
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Kaisun Energy Group Limited** (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

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

AND

**(II) CONNECTED TRANSACTION –
AGREEMENT REGARDING PROPOSED AMENDMENTS TO
TERMS AND CONDITIONS OF EXISTING BONDS**

**Independent financial adviser to the independent board committee
and the independent shareholders of the Company**

AmCap

Ample Capital Limited

豐盛融資有限公司

Letters of advice from the independent board committee of the Company is set out on pages 28 to 29 of this circular.

A letter of advice from Ample Capital Limited, the independent financial adviser, containing its opinion and advice to the independent board committee and the independent shareholders of the Company is set out on pages 30 to 54 of this circular.

A notice convening the extraordinary general meeting of the Company (the “EGM”) to be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on 2 September 2009 at 10:30 a.m. is set out on pages 62 to 64 of this circular.

Whether or not you are able to attend the EGM, you are advised to read the notice and to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon, to the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

This circular will remain at www.hkgem.com on the “Latest Company Announcements” page of the GEM website for at least 7 days from the date of its posting.

17 August 2009

* For identification purpose only

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher 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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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
“acting in concert”	as such term is defined under the Takeovers Code
“Ample Capital”	Ample Capital Limited, a licensed corporation under the SFO to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, and is the independent financial adviser in relation to the Sale and Purchase Agreement and the Variation Agreement
“Announcement”	the announcement dated 24 July 2009 issued by the Company in relation to the Variation Agreement
“associate(s)”	as such term is defined under the GEM Listing Rules
“Board”	the board of Directors
“Bondholders”	Glimmer, Pacific Top and Grand Pacific collectively, and where the context so requires, a registered holder of any Existing Bonds for the time being
“Bonds”	the Existing Bonds and the Replacement Bonds collectively
“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
“Conditions”	the terms and conditions of the Existing Bonds as currently in force

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“Conditions Precedent”	the conditions precedent to which the Variation Agreement is subject, as summarized in the section headed “Conditions Precedent” in the “Letter from the Board” of this circular
“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
“Conversion Cap”	the limit of 1,000,000 Shares imposed under the Conditions on the maximum number of Shares that can be converted on the conversion of each Existing Bond
“Conversion Cap Payment”	a sum equal to 120% of the Unconverted Principal plus accrued interest under the Existing Bonds
“Director(s)”	the director(s) of the Company
“Due Conversion Cap Payments”	the Conversion Cap Payments that have become due by the Company to the respective Bondholders as at the date of the Variation Agreement and any further Conversion Cap Payments that may thereafter become due from the Company to the Bondholders arising from the exercise of conversion rights attaching to the Existing Bonds by the Bondholders at any time after the date of the Variation Agreement but before settlement of such payments pursuant to the terms of the Variation Agreement
“EGM”	the extraordinary general meeting of the Company convened to be held on 2 September 2009 at 10:30 a.m. approve, inter alia, the Sale and Purchase Agreement, the Variation Agreement and their respective transactions contemplated thereunder
“Existing Bonds”	the HK\$920,000,000 1% convertible bonds due 2013 of HK\$1,000,000 principal amount each convertible into Shares in the original aggregate principal amount of HK\$770,000,000 issued by the Company on 10 June 2008
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Glimmer”	Glimmer Stone Investments Limited, a company incorporated in the British Virgin Islands and one of the Bondholders

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“Grand Pacific”	Grand Pacific Source Limited, a company incorporated in the British Virgin Islands and one of the Bondholders
“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 as at the date of completion of the Imare Acquisition, by a wholly-owned subsidiary of the Company from Grand Pacific
“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 and the VA Independent Shareholders in respect of the Sale and Purchase Agreement and the Variation Agreement respectively
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Yang and his associates
“Interested Directors”	Mr. Chan Nap Kee Joseph and Mr. Yang who are Directors and have abstained from voting on the resolution of the Board approving the MOA and the Variation Agreement owing to possible conflict of interests by virtue of (i) Mr. Chan Nap Kee Joseph being a director of Glimmer and Grand Pacific and a director of an associate of Pacific Top and (ii) Mr. Yang being a substantial shareholder of Glimmer and Grand Pacific
“Joy Harvest”	Joy Harvest Holdings Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	13 August 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM

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“Maturity Date”	10 June 2013, being the maturity date of the Existing Bonds and the Replacement Bonds
“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 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
“Mengxi Minerals”	內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Co., Ltd.), a sino-foreign equity joint venture established in the PRC and an indirect 49%-owned associated company of the Company
“Mine”	the coal mine located in Inner Mongolia, the PRC, the mining rights of which is owned by Mengxi Minerals
“MOA”	the memorandum of agreement dated 29 June 2009 between the Company and the Bondholders as supplemented by a supplemental agreement dated 10 July 2009
“MOA Last Trading Day”	26 June 2009, being the last trading day on which Shares were traded on the GEM immediately prior to trading suspension pending the publication of the announcement in respect of the MOA
“Mr. Yang”	Mr. YANG Geyan, a Director and one of the ultimate beneficial owners of Yiou Auto
“Pacific Top”	Pacific Top Holding Limited, a company incorporated in the British Virgin Islands and one of the Bondholders
“Parties”	the parties to the Variation Agreement, being the Company and the Bondholders
“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

DEFINITIONS

“PRC”	the People Republic of China, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Amendments”	the amendments agreed by the Parties under the Variation Agreement to be made to the Conditions and as summarized in the section headed “Proposed Amendments” in the “Letter from the Board” of this circular
“Purchaser”	Joy Harvest
“Replacement Bond(s)”	the convertible bonds required to be issued by the Company in satisfaction of its obligation to make the Conversion Cap Payment following an exercise of conversion rights attaching any Existing Bond which would cause the Conversion Cap to be exceeded, such bonds to be convertible into Shares at a fixed conversion price and shall be subject to the terms and conditions agreed by the Parties under the Variation Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 7 July 2009 entered into between Joy Harvest as the purchaser and Yiou Auto as the seller in relation to the Acquisition
“Sale Interest”	the 21% equity interest of Mengxi Minerals owned by Yiou Auto
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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)
“Share Options”	the share option(s) granted by the Company entitling the share option holders to subscribe for up to 66,673,750 new Shares
“sq. km.”	square kilometers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“substantial shareholder”	as such term is defined under the GEM Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong as in force from time to time
“Unconverted Principal”	the balance principal amount of an Existing Bond that cannot be converted into Shares by reason of the Conversion Cap being reached
“VA Independent Shareholders”	Shareholders other than the Bondholders, their associates and parties acting in concert with them
“VA Last Trading Day”	20 July 2009, being the last trading day on which Shares were traded on the GEM immediately prior to trading suspension pending the publication of the Announcement
“Variation Agreement”	the agreement dated 20 July 2009 entered into by the Parties setting forth in detail the Proposed Amendments and terms and conditions of the Replacement Bonds
“Yiou Auto”	上海意歐汽車銷售有限公司 (Shanghai Yiou Auto Sales Limited)
“%”	per cent.

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

In this circular, RMB has been converted into HK\$ at the rate of RMB1 = HK\$1.13 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.

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. CHAN Nap Kee, Joseph (*Chairman*)
Mr. YEAP Soon P, Jonathan (*Chief Executive Officer*)
Dr. CHOW Pok Yu, Augustine
Mr. YANG Geyan
Mr. YANG Yongcheng

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Independent Non-executive Directors:

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

*Head Office and Principal Place
of Business in Hong Kong:*

5/F
31C-D Wyndham Street
Central
Hong Kong

17 August 2009

*To the Shareholders, and for information purpose only,
the holders of the Share Options and the Bondholders*

Dear Sir or Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION –
ACQUISITION OF 21% EQUITY INTEREST IN
INNER MONGOLIA MENGXI MINERALS CO., LTD.
AND
(II) CONNECTED TRANSACTION –
AGREEMENT REGARDING PROPOSED AMENDMENTS TO
TERMS AND CONDITIONS OF EXISTING BONDS**

1. INTRODUCTION

The Company announced (i) on 9 July 2009, Joy Harvest, an indirect wholly-owned subsidiary of the Company, and Yiou Auto entered into the Sale and Purchase Agreement on 7 July 2009 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); and (ii) on 24 July 2009, the Company and the Bondholders entered into the Variation Agreement on 20 July 2009 which set forth in detail the Proposed Amendments and terms and conditions of the Replacement Bonds.

The Sale and Purchase Agreement and the Variation Agreement are not inter-conditional.

* *For identification purpose only*

LETTER FROM THE BOARD

GEM Listing Rules Implications

(i) The Acquisition

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.

(ii) The Variation Agreement

Glimmer is a substantial shareholder of the Company. All the other Bondholders are associates of Glimmer and are therefore connected persons of the Company under the GEM Listing Rules. The Variation Agreement and consummation of the transactions contemplated therein will constitute connected transactions of the Company under the GEM Listing Rules and is subject to approval by the VA Independent Shareholders. The Bondholders and their respective associates will abstain from voting on the relevant resolution to be proposed at the EGM in respect of the Variation Agreement.

General

The purpose of this circular is to provide you with information or further details of (i) the Acquisition; (ii) the Variation Agreement; (iii) the advice from the Independent Board Committee to the Independent Shareholders and the VA Independent Shareholders in respect of the Sale and Purchase Agreement and the Variation Agreement respectively; (iv) the advice from Ample Capital in respect of the Sale and Purchase Agreement and the Variation Agreement; and (v) a notice of the EGM.

LETTER FROM THE BOARD

2. THE ACQUISITION

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

LETTER FROM THE BOARD

- (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 Latest Practicable Date, none of the above conditions precedent have been fulfilled.

