merger Reserve and Foreign Currency Translation Reserve arising from the Acquisition amounted to approximately HK\$48.30 million, HK\$57.50 million and HK\$3.16 million as recorded in the consolidated reserve in the First Quarter Report for the three months ended 30 June 2008 (the "**First Quarter Result 2008**") should be reclassified as the part of the investment cost of the Acquisition and (iii) the Equity Component of Convertible Bonds arising from the Placing of Convertible Bonds on 10 June 2008 amounted to approximately HK\$153.20 million as recorded in the consolidated reserve in the First Quarter Report 2008 should be reclassified as the current liabilities.

Taking into account the adjustments including the Deferred Tax, the Cost of Acquisition of Mining Business and the Placing of Convertible Bonds as mentioned above, at the consolidation level, the net effect would be that they reversed the Excess Net Fair Value of Mengxi Minerals of approximately HK\$60.72 million as disclosed in the Interim Report to a goodwill (i.e. an excess of cost of Acquisition over its net fair value) arising from the Acquisition amounted to approximately HK\$124.67 million as disclosed in the Annual Report 2009 and the Total Equity in the Consolidated Reserve will reduce to approximately HK\$273.58 million in the First Quarter Result 2008.

## **Financial Review**

Due to the effect of global financial crisis and economic downturn in retailing industry, the Group's turnover for the three months ended 30 June 2009 was approximately HK\$11.3 million (2008: HK\$14.0 million), representing a decrease of approximately 19.3% as compared to the same period last year.

Correspondingly, gross profit of the Group for the three months ended 30 June 2009 was approximately HK\$8.7 million (2008: HK\$10.2 million), representing a decrease of approximately 14.7% as compared to the same period last year.

For the three month ended 30 June 2009, the total administrative and other operating expenses totaled HK\$10.7 million (2008: HK\$10.9 million).

For the three month ended 30 June 2009, total finance costs amounted to HK\$8.7 million (2008: HK\$1.9 million), representing an accrued interest payable on the Convertible Bonds upon the Bondholders redemption.

The Group recorded a net loss attributable to equity holders of approximately HK\$(12.5) million (2008: HK\$(6.2) million) for the three months ended 30 June 2009.

### **Liquidity and Financial Resource**

As at 30 June 2009, the Group has a bank and cash balance of approximately HK\$37.9 million (as at 31 March 2009: HK\$37.6 million).

On 26 June and 2 July 2009, the Bondholders exercised the conversion right attached to Existing Bonds in the aggregate principal amount of HK\$430 million.. The Conversion Cap has been exceeded under these exercises. As a result, the Due Conversion Cap Payments have become payable by the Company to the Bondholders under the Existing Bonds. Under the Variation Agreement the Company has agreed to issue the Replacement Bonds to the Bondholders in principal amount equal to the Due Conversion Cap Payment in satisfaction of the Company's obligation to make the Due Conversion Cap Payment in cash.

On 20 July 2009, the Company and the Bondholders have entered into the Variation Agreement. The Variation Agreement is the definitive agreement contemplated in the MOA and sets forth in detail the Proposed Amendments and terms and conditions of the Replacement Bonds which, in broad terms, are the same as those disclosed in the Company's announcement dated 30 June 2009.

The coming into effect of the Proposed Amendments and the transactions contemplated under the Variation Agreement are subject to fulfillment of certain conditions precedent, namely: (i) approval by the Independent Shareholders; (ii) obtaining by the Company of listing approval for Shares falling to be issued upon conversion of the Replacement Bonds and (iii) obtaining by the Company from the Stock Exchange and other relevant authorities of all requisite approval or consent.

Mengxi Minerals, an associate company of the Group, have secured a RMB300 million bank loan with an effective term of 89 months to provide partial funding to construct the underground mine and the beneficiation plant. The balance of capital expenditure requirement will be funded from cashflow generated from our open pit operation.

### **Gearing Ratio**

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total assets, was 0.70 as at 30 June 2009 (as at 31 March 2009: 0.74).

## **Capital Structure**

On 26 June 2009, the Company has received from Grand Pacific Source Limited a conversion notice regarding the conversion of a principal amount of HK\$160,000,000 of the Convertible Bonds into 160,000,000 Ordinary Shares of the Company. Such Ordinary Shares have been issued on 2 July 2009.

