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## **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)

### **DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION OF 21% EQUITY INTEREST IN INNER MONGOLIA MENGXI MINERALS CO., LTD.**

#### **THE ACQUISITION**

On 7 July 2009, Joy Harvest, an indirect wholly-owned subsidiary of the Company, and Yiou Auto entered into the Sale and Purchase Agreement whereby Joy Harvest has conditionally agreed to purchase, and Yiou Auto has conditionally agreed to sell the 21% equity interest in Mengxi Minerals for a total cash consideration of RMB16.80 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 Company will indirectly hold 70% equity interest in Mengxi Minerals and thus Mengxi Minerals will become a subsidiary of the Company.

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.

#### **GEM LISTING RULES IMPLICATIONS**

Based on the applicable ratios set forth in Chapter 19 of the GEM Listing Rules, the Acquisition constitutes a discloseable transaction under the GEM Listing Rules for the Company.

Mr. YANG Geyan, a Director, is a controlling shareholder of Yiou Auto. Hence, Yiou Auto is an associate of Mr. Yang and a connected person of the Company under the GEM Listing Rules. Thus, the Acquisition entered into between Joy Harvest, an indirect wholly-owned subsidiary of the Company, and Yiou Auto constitutes a connected transaction under the GEM Listing Rules for the Company.

\* *for identification purpose only*

As the applicable percentage ratios calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of the Acquisition is more than 2.5% and the consideration of the Acquisition is more than HK\$10 million, hence, the Acquisition constitutes a non-exempt connected transaction under the GEM Listing Rules for the Company and is therefore subject to reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules. Mr. Yang and his associates shall abstain from voting on the relevant resolution in respect of the Sale and Purchase Agreement at the EGM.

## **GENERAL INFORMATION AND THE EGM**

A circular containing, among other things, information or further details of (i) the Acquisition; (ii) the advice from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition; (iii) the advice from an independent financial adviser in respect of the Acquisition; and (iv) a notice of the EGM will be despatched to the Shareholders as soon as reasonably practicable and in compliance with the GEM Listing Rules.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:30 a.m. on 8 July 2009 pending the publication of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 10 July 2009.

## **THE SALE AND PURCHASE AGREEMENT DATED 7 JULY 2009**

### **Parties**

Purchaser : Joy Harvest  
Seller : Yiou Auto

### **Assets to be acquired**

the Sale Interest : the 21% equity interest in Mengxi Minerals

### **Consideration**

The consideration for the Sale Interest is RMB16.80 million (equivalent to approximately HK\$18.98 million) and payable by way of cash on or before the fifth day after the date of fulfillment or waiver of all the conditions precedent of the Acquisition.

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.

## **Conditions precedent**

Pursuant to the Sale and Purchase Agreement, the Acquisition is conditional upon the fulfillment or, to the applicable extent, the waiver of the following conditions:

- (1) the obtaining of the approval from the Independent Shareholders at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated hereby;
- (2) the compliance of any requirements under the GEM Listing Rules or otherwise of the Stock Exchange or other regulatory authorities or any applicable laws and regulations which requires compliance at any time in relation to the transactions contemplated under the Sale and Purchase Agreement;
- (3) the obtaining of the approval from 內蒙古自治區商務廳 (Bureau of Commerce of the Inner Mongolia Autonomous Region) and all requisite consents and approvals in accordance with the applicable laws and regulations of the PRC;
- (4) at any time before the Acquisition Completion, the representations and, warranties given by Yiou Auto under the Sale and Purchase Agreement remains true, accurate and that no events have occurred that would result in any breach of any warranties or provisions of the Sale and Purchase Agreement by Yiou Auto in any material respects;
- (5) a legal opinion issued by a PRC firm of lawyers appointed by the Purchaser in respect of the Acquisition in such form and substance to the satisfaction of the Purchaser; and
- (6) the Purchaser having carried out the due diligence review on Mengxi Minerals and being satisfied with the results thereof.

Pursuant to the Sale and Purchase Agreement, the Purchaser may at its absolute discretion at any time waive in writing any of the above conditions precedent (other than those contained in paragraphs (1), (2) and (3)).

As at the date of this announcement, none of the above conditions precedent have been fulfilled.