Acquisition Completion

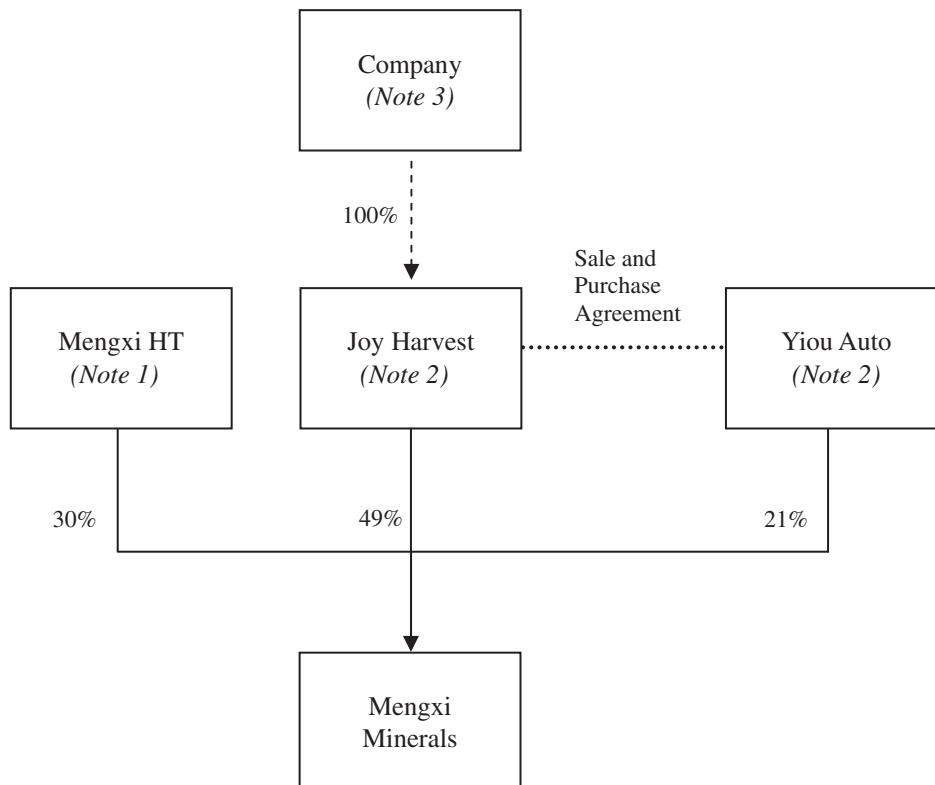
Pursuant to the Sale and Purchase Agreement, the Acquisition Completion shall take place on the fifth day after the date on which all the conditions precedent having been fulfilled or waived.

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

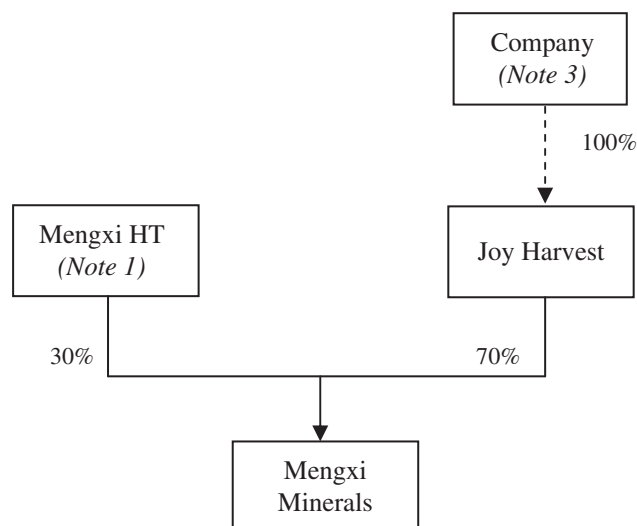
The diagrams below set out the shareholding structure of Mengxi Minerals as at the Latest Practicable Date and upon the Acquisition Completion:

As at the Latest Practicable Date



LETTER FROM THE BOARD

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.

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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 Latest Practicable Date:

Total investment	RMB125 million
Registered capital	RMB80 million
Proportion of equity interest attributable to the equity joint venture partners of Mengxi Minerals	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 mining rights of the Mine and 100% of the registered capital of Mengxi Minerals have been pledged in favour of China Construction Bank, Ordos Branch (the "**Bank**") for securing a loan granted by the Bank to Mengxi Minerals for infrastructure construction of the Mine. The Bank agreed in principle to consent to the Acquisition provided that Joy Harvest, after the Acquisition Completion, will pledge its entire holding of equity interest of Mengxi Minerals in favour of the Bank.

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 with construction completion targeted for January 2010.

LETTER FROM THE BOARD

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 Latest Practicable Date, commercial exploitation by way of underground mining has not yet been commenced.

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.

Construction contracts for the three underground mine shafts have been finalized. It will require approximately 12 months to complete with the balance of the underground mine construction to require an additional 6 to 8 months.

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 August 2009.

LETTER FROM THE BOARD

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>RMB('000)</i>	<i>(equivalent to HK\$'000)</i>	<i>RMB('000)</i>	<i>(equivalent to 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 Yiou Auto are trading of automobiles and business information consultancy.

The original acquisition cost of the Sale Interest for Yiou 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 Yiou 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.

LETTER FROM THE BOARD

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. As at the Latest Practicable Date, Mr. Yang held 9,800,000 Shares and 4,925,000 Share Options.

3. THE PROPOSED AMENDMENTS AND THE ISSUE OF THE REPLACEMENT BONDS

Existing Bonds

On 10 June 2008, the Company completed its acquisition of (i) 49% interest in Mengxi Minerals and (ii) 70% stake in Mengxi Chemical. Details of such acquisition are set out in the Company's circular dated 30 April 2008.

The acquisition was financed in part by the issue of the Existing Bonds in the aggregate principal amount of HK\$770,000,000. The Existing Bonds were created in the original aggregate principal amount of up to HK\$920,000,000 but at completion of the Imare Acquisition, only HK\$770,000,000 aggregate principal amount of the Existing Bonds were issued. At as the Latest Practicable Date, the

LETTER FROM THE BOARD

aggregate outstanding principal amount of the Existing Bonds in respect of which no conversion right has been exercised is HK\$340,000,000 and are held by Glimmer and Pacific Top in the proportion shown below:

Bondholder	Principal Amount of Outstanding and Unconverted Existing Bonds held
Glimmer	HK\$211,000,000
Pacific Top	<u>HK\$129,000,000</u>
Total	<u><u>HK\$340,000,000</u></u>

Currently interest on the Existing Bonds is charged at the rate of 1% per annum and is payable at the time of conversion or redemption.

The Existing Bonds are convertible into Shares at a floating conversion price (but not less than HK\$0.01 per Share, being the par value of one Share) subject to the cap of HK\$1.30 per Share.

Under the Conditions, each Existing Bond may be converted into a maximum of 1,000,000 Shares (being the Conversion Cap), which is subject to increase and adjustment in the manner stipulated in the Conditions. If upon conversion of an Existing Bond, the number of Shares required to be issued by the Company exceeds the Conversion Cap, only the amount of Shares up to the Conversion Cap will be issued and the balance of the principal amount of such Existing Bond not so converted (being the Unconverted Principal) shall be redeemed by the Company by payment in cash of the Conversion Cap Payment.

Currently, the Company is entitled to cancel and to redeem in cash all the Existing Bonds at any point in time after the third anniversary of the date of issue of the Existing Bonds and prior to the Maturity Date of 10 June 2013 at 135% of their principal amount together with accrued interest.

Memorandum of Agreement

Under the MOA, the Parties agreed in principle that the Conditions shall be amended such that 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 Company's obligation to make the Conversion Cap Payment in cash.

The Proposed Amendments and detailed terms and conditions of the Replacement Bonds shall be set forth in a definitive agreement to be entered into by the Parties.

Details of the MOA were disclosed in the Company's announcements dated 30 June and 13 July 2009.

LETTER FROM THE BOARD

Variation Agreement

It is announced by the Board that on 20 July 2009, the Company and the Bondholders have entered into the Variation Agreement.

Date: 20 July 2009

Parties: the Company of the one part and Glimmer, Pacific Top and Grand Pacific of the other part

The Bondholders (other than Grand Pacific) are at present all the holders of the outstanding Existing Bonds.

Glimmer is a substantial shareholder of the Company. All the other Bondholders are associates of Glimmer and are connected persons of the Company.

The principal business activities of the Bondholders are investment holding.

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.

Proposed Amendments

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 of editorial nature 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.

LETTER FROM THE BOARD

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.

Terms of the Replacement Bonds

The detailed terms and conditions of the Replacement Bonds are set forth in the Variation Agreement. Following is a summary of the principal terms:

Principal amount	:	Equal to the Conversion Cap Payment due by the Company to a converting Bondholder, rounded down to the nearest minimum denomination of HK\$10,000 for each Replacement Bond
Maturity	:	10 June 2013, being the same as the Existing Bonds
Interest	:	3.75% compounded annually and payable (i) in conversion shares on conversion; or (ii) in cash at maturity
Conversion Period	:	At any time from issue date up to full redemption

LETTER FROM THE BOARD

- Conversion Price** : HK\$0.70 per Share 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 (excluding the issue of Shares upon exercise of conversion rights attaching to the Existing Bonds and the Replacement Bonds).
- Conversion Limit** : No conversion right may be exercised, to the extent that following such exercise:
- (a) a holder of the Replacement Bonds and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of all the issued Shares (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer); or
 - (b) the public float of the Shares will fall below the minimum public float requirements stipulated under Rule 11.23 of the GEM Listing Rules.
- Redemption on maturity** : Any outstanding Replacement Bonds on the Maturity Date shall be redeemed by the Company at a redemption amount equal to the outstanding principal amount of the Replacement Bonds together with interest accrued. No redemption premium shall be payable by the Company
- No early redemption by the Company** : The Company has no right to require the early cancellation or redemption of any of the Replacement Bonds prior to the Maturity Date
- Early redemption by holders** : Holders of the Replacement Bonds may terminate and request immediate redemption of the Replacement Bonds at 135% of their principal amount together with accrued interest upon occurrence of any of the following events:
- (a) the Company fails to deliver the conversion Shares as required and such failure shall subsist for more than 10 days after notice of non-delivery; or
 - (b) the Company fails to comply with any other material obligation under the Replacement Bonds, unless such failure is cured within 30 days after request; or

LETTER FROM THE BOARD

- (c) performance by the Company of its obligations under the Replacement Bonds shall breach any applicable law.

- Transferability** : The Replacement Bonds may be transferred, in minimum principal amount of HK\$5,000,000, by the holder to any third party.
- Voting rights** : The Replacement Bonds do not confer upon their holders any voting rights at general meetings of the Company.
- Ranking** : The Replacement Bonds constitute direct, unsubordinated, unconditional and unsecured obligations of the Company and shall rank, *pari passu*, without preference or priority amongst themselves.

Settlement of Conversion Cap Payments due to the Bondholders

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 each of these exercises. As a result, the Due Conversion Cap Payments in amounts set forth below have become payable by the Company to the Bondholders under the Existing Bonds:

Exercise Date	Holder	Principal Amount of Existing Bonds Exercised (HK\$)	No. of Shares Issued on Conversion	Conversion Price per Share (HK\$)	Amount of Due Conversion Cap Payments (HK\$) (Note)
26 June 2009	Grand Pacific	160 million	160 million	0.4167	113,671,822.22
2 July 2009	Grand Pacific	10 million	10 million	0.425	7,006,172.22
2 July 2009	Glimmer	190 million	190 million	0.425	133,117,272.22
2 July 2009	Pacific Top	70 million	70 million	0.425	49,043,205.56
	Total:	<u>430 million</u>	<u>430 million</u>		<u>302,838,472.22</u>

Note: The Due Conversion Cap Payment is the sum of 120% of the balance of principal amount of the Existing Bonds that cannot be converted into Shares by reason of the Conversion Cap being reached plus interest accrued from the date of issue of the Existing Bonds to the day before the date of conversion of 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 Payments in satisfaction of the Company's obligation to make the Due Conversion Cap Payments in cash. Such issue is to be made within 5 business days from the date on which the Variation Agreement shall have become unconditional.