## **Foreign Exchange Exposure**

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi (“**RMB**”). As at 30 June 2009, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

## **Convertible Bonds**

On 10 June 2008, the Company issued HK\$170 million Consideration Convertible Bonds and HK\$600 million of Placing Convertible Bonds (collectively the “Convertible Bonds”) with a maturity date of 10 June 2013 (the “Maturity Date”). These bonds (with an aggregate face value of HK\$770 million) are unsecured and bear interest at the rate of 1% per annum. The holders of the Convertible Bonds shall have the right to convert at any time prior to the Maturity Date, the whole (in an amount or integral multiple of HK\$1.0 million) amount of the Convertible Bonds into convertible shares at the then prevailing conversion price subject to conversion cap and other conditions. Details of the principal terms of the Convertible Bonds are set out in the circular dated 30 April 2008.

The fair values of the liability component and the derivative component were determined by an independent professionally qualified valuer as at the issue date of the Convertible Bonds.

Interest expense on the convertible bonds is calculated using the effective interest method by applying an effective interest rate of 5.68% to the liability component.

On 26 June and 2 July 2009, the Bondholders exercised the conversion right attached to Existing Bonds in the aggregate principal amount of HK\$430 million.. The Conversion Cap has been exceeded under these exercises. As a result, the Due Conversion Cap Payments have become payable by the Company to the Bondholders under the Existing Bonds. Under the Variation Agreement the Company has agreed to issue the Replacement Bonds to the Bondholders in principal amount equal to the Due Conversion Cap Payment in satisfaction of the Company’s obligation to make the Due Conversion Cap Payment in cash.

On 20 July 2009, the Company and the Bondholders have entered into the Variation Agreement. The Variation Agreement is the definitive agreement contemplated in the MOA and sets forth in detail the Proposed Amendments and terms and conditions of the Replacement Bonds which, in broad terms, are the same as those disclosed in the Company’s announcement dated 30 June 2009.

Under the Variation Agreement, the Parties agreed that subject to fulfillment of the Conditions Precedent, the Conditions shall be amended in the following manner:

- (1) if upon the conversion of any Existing Bond, the Conversion Cap will be exceeded, the Company will be required to issue a Replacement Bond to the converting Bondholder in principal amount equal to the Conversion Cap Payment in satisfaction of the obligation to make the Conversion Cap Payment in cash;
- (2) the Company shall have no right to require the early cancellation or redemption of any of the Existing Bonds prior to the Maturity Date;
- (3) the conversion price shall not be lower than the floor price of HK\$0.20 per Share (subject to adjustment if there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification); and
- (4) further amendments that are ancillary or consequential to the above, as stipulated in the Variation Agreement.

Under the Conditions of the Existing Bonds, the conversion price cannot be lower than HK\$0.01 per Share, being the par value of one Share. The setting of a floor conversion price at HK\$0.20 per Share under the Proposed Amendments will raise the conversion floor by 20 times and reduce the impact of potential dilutive effect to the existing Shareholders.

Effects of the Proposed Amendments are that the Company will not be compelled to redeem the Unconverted Principal of the Existing Bonds and related premium charges by immediate cash payments and that the conversion floor will be raised by 20 times. In return for these concessions given by the Bondholders, the Company will have to give up its right to redeem the Existing Bonds prior to the Maturity Date. As such, the Proposed Amendments can increase the liquidity and cashflow of the Company and ease the financial feasibility situation. In addition, the Proposed Amendments can reduce the impact of potential dilutive effect to the existing Shareholders. On balance, the Board considers that the making of the Proposed Amendments is an appropriate measure to improve the liquidity and cashflow position of the Company.

If the Proposed Amendments come into effect, the conversion price of the Existing Bonds will be the lower of either:

- (a) HK\$1.30 per Share; or
- (b) 100% of the average of the 3 lowest closing prices for a Share on the Stock Exchange or, if trading in the Shares is suspended and there is no closing price at the Stock Exchange on a relevant day, the last traded price reported per Share on such day, during the 20 trading days period prior to the date of issue of the conversion notice (“**Variable Price**”) save that the lowest Variable Price shall not be less than HK\$0.20 per Share.