## **Acquisition Completion**

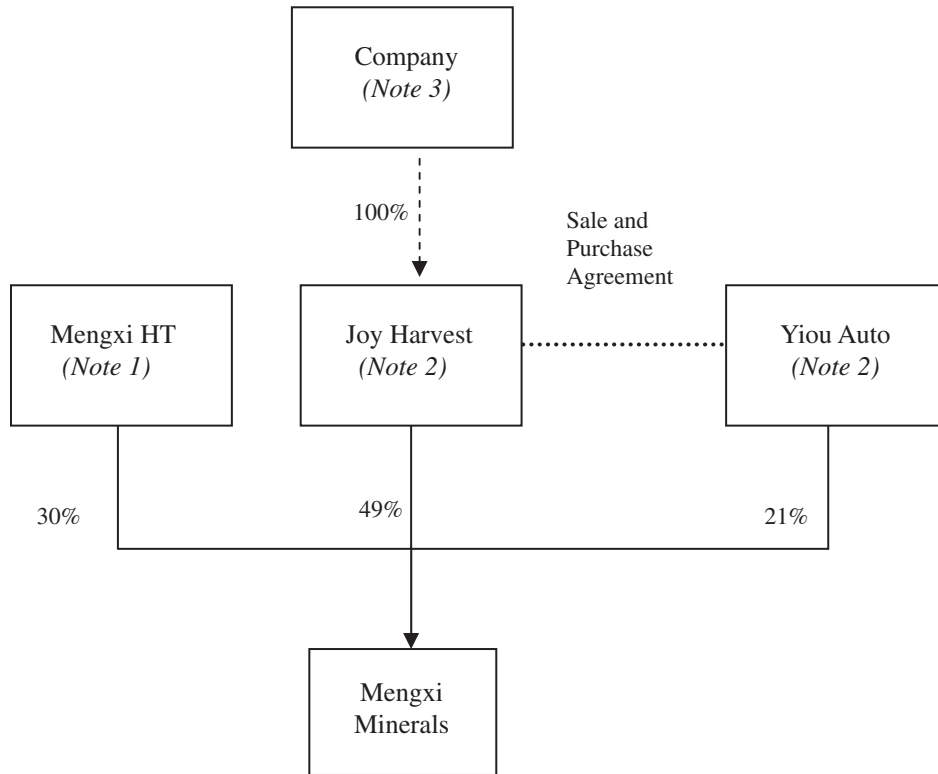
Pursuant to the Sale and Purchase Agreement, the Acquisition Completion shall take place on the fifth day after the date on which all the conditions precedent having been fulfilled or waived.

If any of the above conditions has not been fulfilled or waived by the Purchaser on or before 31 March 2010 or such later date as the Purchaser and Yiou Auto may agree, the Sale and Purchase Agreement shall then lapse and no party shall have any claim against or liability to the other party in respect of the breach of agreement according to the Sale and Purchase Agreement.

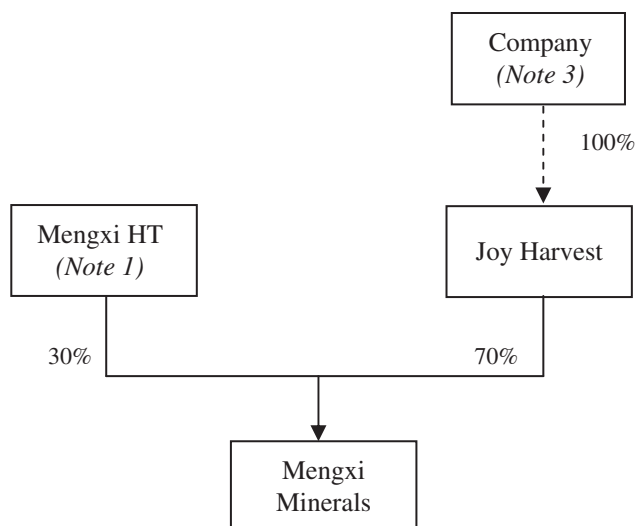
## SHAREHOLDING STRUCTURE OF MENGXI MINERALS

The diagrams below set out the shareholding structure of Mengxi Minerals as at the date of this announcement and upon the Acquisition Completion:

### As at the date of this announcement



### Upon the Acquisition Completion



*Notes:*

1. Mengxi HT also owns the remaining 30% equity interest of Mengxi Chemical, an indirect non wholly-owned subsidiary of the Company. Thus, Mengxi HT is a connected person of the Company.
2. Joy Harvest became an indirect wholly-owned subsidiary of the Company upon the completion of the Imare Acquisition. Mr. Yang, a Director, is the controlling shareholder of Yiou Auto and thus Yiou Auto is considered a connected person of the Company. Thus, the Sale and Purchase Agreement entered into between Joy Harvest and Yiou Auto constitutes a connected transaction for the Company under the GEM Listing Rules. Prior to the Imare Acquisition, management services agreements (“MSA”) had been entered into by, among others, Joy Harvest and Yiou Auto whereby Joy Harvest agreed to provide technical and management consultancy services to Yiou Auto in consideration for 99% of its net profits. In consideration of the parties for entering into the MSA, the then parent company of Yiou Auto received RMB99 million from the then parent company of Joy Harvest. Relevant information has been disclosed in the circular of the Company dated 30 April 2008 in relation to the Imare Acquisition. Joy Harvest, Yiou Auto and other parties to the MSA have entered into a termination agreement on 7 July 2009, pursuant to which the MSA shall be terminated with effect from the date of the Acquisition Completion.
3. The Company indirectly owns the entire issued share capital of Joy Harvest through two wholly-owned subsidiaries, namely Coastal Kingfold Finance Limited and Imare Company Limited.

## **INFORMATION ON MENGXI MINERALS**

Mengxi Minerals is an indirect 49%-owned associated company of the Group upon completion of the Imare Acquisition.

### **Corporate Information**

The following table sets out the particulars of Mengxi Minerals as at the date of this announcement:

<b>Total investment</b>	RMB125 million
<b>Registered capital</b>	RMB80 million
<b>Proportion of equity interest attributable to the equity joint venture partners of Mengxi Minerals</b>	the Group 49% Mengxi HT 30% Yiou Auto 21%

Mengxi Minerals was established as a domestic enterprise in the PRC on 3 February 2005 with a registered capital of RMB50 million and a total investment of RMB125 million. It has been re-registered as a sino-foreign equity joint venture on 30 November 2007 following the transfer of 49% and 21% of its registered capital from Mengxi HT to Joy Harvest and Yiou Auto respectively.

In December 2008, as part of the total investment of RMB125 million, Mengxi Minerals increased its registered capital, by RMB30 million by its three equity joint venture partners in proportion to their then equity interest in Mengxi Minerals, to RMB80 million. The remaining RMB45 million of the total investment to be invested into Mengxi Minerals by the equity joint venture partners was satisfied

by way of debt financing. Further details of the Group's indirect acquisition of 49% equity interest of Mengxi Minerals and its additional proportionate capital contribution of RMB14.70 million into Mengxi Minerals has been disclosed in the circular of the Company dated 30 April 2008 issued in connection with the Imare Acquisition.

The principal business of Mengxi Minerals is the sale of coal, the building of early stage infrastructure for exploitation of sagger, washing and choosing of mine run coal and processing of coke. Mengxi Minerals has commenced the construction of the washing coal plant.

## **The Mine**

Mengxi Minerals had been granted by the Ministry of Land and Resources of Inner Mongolia Autonomous Region a mining license (採礦許可証) for the right of exploitation of the Mine until August 2016.

The Mine has a site area of approximately 7.946 sq. km. located in the Zhou Zi Shan Kulihuoshatu Coal Mine, Inner Mongolia Autonomous Region, the PRC. The estimated coal reserves of the Mine are approximately 99.60 million tonnes as at 30 November 2007. The amount of the coal reserve is substantiated by a certificate issued by the Ministry of Land and Resources of Inner Mongolia Autonomous Region based on an assessment conducted by 內蒙古自治區礦產資源儲量評審中心 (Mining Resources Reserve Assessment Centre of Inner Mongolia Autonomous Region).

The existence of coal reserve in the Mine has been confirmed after exploration work. The mining licence (採礦許可証) of the Mine was granted by the Ministry of Land and Resources of Inner Mongolia Autonomous Region for the right of exploitation of the Mine by way of underground mining until August 2016. While the mining licence of the Mine confers Mengxi Minerals the right of exploitation of the Mine up to August 2016, under the relevant PRC laws, the ownership of the Mine still vests in the PRC government but not Mengxi Minerals. However, this would not affect the right of exploitation conferred to Mengxi Minerals under the mining licence of the Mine. The mining licence enables Mengxi Minerals to commence exploitation by way of underground mining on a trial basis after it has made filing of application for safety production permit (安全生產許可證) with the State Administration of Coal Mine Safety Supervision Bureau ("SACM"). As at the date of this announcement, commercial exploitation by way of underground mining has not yet been commenced.