LETTER FROM THE BOARD

The aggregate principal amounts of Replacement Bonds (rounded down to the nearest minimum denomination of HK\$10,000 for each Replacement Bond) to be issued to the respective Bondholders under the Variation Agreement are shown below:

Bondholder	Principal Amount of Replacement Bonds to be issued under the Variation Agreement
Glimmer	HK\$133,110,000
Grand Pacific	HK\$120,670,000
Pacific Top	<u>HK\$49,040,000</u>
Total	<u><u>HK\$302,820,000</u></u>

Until termination of the Variation Agreement or expiry of the time limited for issue of the Replacement Bonds in settlement of the Due Conversion Cap Payments, the Bondholders agree to withhold any action to seek cash payment by the Company of the Due Conversion Cap Payments due to them.

Conditions Precedent

The coming into effect of the Proposed Amendments and the transactions contemplated under the Variation Agreement are subject to fulfillment of the following Conditions Precedent:

- (1) the passing of ordinary resolutions by the Shareholders (at which such Shareholders as are required under the GEM Listing Rules to abstain from voting shall so abstain) at the EGM to be convened approving:
 - (a) the Variation Agreement and the transactions contemplated thereby (including issue by the Company of the Replacement Bonds in settlement of the Due Conversion Cap Payments);
 - (b) the Proposed Amendments; and
 - (c) the issue of the Replacement Bonds and, upon the exercise of the conversion rights attaching to the Replacement Bonds, the allotment and issue of Shares in accordance with the terms of the Replacement Bonds;
- (2) the GEM Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Shares falling to be issued upon an exercise of the conversion rights attaching to the Replacement Bonds; and

LETTER FROM THE BOARD

- (3) the Company having obtained from the Stock Exchange and other relevant authorities all requisite approval or consent to the Proposed Amendments and consummation of the transactions contemplated by the Variation Agreement.

None of the Conditions Precedent may be unilaterally waived by any of the Parties.

If the Conditions Precedent are not fulfilled on or before 5:00 p.m. on 31 October 2009 or such later date as the Parties may agree in writing, the Variation Agreement shall lapse and be of no further effect and no Party shall have any claim against or liability to the other Parties, save in respect of any antecedent breaches of the Variation Agreement.

Other Terms of the Variation Agreement

Until termination of the Variation Agreement or the coming into effect of the Proposed Amendments pursuant to its terms, no Bondholder shall transfer any of the Existing Bonds held by it save with the prior written approval of all other Parties.

For the avoidance of doubt, the Bondholders shall be permitted to exercise the conversion rights attached to the Existing Bonds held by them despite the entering into of the Variation Agreement.

Maximum Number of new Shares falling to be issued upon full conversion of the Replacement Bonds

The maximum number of new Shares that may be issued upon the full conversion of the principal amount of the Replacement Bonds of HK\$633.4 million, together with the interest accrued thereon of approximately HK\$93.71 million which will be payable in Shares on conversion at a fixed conversion price of HK\$0.70 per Share, is 1,038.71 million Shares. This is calculated based on the assumption that (i) the Bondholders (other than Grand Pacific which has already tendered its conversion notice for all its holding of the Existing Bonds in full) will tender the conversion notices to convert the outstanding Existing Bonds of a principal amount of HK\$340 million at the floor conversion price of HK\$0.20 per Share on the date of the EGM; (ii) the Variation Agreement will become unconditional on the date of the EGM; (iii) the Replacement Bonds in relation to the settlement of the Due Conversion Cap Payments will be issued on the fifth business day after the date of the EGM; and (iv) the Replacement Bonds will be converted into new Shares on the business day preceding the Maturity Day. The number of Shares to be issued to each converting Bondholder upon conversion of the Replacement Bonds will be rounded down to the nearest whole multiple of a board lot of the Shares (i.e. 10,000 Shares) and the remaining balance unconverted will be paid to the converting Bondholders in cash.

The 1,038.71 million Shares to be issued upon conversion of the Replacement Bonds, together with the interest accrued thereon, represents approximately 86.56% of the existing issued share capital of the Company and approximately 46.40% of the issued share capital of the Company as enlarged by the new Shares to be issued upon full conversion of the Replacement Bonds.

LETTER FROM THE BOARD

Conversion Price of the Replacement Bonds

The conversion price of the Replacement Bonds at HK\$0.70 per Share (subject to adjustments) was fixed under and at time of the MOA. Such fixed conversion price was arrived at after arm's length negotiation between the Company and the Bondholders by reference to the average closing price per Share of approximately HK\$0.695 as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the MOA Last Trading Day.

Such fixed conversion price represents:

- (1) a discount of approximately 13.58% to the closing price of HK\$0.810 per Share as quoted on the Stock Exchange on the MOA Last Trading Day;
- (2) a discount of approximately 1.13% to the average closing price per Share of approximately HK\$0.708 as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the MOA Last Trading Day;
- (3) a premium of approximately 0.72% to the average closing price per Share of approximately HK\$0.695 as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the MOA Last Trading Day; and
- (4) a discount of approximately 11.39% to the closing price of HK\$0.79 per Share as quoted on the Stock Exchange on the VA Last Trading Day;
- (5) a discount of approximately 11.17% to the closing price of HK\$0.788 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the VA Last Trading Day;
- (6) a discount of approximately 8.85% to the closing price of HK\$0.768 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the VA Last Trading Day; and
- (7) a premium of approximately 92.84% to the audited consolidated net assets value per Share of approximately HK\$0.363 as at 31 March 2009.

The Directors (excluding the Interested Directors) consider that the terms of the Replacement Bonds, including the fixed conversion price at HK\$0.70 per Share (subject to adjustments), are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Application for Listing

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Shares falling to be issued upon an exercise of the conversion rights attaching to the Replacement Bonds.

LETTER FROM THE BOARD

Impact on Shareholding Structure of the Company

The table at the end of this section illustrates the shareholding structure of the Company in the following scenarios:

- Scenario (1): as at the Latest Practicable Date;
- Scenario (2): upon full conversion of the outstanding Existing Bonds up to the Conversion Cap; and
- Scenario (3): upon full conversion of the Replacement Bonds to be issued and those issuable by the Company under the amended Conditions of the Existing Bonds and on the assumptions that (i) the Bondholders (other than Grand Pacific which has already tendered its conversion notice for all its holding of the Existing Bonds in full) will tender the conversion notices to convert the outstanding Existing Bonds of a principal amount of HK\$340 million at the floor conversion price of HK\$0.20 per Share on the date of the EGM; (ii) the Variation Agreement will become unconditional on the date of the EGM; (iii) the Replacement Bonds in relation to the settlement of the Due Conversion Cap Payments will be issued on the fifth business day after the date of the EGM; and (iv) the Replacement Bonds will be converted into new Shares on the business day preceding the Maturity Day. The number of Shares to be issued to each converting Bondholder upon conversion of the Replacement Bonds will be rounded down to the nearest whole multiple of a board lot of the Shares (i.e. 10,000 Shares) and the remaining balance unconverted will be paid to the converting Bondholders in cash.

Name of Shareholder	Scenario (1)		Scenario (2)		Scenario (3)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Bondholders (Notes 1 and 2)	300,000,000	25.00	450,660,000	29.26	761,260,000	29.52
YANG Geyan (Note 3)	9,800,000	0.82	9,800,000	0.64	9,800,000	0.38
Subtotal	309,800,000	25.82	460,460,000	29.90	771,060,000	29.90
Existing public Shareholders	890,200,000	74.18	890,200,000	57.81	890,200,000	34.52
New public Shareholders	-	0.00	189,340,000	12.29	917,450,000	35.58
Subtotal	890,200,000	74.18	1,079,540,000	70.10	1,807,650,000	70.10
Total	<u>1,200,000,000</u>	<u>100.00</u>	<u>1,540,000,000</u>	<u>100.00</u>	<u>2,578,710,000</u>	<u>100.00</u>

LETTER FROM THE BOARD

1. As at the Latest Practicable Date, the Bondholders together holds a total of 300 million Shares, of which 190 million Shares are held by Glimmer, 70 million Shares are held by Pacific Top and 40 million Shares are held by Grand Pacific.
2. Subject to the Conversion Cap, the maximum number of the Conversion Shares falling to be issued upon exercising the conversion rights attached to the outstanding Existing Bonds is 340 million Shares. The Bondholders will sell down their shareholding such that the number of Shares held by the Bondholders and their respective associates and parties acting in concert with them is subject to a maximum of 29.9% of the Company's voting rights.
3. YANG Geyan is a Director and a substantial shareholder of Glimmer, a Bondholder.
4. The shareholding table above does not take into account the impact upon full conversion of the 66,673,750 outstanding Share Options into Shares.

View of the Board

Upon conversion of the Existing Bonds under the existing Conditions, the Company will be required to pay the Conversion Cap Payments in cash if the Conversion Cap is exceeded. Under the Proposed Amendments, the cash payment obligation will be substituted by a Replacement Bond with interest charged at 3.75% per annum. Due to the liquidity and cashflow management policy of the Company, the Company is willing to offer a comparatively higher interest rate in order to encourage the Bondholders not to demand for immediate cash payment and to take a Replacement Bond instead.

The Company has considered other means of financing the Conversion Cap Payment such as debts financing, loan financing, placing of shares and right issue. However, the terms and conditions of debts/loan financing from banks and other financial institutions were less favourable than those of the Replacement Bonds. The Company also considered the placing of shares and right issue but the response of the potential underwriters and the placing agents were not that favourable to the Company. In order to meet the requirement of making Conversion Cap Payments to the Bondholders under the terms of the Existing Bonds, the Company decided to issue the Replacement Bonds to settle its obligation to pay the Conversion Cap Payment in cash.

The Proposed Amendments and the issue of the Replacement Bonds in lieu of payment in cash of the Conversion Cap Payment upon conversion of the Existing Bonds will enable the Company to retain cash in the Company for future development. Based on this, the Directors (excluding the Interested Directors) considered that the terms of the Variation Agreement (including the Proposed Amendments and the Replacement Bonds) are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Information on the Company

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.

LETTER FROM THE BOARD

GEM Listing Rules Implications

Glimmer is a substantial shareholder of the Company. All the other Bondholders are associates of Glimmer and are therefore connected persons of the Company under the GEM Listing Rules. The Variation Agreement and consummation of the transactions contemplated therein will constitute connected transactions of the Company under the GEM Listing Rules and is subject to approval by the VA Independent Shareholders. The Bondholders and their respective associates will abstain from voting on the relevant resolution to be proposed at the EGM in respect of the Variation Agreement.