The fixed conversion price of HK\$1.30 per Share is subject to adjustment provisions which are standard for convertible securities of similar type. The adjustment events include alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, capitalization of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company.

The coming into effect of the Proposed Amendments and the transactions contemplated under the Variation Agreement are subject to fulfillment of certain conditions precedent, namely: (i) approval by the Independent Shareholders; (ii) obtaining by the Company of listing approval for Shares falling to be issued upon conversion of the Replacement Bonds and (iii) obtaining by the Company from the Stock Exchange and other relevant authorities of all requisite approval or consent.

## OTHER INFORMATION

### 1. Directors' and Chief Executives' Interest and Short Positions in the shares, underlying shares and debentures of the Company or any associated corporations

As at 30 June 2009, the interests and short positions of the Directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO") 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 he is taken or deemed to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors:

#### *Long Position in Shares and underlying Shares*

Name of Directors	Capacity and nature of interest	Number of Shares	Number of underlying Shares (Note)	Approximate percentage of the total issued Shares as at 30 June 2009
Chan Nap Kee, Joseph	Beneficial owner	–	4,925,000	0.64%
Yeap Soon P, Jonathan	Beneficial owner	–	7,700,000	1.00%
Chow Pok Yu, Augustine	Beneficial owner	–	4,925,000	0.64%
Wu Kam Hung (Resigned on 7 August 2009)	Beneficial owner	–	5,400,000	0.70%
Liew Swee Yean	Beneficial owner	–	540,000	0.07%
Siu Siu Ling, Robert	Beneficial owner	–	540,000	0.07%
Wong Yun Kuen	Beneficial owner	–	540,000	0.07%
Yang Geyan	Beneficial owner	9,800,000	4,925,000	1.91%
		ordinary Shares		



*Note:* The long position in the underlying Shares mentioned above represent the ordinary Shares to be issued and allotted upon the exercise in full of the Options granted by the Company to the above mentioned Directors pursuant to the Scheme.

Details of the Options granted to the above Directors are set out in the section headed “SHARE OPTIONS”.

Save as disclosed above, none of the Directors or the chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) 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, or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors.

## 2. Interests and short positions of substantial shareholders in shares and underlying shares

As at 30 June 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and underlying Shares:—

Name of Shareholders	Capacity and nature of interest	Number of Shares	Long Position		Approximate percentage of the total issued Shares as at 30 June 2009
			Number of underlying Shares (Note 6)	Total Interest	
Atlantis Investment Management Limited	Investment manager	50,000,000	–	50,000,000	6.49%
Plowright Investments Limited	Beneficial owner	80,000,000	–	80,000,000 (Note 1)	10.39%
Harmony Asset Limited	Interest of a controlled corporation	80,000,000	–	80,000,000 (Note 1)	10.39%
Excel Formation Limited	Beneficial owner	53,444,000	–	53,444,000 (Note 2)	6.94%
Cheng Yu Tung	Interest of a controlled corporation	53,444,000	–	53,444,000 (Note 2)	6.94%
Gold Master Business Limited	Beneficial owner	81,000,000	–	81,000,000 (Note 3)	10.52%

Name of Shareholders	Capacity and nature of interest	Number of Shares	Long Position		Approximate percentage of the total issued Shares as at 30 June 2009
			Number of underlying Shares (Note 6)	Total Interest	
Wong Wai Keung Dennis	Interest of a controlled corporation	81,000,000	–	81,000,000 (Note 3)	10.52%
Glimmer Stone Investments Limited (“Glimmer”)	Interest of a controlled corporation	200,727,250	471,000,000	671,727,250 (Note 4)	87.24%
	Beneficial owner	–	461,000,000	461,000,000	59.87%
GEM Global Yield Fund Limited (“GEM Global”)	Beneficial owner/Interest of a controlled corporation	230,000,000	791,000,000	1,021,000,000 (Note 5)	132.60%
Oriental Patron Financial Services Group Limited (“OPFSG”)	Interest of a controlled corporation	260,000,000	670,000,000	930,000,000 (Note 6)	120.78%
Oriental Patron Financial Group Limited (“OPFG”)	Interest of a controlled corporation	260,000,000	670,000,000	930,000,000 (Note 6)	120.78%
Zhang Gaobo	Interest of a controlled corporation	260,000,000	670,000,000	930,000,000 (Note 6)	120.78%
Zhang Zhi Ping	Interest of a controlled corporation	260,000,000	670,000,000	930,000,000 (Note 6)	120.78%