On 9 September 2008, 鄂爾多斯市人民政府 (the People's Government of Ordos City) issued the Permit to 鄂爾多斯市煤炭局 (Coal Bureau of Ordos City) that Mengxi Minerals can commence the construction work for coal mining and surface extraction from the Mine. Mengxi Minerals has commenced the surface extraction of raw coal pursuant to the Permit since July 2009. It is expected that the raw coal will begin to be delivered to its customers in late July 2009 and the revenue generated from the sale of raw coal will begin in August 2009.

The commercial operation by way of underground mining of the Mine is subject to (i) a safety operation permit issued by relevant local office of the SACM; and (ii) the coal production permit granted by 內蒙古煤炭工業局 (Coal Industry Bureau of Inner Mongolia Autonomous Region) or its delegates.

## Financial information

As at 31 December 2008, the audited net asset value of Mengxi Minerals based on its audited accounts amounted to approximately RMB78.00 million (equivalent to approximately HK\$88.14 million). The audited profit/(loss) before and after taxation and extraordinary items of Mengxi Minerals for each of the two years ended 31 December 2007 and 2008 based on their audited accounts were as follows:

	2007		2008	
	<i>(equivalent to</i>		<i>(equivalent to</i>	
	<i>RMB('000)</i>	<i>HK\$'000)</i>	<i>RMB('000)</i>	<i>HK\$'000)</i>
Profit/(Loss) before taxation and extraordinary items	658	744	(1,072)	(1,211)
Profit/(Loss) after taxation and extraordinary items	658	744	(1,072)	(1,211)

Upon the Acquisition Completion, the Company will indirectly hold 70% equity interest in Mengxi Minerals and thus Mengxi Minerals will become a subsidiary of the Company and its accounts will be consolidated to the accounts of the Group.

## INFORMATION ON YIOU AUTO

Yiou Auto is a company established in the PRC on 2 December 2003. It is ultimately owned as to 80% by Mr. Yang, a Director, and 20% by Ms. Liang Qi Wei (梁綺緯), the spouse of Mr. Yang. The current principal businesses of You Auto are trading of automobiles and business information consultancy.

The original acquisition cost of the Sale Interest for You Auto was RMB99 million (equivalent to approximately HK\$111.87 million).

## BASIS OF THE CONSIDERATION

The consideration for the Sale Interest under the Sale and Purchase Agreement was determined after arm's length negotiations between the Group and You Auto with reference to the audited net asset value of Mengxi Minerals as at 31 December 2008 and the registered capital of Mengxi Minerals attributable to the Sale Interest.

## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company, and the existing subsidiaries of the Company are principally engaged in the investments in mining, sale and processing of coking coal in the PRC and the provision of auto repairing/detailing services and on-line distribution of office supplies and equipment.

Upon the completion of Imare Acquisition, the Group's principal business has diversified into coking coal processing business and has secured an exclusive supply of raw coal by way of a supply agreement between the Group and Mengxi Minerals. The Acquisition provides the Group with an opportunity to increase its voting rights in Mengxi Minerals to 70% such that Mengxi Minerals will become a subsidiary of the Group, thus enabling the Group to exercise effective control over the business and operations of Mengxi Minerals and further transforming the Group's coal business activities into a fully integrated coal business operation, controlling its coal resources, washing plants, coking plants and distribution of coke and related coal and derivative products.

Based on the above, the Directors consider that the Sale and Purchase Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### **GEM LISTING RULES IMPLICATIONS**

Based on the applicable ratios set forth in Chapter 19 of the GEM Listing Rules, the Acquisition constitutes a discloseable transaction under the GEM Listing Rules for the Company.

Mr. YANG Geyan, a Director, is also a controlling shareholder of Yiou Auto. Hence, Yiou Auto is an associate of Mr. Yang and a connected person of the Company under the GEM Listing Rules. Thus, the Acquisition entered into between Joy Harvest, an indirect wholly-owned subsidiary of the Company, and Yiou Auto constitutes a connected transaction under the GEM Listing Rules for the Company.

As the applicable percentage ratios calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of the Acquisition is more than 2.5% and the consideration of the Acquisition is more than HK\$10 million, hence, the Acquisition constitutes a non-exempt connected transaction under the GEM Listing Rules for the Company and is therefore subject to reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules. Mr. Yang and his associates shall abstain from voting on the relevant resolution in respect of the Sale and Purchase Agreement at the EGM.