4. THE EGM

Set out on pages 62 to 64 of this circular is a notice convening the EGM to be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on 2 September 2009 at 10:30 a.m., at which resolutions will be proposed to consider and, if thought fit, (i) the Sale and Purchase Agreement; and (ii) Variation Agreement, to be passed by the Independent Shareholders or the VA Independent Shareholders (as the case may be).

5. ACTIONS TO BE TAKEN

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

6. RECOMMENDATION

The Directors (including the non-executive Directors) consider that the terms of the Sale and Purchase Agreement, are fair and reasonable, are in the interest of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

The Directors (excluding the Interested Directors) consider that the terms of the Variation Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole and accordingly recommend the VA Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

Ample Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders or the VA Independent Shareholders (as the case may be) regarding the Sale and Purchase Agreement and the Variation Agreement.

LETTER FROM THE BOARD

Ample Capital considers that the Sale and Purchase Agreement and the Variation Agreement are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. In addition, Ample Capital considers that the Sale and Purchase Agreement and the Variation Agreement are on normal commercial terms. The text of the letter of advice from Ample Capital to the Independent Board Committee and the Independent Shareholders or the VA Independent Shareholders (as the case may be) containing its recommendations and the principal factors and reasons which they have taken into account in arriving at their recommendations are set out on pages 30 to 54 of this circular.

7. VOTING BY POLL

Under Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the ordinary resolutions proposed at the EGM will also be taken by poll. A poll results announcement will be made by the Company after the EGM in accordance with Rule 17.47(5) of the GEM Listing Rules.

8. FURTHER INFORMATION

Your attention is also drawn to the letter of advice from Ample Capital to the Independent Board Committee and the Independent Shareholders or the VA Independent Shareholders (as the case may be) as disclosed on pages 30 to 54 of this circular and the additional information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

17 August 2009

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular issued by the Company (the “**Circular**”) to the Shareholders dated 17 August 2009, of which this letter forms part. Terms used in this letter shall bear the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Sale and Purchase Agreement and to advise the Independent Shareholders as to the fairness and reasonableness of the Sale and Purchase Agreement, and to recommend how the Independent Shareholders should vote at the EGM. Ample Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 27 of the Circular, and the letter from Ample Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us and the Independent Shareholders in respect of the Sale and Purchase Agreement as set out on pages 30 to 54 of the Circular.

Having taken into account the terms of the Sale and Purchase Agreement and the advice from Ample Capital in relation thereto, we are of the view that the Sale and Purchase is fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM in respect of the Sale and Purchase Agreement.

Yours faithfully,

Independent Board Committee

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

Mr. ANDERSON Brian Ralph

Independent non-executive Directors

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

17 August 2009

To the VA Independent Shareholders

Dear Sir or Madam.

**CONNECTED TRANSACTION –
AGREEMENT REGARDING PROPOSED AMENDMENTS TO
TERMS AND CONDITIONS OF EXISTING BONDS**

We refer to the circular issued by the Company (the “**Circular**”) to the Shareholders dated 17 August 2009, of which this letter forms part. Terms used in this letter shall bear the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Variation Agreement and to advise the VA Independent Shareholders as to the fairness and reasonableness of the Variation Agreement, and to recommend how the VA Independent Shareholders should vote at the EGM. Ample Capital has been appointed as the independent financial adviser to advise us and the VA Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 27 of the Circular, and the letter from Ample Capital to the Independent Board Committee and the VA Independent Shareholders which contains its advice to us and the VA Independent Shareholders in respect of the Variation Agreement as set out on pages 30 to 54 of the Circular.

Having taken into account the terms of the Variation Agreement and the advice from Ample Capital in relation thereto, we are of the view that Variation Agreement is fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the VA Independent Shareholders to vote in favour of the resolution to be proposed at the EGM in respect of the Variation Agreement.

Yours faithfully,

Independent Board Committee

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

Mr. ANDERSON Brian Ralph

Independent non-executive Directors

* *For identification purpose only*

LETTER FROM AMPLE CAPITAL



Ample Capital Limited
Unit A, 14th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

17 August 2009

*To the Independent Board Committee, the Independent Shareholders and the VA Independent Shareholders
of Kaisun Energy Group Limited*

Dear Sirs,

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

AND

**(II) CONNECTED TRANSACTION – AGREEMENT REGARDING PROPOSED
AMENDMENTS TO TERMS AND CONDITIONS OF EXISTING BONDS**

A. INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders or the VA Independent Shareholders (as the case may be) in respect of (i) the Sale and Purchase Agreement and (ii) the Variation Agreement (collectively, the “**Agreements**”), the particulars of which have been set out in a circular to the Shareholders dated 17 August 2009 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them in the Circular.

Ample Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders or the VA Independent Shareholders (as the case may be) to (i) give our recommendations as to whether the terms of the Agreements are fair and reasonable, (ii) give our recommendations as to whether the Agreements are in the interest of the Company and the Shareholders as a whole, and (iii) advise the Independent Shareholders or the VA Independent Shareholders (as the case may be) on how to vote at the EGM. Details of the reasons for the Agreements are set out in the section headed “Letter from the Board” in the Circular (the “**Board Letter**”).

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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).

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.

On 20 July 2009, the Company and the Bondholders have entered into the Variation Agreement which sets forth in detail the Proposed Amendments and terms and conditions of the Replacement Bonds.

Glimmer is a substantial shareholder of the Company. All the other Bondholders are associates of Glimmer and are therefore connected persons of the Company under the GEM Listing Rules. The Variation Agreement and consummation of the transactions contemplated therein will constitute connected transactions of the Company under the GEM Listing Rules and is subject to approval by the VA Independent Shareholders.

B. BASIS OF ADVICE

In formulating our opinions and recommendations, we have relied on the information supplied to us by the Company and the opinions expressed by, and the representations of, the Directors and the management of the Company, including those set out in the Circular. We have assumed that all the information and representations so supplied by the Directors and/or the management of the Company and all information, opinions and representations referred to or contained in the Circular, for which the Directors and the Company are solely and wholly responsible, were true, accurate, complete and not misleading at the time they were supplied, expressed or made, and remained so up to the date of the Circular. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, opinions and/or representations. We have no reason to doubt the truth, accuracy and completeness of the information and presentation provided to us by the Directors.

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We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

While we have taken reasonable steps to satisfy the requirements under the GEM Listing Rules, we have not carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor have we conducted an independent investigation into the business affairs or assets and liabilities of the Group or any of the other parties involved in the Agreements.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

C. INFORMATION ON THE GROUP

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. The table below summarises the certain key financial information as extracted from the Group's annual report for the year ended 31 March 2009 (the "Annual Report").

	Year ended 31 March	
	2008	2009
	HK\$'000	HK\$'000
	(audited)	(audited)
Turnover (from continuing operations)	39,173	51,087
Net profit attributable to Shareholders	69,111	8,709
Total assets (as at period end)	152,005	1,040,403
Total liabilities (as at period end)	11,691	721,207
Net assets (as at period end)	140,314	319,196
Bank and cash balances (as at period end)	119,212	37,647

Source: <http://www.hkexnews.hk/>

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It is revealed in the Annual Report that turnover during the year ended 31 March 2009 amounted to approximately HK\$51.1 million, representing a decrease of approximately 83.2% as compared to the turnover of approximately HK\$304.6 million (including discontinued operations) generated during the prior year. Under note 41 to the Annual Report, it is stated that the Group's business of design and sale of office furniture was discontinued during the year ended 31 March 2008. The Annual Report carries on to state that net profit attributable to Shareholders amounted to approximately HK\$69.1 million (including discontinued operations) and HK\$8.7 million for the years ended 31 March 2008 and 2009 respectively. The results incorporated the effect of noncash charges included the stock option payments, an accrued bond interest payment on the convertible bonds, impairment of intangible assets and fair value gain on derivative components of convertible bonds. As at 31 March 2009, the Group had total assets, total liabilities and net assets of approximately HK\$1,040,403,000, HK\$721,207,000 and HK\$319,196,000 respectively. In addition, the Group had bank and cash balances of approximately HK\$37,647,000 as at 31 March 2009.

D. THE SALE AND PURCHASE AGREEMENT

In arriving at our opinion regarding the terms of the Sale and Purchase Agreement, we have taken into consideration the following principal factors and reasons:

1. Information on Mengxi Minerals

As stated in the Board Letter, Mengxi Minerals is an indirect 49%-owned associated company of the Group upon the completion of the Imare Acquisition. It is revealed in the Annual Report that the Group completed the indirect acquisition of a 49% interest in Mengxi Minerals on 10 June 2008. Further information regarding the Imare Acquisition is set out in the Company's (formerly known as Challenger Group Holdings Limited) circular dated 30 April 2009.

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 rune coal and processing of coke. Mengxi Minerals has commenced the construction of the washing coal plant with construction completion targeted for January 2010. Mengxi Minerals had been granted by the Ministry of Land and Resources of Inner Mongolia Autonomous Region a mining license (採礦許可證) for the right of exploitation of the Mine until 2016. It is stated in the Board Letter that as at the Latest Practicable Date, commercial exploitation by way of underground mining has not yet been commenced. Construction contracts for the three underground mine shafts have been finalized. It will require approximately 12 months to complete with the balance of the underground mine construction to require an additional 6 to 8 months. The Board Letter further states that 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 being to be delivered to its customers in August 2009. Further information regarding the Mine is set out under the subsection headed "The Mine" in the Board Letter.

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As at the Latest Practicable Date, Mengxi Minerals is owned as to 49%, 30% and 21% by the Group, Mengxi HT and Yiou Auto respectively. Financial information of Mengxi Mineral as extracted from the Board Letter is set out below:

Year ended 31 December

	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Profit/(loss) before taxation and extraordinary items	658	(1,072)
Profit/(loss) after taxation and extraordinary items	658	(1,072)

The audited net asset value of Mengxi Minerals based on its audited accounts for the year ended 31 December 2008 (the “**Mengxi Audited Accounts**”) amounted to approximately RMB78.00 million (equivalent to approximately HK\$88.14 million) as at 31 December 2008.

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.

It is stated in the Board Letter that the mining rights of the Mine and 100% of the registered capital of Mengxi Minerals have been pledged in favour of China Construction Bank, Erdos Branch (the “**Bank**”) for securing a loan granted by the Bank to Mengxi Minerals for infrastructure construction of the Mine. The Bank agreed in principle to consent to the Acquisition provided that Joy Harvest, after Completion, will pledge its entire holding of equity interest of Mengxi Minerals in favour of the Bank.

2. Reasons for and the benefits of the Acquisition

The Board Letter states that upon the completion of the 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.