*Notes:*

1. Plowright Investments Limited is a wholly-owned subsidiary of Harmony Asset Limited, the shares of which are listed on the Main Board of the Stock Exchange. Harmony Asset Limited is deemed to be interested in the 80,000,000 Shares held by Plowright Investments Limited under the SFO.
2. Excel Formation Limited is wholly-owned by Cheng Yu Tung, who is deemed to be interested in the 53,444,000 Shares held by Excel Formation Limited under the SFO.



3. Gold Master Business Limited is wholly-owned by Wong Wai Keung, Dennis, who is deemed to be interested in the 81,000,000 Shares held by Gold Master Business Limited under the SFO.
4. These Shares and underlying Shares are held by Grand Pacific Source Limited (“Grand Pacific”), which is wholly-owned by Glimmer. Glimmer is deemed to be interested in the Shares and underlying Shares held by Grand Pacific under the SFO.
5. These 1,021,000,000 Shares and underlying Shares represent the aggregate of: (i) the 230,000,000 Shares held by Grand Pacific, which was a wholly-owned subsidiary of GEM Global Yield Fund Limited (“GEM Global”); and (ii) 170,000,000 underlying Shares held by Grand Pacific and 621,000,000 underlying Shares held by GEM Global. Accordingly, GEM Global is deemed to be interested in those Shares and underlying Shares held by Grand Pacific under the SFO.

The Directors are unable to ascertain the interests of GEM Global as at 30 June 2009 and confirm whether the interests of GEM Global as at 30 June 2009 have been accurately shown. The interest of GEM Global as shown was disclosed in the corporate substantial notice of GEM Global filed on 3 April 2008 and recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO. As set out in the Company’s announcement dated 3 June 2008, the Company received default notification from GEM Global in relation to HK\$540 Million Placing Convertible Bonds (as defined in such announcement). Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of such default. In addition to the default of the Placing Convertible Bonds mentioned above, as set out in the Company’s announcements dated 3 June 2008 and 11 June 2008, on 10 June 2008, 230 million Consideration Shares (as defined in such announcements) were allotted and issued to Grand Pacific, the entire equity interests of which were acquired by Glimmer from GEM Global on the same day, and 60 million Consideration Shares were transferred from Grand Pacific to GEM Global as consideration for such acquisition. Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of the acquisition of Grand Pacific by Glimmer mentioned above. The Company has not received any updated corporate substantial notice of GEM Global after 3 April 2008. However, the Directors cannot exclude the possibility that GEM Global may have acquired or disposed of any interests in shares or underlying shares of the Company after the above announcements.

The Directors are also unable to ascertain the shareholding of GEM Global from the register of members of the Company as the information contained therein may not reflect the actual beneficial shareholdings of the shareholders (i.e. the registered shareholders may be have trustee or holding some shares of the Company on behalf of the others and this kind of interest is not required to be disclosed under the SFO).

6. These 930,000,000 Shares and underlying Shares represent the aggregate of: (i) the 200,727,250 Shares held by Grand Pacific, a wholly-owned subsidiary of Glimmer, and 59,272,750 Shares held by Pacific Top Holding Limited (“Pacific Top”) a wholly-owned subsidiary of Oriental Patron Financial Services Group Limited (“OPFSG”); and (ii) 10,000,000 underlying Shares held by Grand Pacific, 461,000,000 underlying Shares held by Glimmer, a company which is held 43.8% by OPFSG, and 199,000,000 underlying Shares held by Pacific Top Holding Limited (“Pacific Top”). OPFSG is a 95% subsidiary of Oriental Patron Financial Group Limited (“OPFG”). Mr. Zhang Gaobo and Mr. Zhang Zhi Ping are respectively interested in 49% and 51% of OPFG. Accordingly, OPFSG, OPFG, Mr. Zhang Gaobo and Mr. Zhang Zhi Ping are deemed to be interested in those Shares and underlying Shares held by Grand Pacific, Glimmer and Pacific Top under the SFO.
7. The long positions in underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the Convertible Bonds issued by the Company on 10 June 2008.