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### **RESUMPTION OF TRADING**

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## DEFINITIONS

*Unless the context requires otherwise, the capitalised terms used herein shall have the following meanings:*

“Acquisition”	the acquisition of the Sale Interest by Joy Harvest from Yiou Auto on the terms and conditions of the Sale and Purchase Agreement
“Acquisition Completion”	completion of the Acquisition
“Acquisition Completion Date”	the fifth day after date on which all the conditions precedent having been fulfilled or waived, in accordance with the Sale and Purchase Agreement
“associate(s)”	as such term is defined under the GEM Listing Rules
“Board”	the board of Directors
“Company”	Kaisun Energy Group Limited (凱順能源集團有限公司*) (formerly known as Challenger Group Holdings Limited (挑戰者集團控股有限公司*)), a company incorporated in the Cayman Islands with limited liability and the Shares are listed on the GEM
“connected person(s)”	as such term is defined under the GEM Listing Rules
“controlling shareholder”	as such term is defined under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, inter alia, the Sale and Purchase Agreement and the transactions contemplated thereunder
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Imare Acquisition”	the acquisition of (i) the entire issued share capital of Imare Company Limited; and (ii) the aggregate amount of all advances, loans and indebtedness which remained due or owing from Joy Harvest to Grand Pacific Source Limited as at the date of completion of the Imare Acquisition, by a wholly-owned subsidiary of the Company from Grand Pacific Source Limited
“Independent Board Committee”	an independent committee of the Board consisting of four independent non-executive Directors, namely Mr. LIEW Swee Yean, Mr. SIU Siu Ling, Robert, Dr. WONG Yun Kuen and Mr. ANDERSON Brian Ralph, to advise the Independent Shareholders in respect of the Acquisition
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Yang and his associates
“Joy Harvest”	Joy Harvest Holdings Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Mengxi Chemical”	鄂爾多斯啟杰蒙西煤化有限公司 (Ordos GEM Coal & Chemical Co., Ltd.), an indirect non wholly-owned subsidiary of the Company
“Mengxi Minerals”	Inner Mongolia Mengxi Minerals Co., Ltd. (內蒙古蒙西礦業有限公司), a sino-foreign equity joint venture established in the PRC and an indirect 49%-owned associated company of the Company
“Mengxi HT”	內蒙古蒙西高新技術集團有限公司 (Inner Mongolia Gaoxing High Tech Limited), the owner of 30% equity interest of each of Mengxi Minerals and Mengxi Chemical
“Mine”	the coal mine located in Inner Mongolia, the PRC, the mining rights of which is owned by Mengxi Minerals
“Mr. Yang”	Mr. YANG Geyan, a Director and one of the ultimate beneficial owners of Yiou Auto
“PRC”	the People Republic of China, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Permit”	a construction permit issued by 鄂爾多斯市人民政府 (the People’s Government of Ordos City) to 鄂爾多斯市煤炭局 (Coal Bureau of Ordos City) dated 9 September 2008 in relation to its permission for Mengxi Minerals to commence 滅火工程 (Extinction Project) on the Mine

“Purchaser”	Joy Harvest
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	the 21% equity interest of Mengxi Minerals owned by Yiou Auto
“Sale and Purchase Agreement”	the sale and purchase agreement dated 7 July 2009 and entered into between Joy Harvest as the purchaser and Yiou Auto as the seller in relation to the Acquisition
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Share(s)
“sq. km.”	square kilometers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yiou Auto”	上海意歐汽車銷售有限公司 (Shanghai Yiou Auto Sales Limited)
“%”	per cent.

By order of the Board  
**Kaisun Energy Group Limited**  
**Yeap Soon P, Jonathan**  
*Director and Chief Executive Officer*

Hong Kong, 9 July 2009

As at the date of this announcement, the Board comprises:–

*Executive Directors:*

Mr. CHAN Nap Kee, Joseph (*Chairman*)  
Mr. YEAP Soon P, Jonathan  
Dr. CHOW Pok Yu, Augustine  
Mr. WU Kam Hung  
Mr. YANG Geyan  
Mr. YANG Yongcheng

*Independent non-executive Directors:*

Mr. LIEW Swee Yean  
Mr. SIU Siu Ling, Robert  
Dr. WONG Yun Kuen  
Mr. ANDERSON Brian Ralph

*The English names of the companies established in the PRC in this announcement are for identification purposes only. In case of inconsistency, the Chinese names prevail.*

*In this announcement, RMB has been converted into HK\$ at the rate of RMB1 = HK\$1.13 respectively for illustration purpose only. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least 7 days from the date of its publication.*