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We concur with the Directors' reasons and view regarding the Sale and Purchase Agreement set out above.

3. The Sale and Purchase Agreement

3.1 *The Consideration*

As stated in the Board Letter, the consideration for the Sale Interest is RMB16.80 million (equivalent to approximately HK\$18.98 million) (the "**Consideration**") and payable by way of cash on or before the fifth day after the date of fulfilment or waiver of all the conditions precedent of the Acquisition. The Group intends to finance the entire Consideration by internal resources.

The Board Letter further states that the Consideration was determined after arm's length negotiations between the Group and Yiou Auto with reference to the audited net assets value of Mengxi Minerals as at 31 December 2008 and the registered capital of Mengxi Minerals attributable to the Sale Interest.

3.2 *The net asset value and registered capital of Mengxi Mineral attributable to the Sale Interest*

As discussed in section D.1. of this letter, the audited net asset value of Mengxi Minerals as at 31 December 2008 amounted to approximately RMB78.00 million (equivalent to approximately HK\$88.14 million) as per the Mengxi Audited Accounts. Accordingly, the net asset value of Mengxi Minerals as at 31 December 2008 attributable to the Sale Interest is approximately RMB16.38 million (equivalent to approximately HK\$18.51 million).

Furthermore, the Board Letter states that Mengxi Mineral's registered capital as at the Latest Practicable Date is RMB80 million (equivalent to approximately HK\$90.4 million). Mengxi Mineral's registered capital attributable to the Sale Interest is therefore approximately RMB16.8 million (equivalent to approximately HK\$18.98 million).

Upon an inspection of the Annual Report, we notice from note 20 to the Annual Report that the Group's "share of net assets" in Mengxi Minerals amounted to approximately HK\$761,416,000 as at 31 March 2009 (the "**Share of Mengxi Minerals NAV**"). As per our discussion with the Group's management, the Share of Mengxi Minerals NAV incorporates a fair value gain on Mengxi Minerals. We note that the Consideration is significantly undervalued when compared with the net asset value of the Sale Interest derived from the aforementioned Share of Mengxi Minerals NAV.

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The Consideration therefore represents:

- (i) an approximately 2.56% premium to the net asset value of Mengxi Minerals as at 31 December 2008 attributable to the Sale Interest as per the Mengxi Audited Accounts; and
- (ii) Mengxi Mineral's registered capital as at the Latest Practicable Date attributable to the Sale Interest.

3.3 Conclusion regarding the Sale and Purchase Agreement

Having considered the factors discussed above and in particular:

- 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;
- the Consideration represents (i) an approximately 2.56% premium to the net asset value of Mengxi Minerals as at 31 December 2008 attributable to the Sale Interest as per the Mengxi Audited Accounts; and (ii) Mengxi Mineral's registered capital as at the Latest Practicable Date attributable to the Sale Interest; and
- the generally positive financial impacts expected to arise out of the Acquisition as discussed in section D.4. of this letter,

we consider that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Financial impacts of the Sale and Purchase Agreement

4.1 Net assets

According to the Annual Report, the net assets of the Group were approximately HK\$319,196,000 as at 31 March 2009 which includes an interest in associates of approximately HK\$761,416,000 which represents interest of the Company in Mengxi Minerals.

Based on our discussion with the Group's management, as a result of the Acquisition Completion, the Company will no longer have any interest in associates and the total assets and liabilities of Mengxi Minerals will be consolidated into the accounts of the Group. A fair value gain on the net fair value over the cost of acquisition representing the difference between the attributable interest of 21% of the net asset value of Mengxi

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Minerals upon Acquisition Completion and the fair value of the Consideration is expected to be recorded by the Group as a result of Acquisition Completion. The bank and cash balances are expected to decrease by the amount of the Consideration. Based on the above and the net asset value of Mengxi Minerals of approximately RMB78.00 million (equivalent to approximately HK\$88.14 million) as at 31 December 2008 as per the Mengxi Audited Accounts, it is expected that the Acquisition will have a positive impact on the Group's net asset upon the consolidation of Mengxi Capital into the Group's accounts.

4.2 *Liquidity*

The Annual Report states that the Group had current assets and current liabilities of approximately HK\$142,900,000 and HK\$85,391,000 respectively as at 31 March 2009, translating into a current ratio (current assets/current liabilities) of approximately 1.67.

Based on our discussion with the Group's management, the Acquisition is expected to have the immediate effect of reducing the Group's current assets by the amount of the Consideration upon the Acquisition Completion. Given the net current assets of Mengxi Minerals as at 31 December 2008 as per the Mengxi Audited Accounts exceeds the Consideration, it is expected that the Group's liquidity will be enhanced upon consolidation of Mengxi Minerals in the Group's accounts.

4.3 *Gearing*

According to the Annual Report, the Group had total debts of approximately HK\$709,736,000 (comprised of (i) derivative component of convertible bonds of HK\$73,920,000; (ii) loan from a minority shareholder of HK\$1,274,000; and (iii) convertible bonds of HK\$634,542,000) as at 31 March 2009. In addition, it had total assets of approximately HK\$1,040,403,000 as at 31 March 2009. Accordingly, the gearing ratio (total debts/total assets x 100%) of the Group as at 31 March 2009 was approximately 68.22%.

Mengxi Minerals has no outstanding debt and net assets of approximately RMB78.00 million (equivalent to approximately HK\$88.14 million) as at 31 December 2008 as per the Mengxi Audited Accounts. We have learnt in our discussion with the Group's management that Mengxi Minerals has secured a bank loan in the amount of RMB300 million in May 2009 of which approximately RMB200 million has been drawn down as at the Latest Practicable Date. Having taken the aforementioned bank loan into account, the Acquisition is expected to increase the Group's gearing upon Acquisition Completion.

4.4 *Earnings*

According to the Annual Report, the Group recorded profit attributable to Shareholders of approximately HK\$8,709,000 during the year ended 31 March 2009.

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The Board Letter states that Mengxi Minerals incurred net loss of approximately RMB1,072,000 (equivalent to approximately HK\$1,211,000) during the year ended 31 December 2008. As discussed in section D.1. of this letter, commercial exploitation by way of underground mining has not yet been commenced. The Board Letter further states that 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 August 2009. Based on our discussion with the Group's management, it is expected that the financial position of Mengxi Minerals will gradually improve upon commencement of the sale of the raw coal and thus, it is expected that the Acquisition will have a positive effect on the Group's earning in the long term.

It should be noted that the above-mentioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Sale and Purchase Agreement.

E. THE VARIATION AGREEMENT

In arriving at our opinion regarding the terms of the Variation Agreement, we have taken into consideration the following principal factors and reasons:

1. Reasons for the Variation Agreement

As stated in the Board Letter, upon conversion of the Existing Bonds under the existing Conditions, the Company will be required to pay the Conversion Cap Payments in cash if the Conversion Cap is exceeded. Under the Proposed Amendments, the cash payment obligation will be substituted by a Replacement Bond with interest charged at 3.75% per annum. Due to the liquidity and cashflow management policy of the Company, the Company is willing to offer a comparatively higher interest rate in order to encourage the Bondholders not to demand for immediate cash payment and to take a Replacement Bond instead.

The Company has considered other means of financing the Conversion Cap Payment such as debts financing, loan financing, placing of shares and rights issue. However, the terms and conditions of debts/loan financing from banks and other financial institutions were less favourable than those of the Replacement Bonds. The Company also considered the placing of shares and right issue but the response of the potential underwriters and the placing agents were not that favourable to the Company. In order to meet the requirement of making Conversion Cap Payments to the Bondholders under the terms of the Existing Bonds, the Company decided to issue the Replacement Bonds to settle its obligation to pay the Conversion Cap Payment in cash.

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The Proposed Amendments and the issue of the Replacement Bonds in lieu of payment in cash of the Conversion Cap Payment upon conversion of the Existing Bonds will enable the Company to retain cash in the Company for future development. Based on this, the Directors (excluding the Interested Directors) considered that the terms of the Variation Agreement (including the Proposed Amendments and the Replacement Bonds) are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

We note from the Annual Report that the Group had bank and cash balances of approximately HK\$37,647,000 as at 31 March 2009. Furthermore, it is stated in the subsection headed “Settlement of Conversion Cap Payments due to the Bondholders” in the Board Letter that the Company has already incurred Due Conversion Cap Payments in the amount of HK\$302,838,472.22. In addition, the subsection headed “Maximum aggregate principal amount of the Replacement Bonds” in the Announcement states that the maximum principal amount of the Replacement Bonds to be issued upon settlement of the Due Conversion Cap Payments and those issuable upon conversion of the outstanding principal amount of the Existing Bonds is approximately HK\$643.01 million. Based on the above, the Group’s bank and cash balances of approximately HK\$37,647,000 as at 31 March 2009 is significantly lower than either of (i) the Due Conversion Cap Payments or (ii) the maximum principal amount of the Replacement Bonds.

In our discussion with the Group’s management, we are given to understand that the Consideration of RMB16.80 million (equivalent to approximately HK\$18.98 million), an amount representing approximately half of the Group’s bank and cash balances of approximately HK\$37,647,000 as at 31 March 2009, is to be settled with the Group’s internal resources. Any remaining cash held by the Group after the payment of the Consideration upon the Acquisition Completion are intended to be applied as the Group’s working capital or used to finance projects undertaken by the Group including but not limited to those of Mengxi Minerals. In that connection, we concur with the Directors’ view that it is beneficial for the Company to issue the Replacement Bonds (which interest rate of 3.75% per annum is comparatively higher than the interest rate of the Existing Bonds of 1% per annum) in order to encourage the Bondholders not to demand for immediate cash payment and to take a Replacement Bond instead.

As at the Latest Practicable Date, the HK\$ best lending rate of The Hongkong and Shanghai Banking Corporation Limited is 5% per annum (the “**Best Lending Rate**”). Accordingly, it would appear that the terms and conditions of debts/loan financing from banks and other financial institutions may be less favourable than those of the Replacement Bonds which interest rate is 3.75% per annum. Having considered the above and the non favourable response received by the Company from potential underwriters and placing agents in connection with placing of shares and rights issue, we consider the Company’s proposed issue of the Replacement Bonds to settle its obligation to pay the Conversion Cap Payment in cash is appropriate.