Save as disclosed above, the Directors were not aware of any other person (other than the Directors and the chief executives of the Company) who had, or was 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 & 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

### **3. Share Options**

A share option scheme (the “Scheme”) was adopted by the shareholders of the Company by way of written resolutions passed on 9 December 2003. The principal purpose of the Scheme is to enable the Group to grant options to subscribe for Shares to the eligible person as incentives or rewards for their contributions to the Group.

As at 30 June 2009, a total of 995,000 Shares, representing 0.1% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Details of the share options granted under the Scheme during the period are as follows:–

	Date of Grant	Exercise Period	Outstanding as at 1 April 2009	Granted during the Period	Number of Options			Outstanding as at 30 June 2009	Exercise Price (HK\$)	Closing Price of Shares immediately before the date of grant (HK\$)
					Exercised during the Period	Cancelled during the Period	Lapsed during the Period			
<b>Directors</b>										
Wu Kam Hung (Resigned on 7 August 2009)	19/2/2008	19/2/2008-18/2/2011	5,400,000	-	-	-	-	5,400,000	0.69	
Liew Swee Yean	19/2/2008	19/2/2008-18/2/2011	540,000	-	-	-	-	540,000	0.69	
Siu Siu Ling, Robert	19/2/2008	19/2/2008-18/2/2011	540,000	-	-	-	-	540,000	0.69	
Wong Yun Kuen	19/2/2008	19/2/2008-18/2/2011	540,000	-	-	-	-	540,000	0.69	
Yeap Soon P, Jonathan	24/6/2008	24/6/2008-23/6/2011	7,700,000	-	-	-	-	7,700,000	0.78	0.81
Chan Nap Kee, Joseph	8/1/2009	8/1/2009-7/1/2012	4,925,000	-	-	-	-	4,925,000	0.394	0.385
Chow Pok Yu, Augustine	8/1/2009	8/1/2009-7/1/2012	4,925,000	-	-	-	-	4,925,000	0.394	0.385
Yang Geyan	8/1/2009	8/1/2009-7/1/2012	4,925,000	-	-	-	-	4,925,000	0.394	0.385
		Sub-total	<u>29,495,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,495,000</u>		
Employees in aggregate	19/2/2008	19/2/2008-18/2/2011	1,705,000	-	-	-	-	1,705,000	0.69	
	24/6/2008	24/6/2008-23/6/2011	5,000,000	-	-	-	-	5,000,000	0.78	0.81
	8/1/2009	8/1/2009-7/1/2012	4,925,000	-	-	-	-	4,925,000	0.394	0.385
Other participants in aggregate	19/2/2008	19/2/2008-18/2/2011	11,880,000	-	-	-	-	11,880,000	0.69	
		Grand-total	<u>53,005,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,005,000</u>		

#### 4. Directors' Interest in Competing Business

None of the Directors or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest with the Group.

#### 5. Audit Committee

The Company has established an audit committee on 9 December 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The audit committee provides an important link between the Board and the Company’s auditors in those matters within the scope of the Group’s audit. It also reviews the effectiveness of the external and internal audit, internal controls and risk evaluation. The audit committee comprises three independent non-executive Directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen, and Mr. Liew Swee Yean is the chairman of the audit committee.

The unaudited quarterly results for the three months ended 30 June 2009 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **6. Purchase, Sale or Redemption of Shares**

The Company has not redeemed any of its shares during the three months ended 30 June 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the three months ended 30 June 2009.

## **7. Code of Conduct Regarding Securities Transactions by Directors**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the three months ended 30 June 2009. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by Directors.

By order of the Board  
**KAISUN ENERGY GROUP LIMITED**  
**CHAN Nap Kee, Joseph**  
*Chairman*

Hong Kong, 10 August 2009

*As at the date of this announcement, the Board comprises five executive Directors of the Company are Mr. CHAN Nap Kee Joseph, Mr. YEAP Soon P Jonathan, Dr. CHOW Pok Yu Augustine, Mr. YANG Geyan and Mr. YANG Yongcheng and four independent non-executive Directors of the Company are Mr. LIEW Swee Yean, Mr. SIU Siu Ling Robert, Dr. WONG Yun Kuen and Mr. ANDERSON Brian Ralph.*

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for 7 days from the day of its posting.*