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2. The Variation Agreement

2.1 *The Existing Bonds*

As stated in the Board Letter, the Company completed, amongst others, the Imare Acquisition on 10 June 2008. The acquisition was financed in part by the issue of the Existing Bonds in the aggregate principal amount of HK\$770,000,000. The Existing Bonds were created in the original aggregate principal amount of up to HK\$920,000,000 but at completion of the acquisition, only HK\$770,000,000 aggregate principal amount of the Existing Bonds were issued. As at the Latest Practicable Date, the aggregate outstanding principal amount of the Existing Bonds in respect of which no conversion right has been exercised is HK\$340,000,000 and are held by Glimmer and Pacific Top in the proportion shown below:

Bondholder	Principal amount of outstanding and unconverted Existing Bonds held HK\$
Glimmer	211,000,000
Pacific Top	<u>129,000,000</u>
Total	<u><u>340,000,000</u></u>

Currently interest on the Existing Bonds is charged at the rate of 1% per annum and is payable at the time of conversion or redemption.

The Existing Bonds are convertible into Shares at a floating conversion price (but not less than HK\$0.01 per Share, being the par value of the Share) subject to the cap of HK\$1.30 per Share.

2.2 *The MOA and the Variation Agreement*

Under the MOA dated 29 June 2009, the Parties agreed, amongst others, in principle that the Conditions shall be amended such that if upon 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 Company's obligation to make Conversion Cap Payment in cash.

The aforementioned amendment, together with the other Proposed Amendments, are set out in the Variation Agreement dated 20 July 2009. Under the Variation Agreement, the Parties agreed that subject to fulfilment of the Conditions Precedent, the Conditions shall be amended in the following manner:

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- (i) 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 (the “**Proposed Amendment I**”);
- (ii) the Company shall have no right to require the early cancellation or redemption of any of the Existing Bonds prior to the Maturity Date (the “**Proposed Amendment II**”);
- (iii) 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) (the “**Proposed Amendment III**”); and
- (iv) further amendments of editorial nature that are ancillary or consequential to the above, as stipulated in the Variation Agreement.

It is stated in the Board Letter that 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.

The Board Letter carries on to state that 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 lower of either:

- (a) HK\$1.30 per Share; or

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- (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.

As discussed in section E.1. in this letter, the Group’s bank and cash balances of approximately HK\$37,647,000 as at 31 March 2009 is significantly lower than either of (i) the Due Conversion Cap Payments or (ii) the maximum principal amount of the Replacement Bonds. Accordingly, Proposed Amendment I is beneficial to the Group from the perspective of its cashflow management.

Based on the Group’s cash position as stated immediately above, we consider that Proposed Amendment II should not have any material effect on the Company as the Company is not expected to be able to redeem the Existing Bonds (which outstanding principal is HK\$340,000,000 as at the Latest Practicable Date) in the foreseeable future.

As mentioned previously, 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 Proposed Amendment III above will raise the conversion floor by 20 times and reduce the impact of potential dilutive effect to the existing Shareholders.

2.3 *Conclusion regarding the Variation Agreement*

Having considered the factors set out above and in particular:

- fund raising alternatives to the Replacement Bonds may be less favourable or not feasible;
- Proposed Amendment I is beneficial to the Group from the perspective of its cashflow management as the Group’s bank and cash balances of approximately HK\$37,647,000 as at 31 March 2009 is significantly lower than either of (i) the Due Conversion Cap Payments or (ii) the maximum principal amount of the Replacement Bonds;

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- Proposed Amendment II should not have any material effect on the Company as the Company is not expected to be able to redeem the Existing Bonds (which outstanding principal is HK\$340,000,000 as at the Latest Practicable Date) in the foreseeable future; and
- the setting of a floor conversion price at HK\$0.20 per Share under Proposed Amendment III will raise the conversion floor by 20 times and reduce the impact of potential dilutive effect to the existing Shareholders,

we consider that the terms of the Variation Agreement are fair and reasonable and in the interest in the Company and the Shareholders as a whole.

3. The Replacement Bonds

3.1 *The principal terms of the Replacement Bonds*

Principal amount:	Equal to the Conversion Cap Payment due by the Company to a converting Bondholder, rounded down to the nearest minimum denomination of HK\$10,000 for each Replacement Bond
Maturity:	10 June 2013, being the same as the Existing Bonds
Interest rate:	3.75% compounded annually and payable (i) in conversion shares on conversion; or (ii) in case at maturity
Conversion price:	HK\$0.70 per Share (the “ Initial Conversion Price ”) subject to adjustment provision 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 (excluding the issue of Shares upon exercise of conversion rights attaching to the Existing Bonds and the Replacement Bonds).

Please refer to the subsection headed “Maximum number of new Shares falling to be issued upon full conversion of the Replacement Bonds” in the Board Letter for further information in relation to the maximum number of Shares issuable as a result of the conversion of the Replacement Bonds which is estimated at 1,038.71 million Shares.

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The Initial Conversion Price of HK\$0.70 per Share (subject to adjustments) was fixed at the time of the MOA. Such fixed conversion price was arrived at after arm's length negotiation between the Company and the Bondholders by reference to the average closing price per Share of approximately HK\$0.695 as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the MOA Last Trading Day.

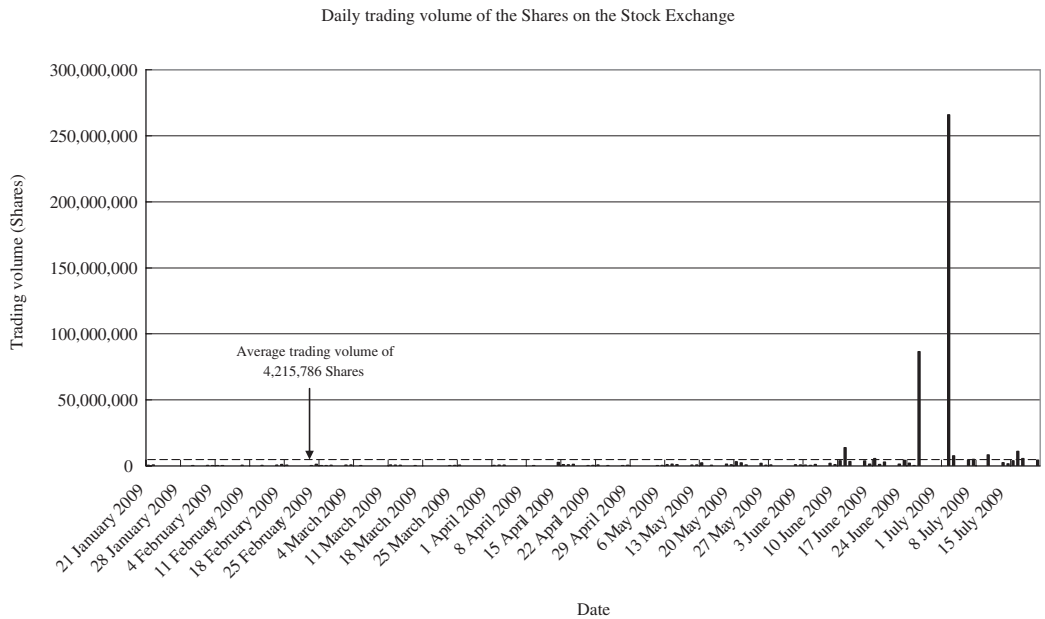
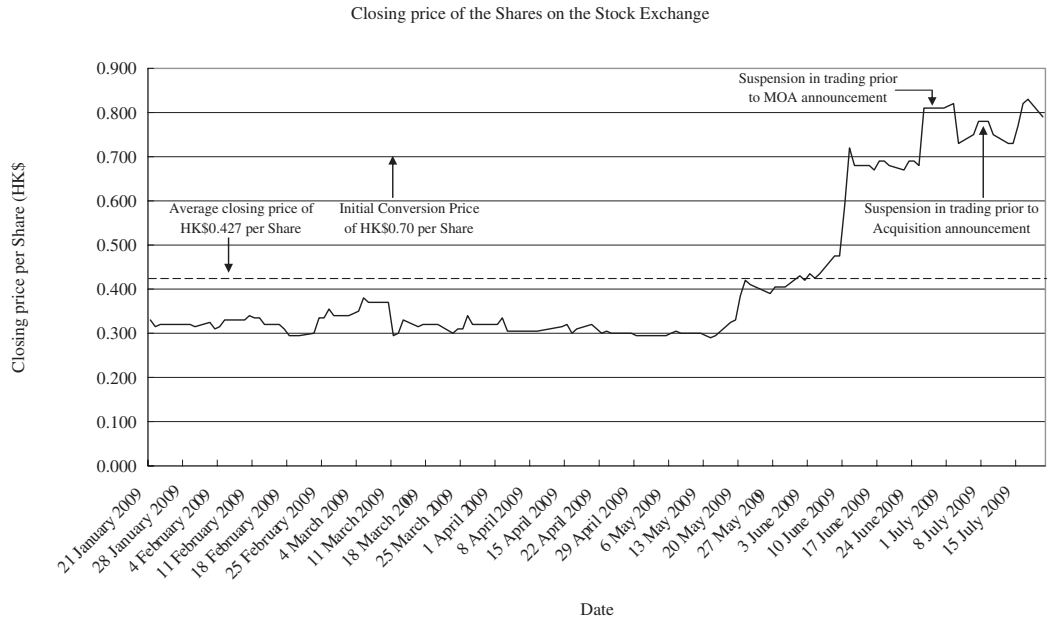
The Initial Conversion Price represents:

- (i) a discount of approximately 13.58% to the closing price of HK\$0.810 per Share as quoted on the Stock Exchange on the MOA Last Trading Day;
- (ii) a discount of approximately 1.13% to the average closing price per Share of approximately HK\$0.708 as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the MOA Last Trading Day;
- (iii) a premium of approximately 0.72% to the average closing price per Share of approximately HK\$0.695 as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the MOA Last Trading Day;
- (iv) a discount of approximately 11.39% to the closing price of HK\$0.79 per Share as quoted on the Stock Exchange on the VA Last Trading Day;
- (v) a discount of approximately 11.17% to the closing price of HK\$0.788 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the VA Last Trading Day;
- (vi) a discount of approximately 8.85% to the closing price of HK\$0.768 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the VA Last Trading Day;
- (vii) a discount of approximately 11.39% to the closing price of HK\$0.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (viii) a premium of approximately 92.84% to the audited consolidated net assets value per Share of approximately HK\$0.363 as at 31 March 2009.

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3.2 Historic closing price and trading volume of the Shares

We set out below the historical closing price per Share and the daily trading volume of the Shares on the Stock Exchange during the 6-month period up to and including 20 July 2009, i.e. the date of the Variation Agreement (the “**Review Period**”).



Source: <http://www.hkex.com.hk/>

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As illustrated above, the Shares have closed on the Stock Exchange within a band of HK\$0.290 (on 14 May 2009) and HK\$0.380 per Share (on 5 March 2009) from the commencement of the Review Period up to 14 May 2009. In the Review Period subsequent to 14 May 2009, the closing price of the Shares has experienced a notable increase reaching a peak of HK\$0.830 per Share (on 17 July 2009). During the Review Period, the average closing price of the Shares on the Stock Exchange was approximately HK\$0.427 per Share. We note that the Shares have closed below the Initial Conversion Price of HK\$0.70 per Share on 105 trading days, representing approximately 88.98% of the 118 trading days during the Review Period.

In addition, trading of the Shares on the Stock Exchange during the Review Period has been relatively inactive. Save for 26 June 2009 and 2 July 2009, the daily trading volume of the Shares has only reached a peak of 13,770,000 Shares (on 11 June 2009). The average daily trading volume of the Shares during the Review Period was approximately 4,215,786 Shares, representing approximately 0.35% of the Company's issued share capital of 1,200,000,000 Shares as at the Latest Practicable Date.

3.3 Comparison with other transactions involving the issue of the convertible notes and/or convertible bonds

To evaluate the fairness and reasonableness of the terms of the Replacement Bonds, we have identified transactions that involved the issue of convertible notes and/or convertible bonds by companies listed in Hong Kong (the "**Comparable Issues**") during the 1 month ended 29 June 2009, i.e. the date of the MOA under which the Initial Conversion Price was determined. We have chosen a 1 month period for the purpose of identifying the Comparable Issues because it is a relatively short period of time which better reflects the situation in the recent past and better represents the latest market condition given with the recent volatility in the Hong Kong markets. To our best knowledge, we have identified the 26 Comparable Issues which include all of the relevant transactions identified by us in a search on the website of the Stock Exchange. The details of the Comparable Issues are summarised below:

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Company (stock code)	Date of announcement	Interest rate % p.a.	Maturity Year(s)	Premium/ (discount) of conversion price to the closing price as at the last trading day %
SRE Group Limited (1207)	29 June 2009	6	5	(1.31)
Brightoil Petroleum (Holdings) Limited (933)	26 June 2009	0	3	(20.6)
Wonderful World Holdings Limited (109)	25 June 2009	2	3	(25)
Fintronics Holdings Company Limited (706)	24 June 2009	0	2	4.90
Midas International Holdings Limited (1172)	23 June 2009	1	5	16.8
Gome Electrical Appliances Holding Limited (493)	22 June 2009	5	7	(1.1)
Willie International Holdings Limited (273)	19 June 2009	0	3.5 ¹	(15.25)
Long Success International (Holdings) Limited (8017)	19 June 2009	36	1	150
Suncorp Technologies Limited (1063)	18 June 2009	0.5	3	(34.2)
Sun Innovation Holdings Limited (547)	17 June 2009	0.5	2	(2.44)
Golden Harvest Entertainment (Holdings) Limited (1132)	15 June 2009	0	6.5 ²	12.667
Sinolink Worldwide Holdings Limited (1168)	15 June 2009	0	3	2.8
Epro Limited (8086)	12 June 2009	0	2	10.00
China Properties Investment Holdings Limited (736)	11 June 2009	3	3	41.84
Willie International Holdings Limited (273)	11 June 2009	2	3	0
Inno-tech Holdings Limited (8202)	10 June 2009	0	2	26.6
Interchina Holdings Company Limited (202)	9 June 2009	5	2	72.4
Rontex International Holdings Limited (1142)	5 June 2009	5	2	(20)
Rontex International Holdings Limited (1142)	5 June 2009	0	2	(10)

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Company (stock code)	Date of announcement	Interest rate % p.a.	Maturity Year(s)	Premium/ (discount) of conversion price to the closing price as at the last trading day %
China Agrotech Holdings Limited (1073)	5 June 2009	3	2	9.76
Pearl Oriental Innovation Limited (632)	4 June 2009	5 ³	2	(11)
China Jin Hui Mining Corporation Limited (462)	4 June 2009	0	7	148
China Jin Hui Mining Corporation Limited (462)	4 June 2009	0	10	98
Emcom International Limited (8220)	4 June 2009	2.5 ⁴	2	(5.66)
Paradise Entertainment Limited (1180)	4 June 2009	12	5.5 ⁵	(1.96)
PME Group Limited (379)	3 June 2009	3	3	(50)
	<i>Minimum:</i>	<i>0</i>	<i>1</i>	<i>(50)</i>
	<i>Maximum:</i>	<i>36</i>	<i>10</i>	<i>150</i>
	<i>Average:</i>	<i>3.52</i>	<i>3.52</i>	<i>15.20</i>
The Company (8203)	24 July 2009	3.75	3.78⁶	(13.58)

Source: <http://www.hkexnews.hk/>

Notes:

1. The maturity date is 31 December 2012 which translates into a term of approximately 3.5 years on the assumption that the relevant convertible notes were issued on or about 30 June 2009.
2. The maturity date is 31 December 2015 which translates into a term of approximately 6.5 years on the assumption that the relevant convertible notes were issued on or about 30 June 2009.
3. The interest rate is based on the prime lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time which is 5% as at the Latest Practicable Date.
4. The interest rate is nil for the 1st year and 5% per annum for the 2nd year. Accordingly, the effective interest rate during the entire term is approximately 2.5% per annum on the assumption that there is no redemption during the term of the relevant convertible bonds.

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5. The maturity date is 31 December 2014 which translates into a term of approximately 5.5 years on the assumption that the relevant convertible debt instrument were issued on or about 30 June 2009.
6. The maturity date is 10 June 2013 which translates into a term of approximately 3.78 years on the assumption that the Replacement Bonds are to be issued on 2 September 2009, i.e. the date of the proposed EGM.

3.4 *Interest rate*

From the table in the section immediately above, we note that the Comparable Issues had interest rates between 0% to 36% per annum with an average of approximately 3.52% per annum. It is noted that the average interest rate of the Comparable Issues may have been distorted by 2 exceptionally high interest rates of 36% and 12% per annum. We note that the interest rate of the Replacement Bonds of 3.75% per annum falls within the range of the Comparable Issues and is slightly above the average of the Comparable Issues. As mentioned in section E.1. above, the Best Lending Rate is 5% per annum as at the Latest Practicable Date. The interest rate of the Replacement Bonds of 3.75% per annum compares favourably with the Best Lending Rate. We consider that the interest rate of the Replacement Bonds is fair and reasonable as (i) the Best Lending Rate generally represents the market benchmark interest rate at which the Company would have been charged had it obtained a bank loan from the relevant bank, an independent third party, under the best case scenario and (ii) the Prime Lending Rate can be used as a reasonable indication of the cost of capital to the Bondholders.

3.5 *Term to maturity*

The term to maturity of the Comparable Issues ranged from 1 year to 10 years with an average of approximately 3.52 years. The Replacement Bonds have a term to maturity of approximately 3.78 years. We believe that the term to maturity of a convertible debt instrument is simply a commercial term subject to negotiations between the relevant parties, the length of which does not signify any particular advantage or disadvantage to the lender or the borrower. Accordingly, we are of the view that the term to maturity of the Replacement Bonds is in line with normal market practice as shown in the above analysis of the Comparable Issues.

3.6 *Initial Conversion Price*

We note that the deviation of the conversion price from the respective closing price of the shares as at the last trading day prior to the release of the relevant announcements of the Comparable Issues ranged from a discount of approximately 50% to a premium of approximately 150% with an average premium of approximately 15.20%. The discount of approximately 13.58% of the Initial Conversion Price of HK\$0.70 per Share to the closing price of HK\$0.810 per Share on the MOA Last Trading Day therefore falls within the range of the Comparable Issues and is below the average of the Comparable Issues.

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We note that 13, representing 50% of the 26 Comparable Issues have the conversion price set at a discount to the closing price as at the last trading day. On the basis that (i) half of the Comparable Issues have the conversion price set at a discount to the closing price as at the last trading day; (ii) the discount of the Initial Conversion Price to the closing price per Share on the MOA Last Trading Day is smaller than 6 of the 13 Comparable Issues which have conversion price set at a discount to the closing price as at the last trading day; and (iii) the average premium of the Comparable Issues of approximately 15.20% may have been somewhat distorted by 3 extremely high premiums of 150%, 148% and 98%, we consider the discount of the Initial Conversion Price to the closing price per Share on the MOA Last Trading Day is in line with normal market practice.

3.7 Conclusion regarding the Replacement Bonds

Based on our discussions above and in particular:

- the Initial Conversion Price represents (i) a discount of approximately 13.58% to the closing price of HK\$0.810 per Share as quoted on the Stock Exchange on the MOA Last Trading Day and (ii) a premium of approximately 92.84% to the audited consolidated net assets value per Share of approximately HK\$0.363 as at 31 March 2009;
- the interest rate of the Replacement Bonds of 3.75% per annum (i) falls within the range of the Comparable Issues and is slightly above the average of the Comparable Issues and (ii) compares favourably with the Best Lending Rate;
- the term to maturity of the Replacement Bonds is in line with normal market practice; and
- the discount of the Initial Conversion Price to the closing price per Share on the MOA Last Trading Day is in line with normal market practice,

we consider that the terms of the Replacement Bonds are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Potential dilution to the shareholdings of the Shareholders

As stated in the Board Letter, the maximum number of Shares issuable under the Replacement Bonds is 898.86 million Shares, assuming that the outstanding Existing Bonds of HK\$340 million will be converted at the floor conversion price of HK\$0.20 per Share and without taking into account accrued interest on the outstanding Existing Bonds and interests to be accrued on the Replacement Bonds to be issued in settlement of the Due Conversion Cap Payments as well as those issuable upon conversion of the outstanding Existing Bond.

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The table below illustrates the shareholding structure of the Company in the following scenarios:

- Scenario (1): as at the Latest Practicable Date;
- Scenario (2): upon full conversion of the outstanding Existing Bonds up to the Conversion Cap; and
- Scenario (3): upon full conversion of the Replacement Bonds to be issued and those issuable by the Company under the amended Conditions of the Existing Bonds and on the assumptions that (i) the Bondholders (other than Grand Pacific which has already tendered its conversion notice for all its holding of the Existing Bonds in full) will tender the conversion notices to convert the outstanding Existing Bonds of a principal amount of HK\$340 million at the floor conversion price of HK\$0.20 per Share on the date of the EGM; (ii) the Variation Agreement will become unconditional on the date of the EGM; (iii) the Replacement Bonds in relation to the settlement of the Due Conversion Cap Payments will be issued on the fifth business day after the date of the EGM; and (iv) the Replacement Bonds will be converted into new Shares on the business day preceding the Maturity Day. The number of Shares to be issued to each converting Bondholder upon conversion of the Replacement Bonds will be rounded down to the nearest whole multiple of a board lot of the Shares (i.e. 10,000 Shares) and the remaining balance unconverted will be paid to the converting Bondholders in cash.

Name of Shareholder	Scenario (1)		Scenario (2)		Scenario (3)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Bondholders ^{1 and 2}	300,000,000	25.00	450,660,000	29.26	761,260,000	29.52
Yang Geyan ³	9,800,000	0.82	9,800,000	0.64	9,800,000	0.38
Subtotal	309,800,000	25.82	460,460,000	29.90	771,060,000	29.90
Existing public Shareholders	890,200,000	74.18	890,200,000	57.80	890,200,000	34.52
New public Shareholders ²	–	–	189,340,000	12.29	917,450,000	35.58
Subtotal	890,200,000	74.18	1,079,540,000	70.10	1,807,650,000	70.10
Total	1,200,000,000	100.00	1,540,000,000	100.00	2,438,860,000	100.00

Notes:

- As at the Latest Practicable Date, the Bondholders together holds a total of 300 million Shares, of which 190 million Shares are held by Glimmer, 70 million Shares are held by Pacific Top and 40 million Shares are held by Grand Pacific.

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2. Subject to the Conversion cap, the maximum number of the Conversion Shares falling to be issued upon exercising the conversion rights attached to the outstanding Existing Bond is 340 million Shares. The Bondholders will sell down their shareholding such that the number of Shares held by the Bondholders and their respective associates and parties acting in concert with them is subject to a maximum of 29.9% of the Company's voting rights.
3. YANG Geyan is a Director and substantial shareholder of Glimmer, a Bondholder.
4. The shareholding table above does not take into account the impact upon full conversion of the 66,673,750 outstanding share options into shares.

Although the shareholding interests of the existing public Shareholders may potentially be subject to a significant dilution as demonstrated under scenario (3) in the table above, having considered the reasons for the Variation Agreement as discussed in section E.1. of this letter and factors set out in sections E.2.3, E.3.7 and E.5. of this letter, we are of the opinion that the potential dilution effect is acceptable to the Shareholders.

5. Financial impacts of the Variation Agreement

5.1 Net assets

According to the Annual Report, the net assets of the Group were approximately HK\$319,196,000 as at 31 March 2009.

The Company shall issue the Replacement Bonds (involving (i) an increase in non-current liability with the issue of the Replacement Bonds and (ii) a decrease in non-current liability with the reduction in the Existing Bonds). Without taking into account the effect of derivative component of the Replacement bonds (expected to be a current liability which value is subject to valuation) arising out of the issue of the Replacement Bonds, it is expected that the issue of the Replacement Bonds would not have any material impact on the Group's net asset value.

5.2 Liquidity

The Annual Report states that the Group had current assets and current liabilities of approximately HK\$142,900,000 and HK\$85,391,000 respectively as at 31 March 2009, translating into a current ratio (current assets/current liabilities) of approximately 1.67.

As discussed earlier, the Company shall issue the Replacement Bonds in principal amount equal to the Conversion Cap Payment in satisfaction of the Company's obligation to make the Conversion Cap Payment in cash. Based on our discussion with the Group's management, the issue of the Replacement Bonds saves the Company from making cash payment on the Conversion Cap Payment if the Bondholders chooses to convert the Replacement Bonds before Maturity Date, or at least defer the cash payment till the Maturity Date should the Bondholders choose not to convert the Replacement Bonds before the Maturity Date. However, should the Company choose not to the issue the

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Replacement Bonds, the Conversion Cap Payment will become immediately payable in cash. Given the liquidity and cashflow management policy of the Company, the Company will have to proceed with debt financing but it is expected that the terms and conditions of debt financing would be less favourable than those of the Replacement Bonds and the Company may have to incur a periodic interest payment obligation. Accordingly, it is expected that the Replacement Bonds would improve the liquidity of the Group.

5.3 *Gearing*

According to the Annual Report, the Group had total debts of approximately HK\$709,736,000 as at 31 March 2009 (comprised of (i) derivative component of convertible bonds of HK\$73,920,000; (ii) loan from a minority shareholder of HK\$1,274,000; and (iii) convertible bonds of HK\$634,542,000). In addition, it had total assets of approximately HK\$1,040,403,000 as at 31 March 2009. Accordingly, the gearing ratio (total debts/total assets x 100%) of the Group as at 31 March 2009 was approximately 68.22%.

The Company shall issue the Replacement Bonds in principal amount equal to the Conversion Cap Payment in satisfaction of the Company's obligation to make the Conversion Cap Payment in cash. The issue of the Replacement Bonds in the amount of Conversion Cap Payment is expected to result in increase in debt. At the same time, the repayment of the Existing Bonds is expected to result in the reduction of debt by more or less the same amount. Thus, the issue of the Replacement Bonds is not expected to have any material impact on the total debts of the Group. Having considered that a nominal amount of cash is required for the issue of the Replacement Bonds which will have an immaterial impact on the Group's total assets, it is expected that the issue of the Replacement Bonds would not have any material impact on the Group's gearing position.

5.4 *Earnings*

According to the Annual Report, the Group recorded profit attributable to Shareholders of approximately HK\$8,709,000 during the year ended 31 March 2009.

Based on discussion with the Group's management, the bond interest is calculated by applying an effective interest rate as determined by an independent professionally qualified valuer to the liability component when the Replacement Bonds are issued. The change in fair value of the derivative component is recognized in the statement of comprehensive income. If the price of the Shares on the Stock Exchange is less than the Initial Conversion Price of HK\$0.70 per Share, the fair value of the derivative component will decrease and accordingly, result in a fair value gain and a credit in the statement of comprehensive income. If the price of the Shares on the Stock Exchange is more than the Initial Conversion Price, the fair value of the derivative component will increase and accordingly, result in a fair value loss and a debit in the statement of comprehensive income.

It should be noted that the above-mentioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Variation Agreement.

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F. CONCLUSION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Agreements are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and its Shareholders as a whole. In addition, we consider that the Agreements are on normal commercial terms. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders or the VA Independent Shareholders (as the case may be), and (ii) the Independent Shareholders or the VA Independent Shareholders (as the case may be), to vote in favour of the ordinary resolution(s) to approve the Agreements and the transactions contemplated thereunder including the issue of the Replacement Bonds at the EGM.

Yours faithfully,
For and on behalf of
Ample Capital Limited
H. W. Tang
President

1. RESPONSIBILITY STATEMENT

This circular, 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 issuer. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the interests or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors or chief executive of the Company which is 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or any interests required to be entered in the register maintained in accordance with Section 352 of the SFO, or as otherwise 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 securities transactions by Directors are as follow:

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 Latest Practicable Date
Chan Nap Kee, Joseph	Beneficial owner	–	4,925,000	0.41%
Yeap Soon P, Jonathan	Beneficial owner	–	7,700,000	0.64%
Chow Pok Yu, Augustine	Beneficial owner	–	4,925,000	0.41%
Liew Swee Yean	Beneficial owner	–	540,000	0.05%
Siu Siu Ling, Robert	Beneficial owner	–	540,000	0.05%
Wong Yun Kuen	Beneficial owner	–	540,000	0.05%
Yang Geyan	Beneficial owner	9,800,000	4,925,000	1.23%
Yang Yongcheng	Beneficial owner	–	4,925,000	0.41%
Anderson Brian Ralph	Beneficial owner	–	1,200,000	0.10%

Note: The long position in the underlying Shares mentioned above represent the 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 share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Ordinance) which is 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or any interests required to be entered in the register maintained in accordance with Section 352 of the SFO, or as otherwise 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 securities transactions by Directors.

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

- (a) As at the Latest Practicable Date, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest 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:

Long positions in Shares and underlying Shares

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number of underlying Shares (Note 7)	Total Interest	Approximate percentage of the total issued Shares as at the Latest Practicable Date
<i>Substantial shareholders</i>					
Glimmer	Interest of a controlled corporation	40,000,000	197,900,000	237,900,000	19.83%
	Beneficial owner	190,000,000 (Note 1)	765,770,000 (Note 1)	955,770,000	79.65%
		230,000,000	963,670,000	1,193,670,000	99.48%

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number of underlying Shares (Note 8)	Total Interest	Approximate percentage of the total issued Shares as at the Latest Practicable Date
Oriental Patron Financial Services Group Limited (“OPFSG”)	Interest of a controlled corporation	70,000,000	415,130,000	485,130,000 (Note 2)	40.43%
Oriental Patron Financial Group Limited (“OPFG”)	Interest of a controlled corporation	70,000,000	415,130,000	485,130,000 (Note 2)	40.43%
Zhang Gaobo	Interest of a controlled corporation	70,000,000	415,130,000	485,130,000 (Note 2)	40.43%
Zhang Zhi Ping	Interest of a controlled corporation	70,000,000	415,130,000	485,130,000 (Note 2)	40.43%
<i>Other persons who had interests in the Shares and underlying Shares</i>					
Atlantis Investment Management Limited	Investment manager	80,000,000	–	80,000,000	6.67% (Note 3)
Plowright Investments Limited	Beneficial owner	67,100,000	–	67,100,000 (Note 4)	5.59%
Harmony Asset Limited	Interest of a controlled corporation	67,100,000	–	67,100,000 (Note 4)	5.59%
Gold Master Business Limited	Beneficial owner	81,000,000	–	81,000,000 (Note 5)	6.75%
Wong Wai Keung Dennis	Interest of a controlled corporation	81,000,000	–	81,000,000 (Note 5)	6.75%
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 6)	85.08%

Notes:

1. These Shares and underlying Shares are held by Grand Pacific, which is wholly-owned by Glimmer and by Glimmer. Glimmer is deemed to be interested in the Shares and underlying Shares held by Grand Pacific under the SFO.
2. These interests are held by Pacific Top, the entire issued share capital of which is held by Oriental Patron Financial Services Group Limited. 95% of the issued share capital of Oriental Patron Financial Services Group Limited is held by Oriental Patron Financial Group Limited, which is owned as to 49% by Zhang Gaobo and 51% by Zhang Zhi Ping. Oriental Patron Financial Services Group Limited, Oriental Patron Financial Group Limited, Zhang Gaobo and Zhang Zhi Ping are deemed to be interested in the interests held by Pacific Top under the SFO.
3. This percentage is based on the total issued Shares of 1,200,000,000 as at the Latest Practicable Date. The percentage shown in the corporate substantial shareholder notice of this shareholder filed on 2 July 2009 (based on the total issued Shares of 770,000,000) is 10.39%.
4. 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 67,100,000 Shares held by Plowright Investments Limited under the SFO.
5. 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. The percentage of 6.75% is based on the total issued Shares of 1,200,000,000 as at the Latest Practicable Date. The percentage shown in the corporate substantial shareholder notice/individual substantial shareholder notice of these shareholders filed on 12 June 2008 (based on the total issued shares of 770,000,000) is 10.52%.
6. 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 the Latest Practicable Date, and confirm whether the interests of GEM Global as at the Latest Practicable Date, 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).

7. The long positions in underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the Bonds.

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, as at the Latest Practicable Date, 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.

- (b) As at the Latest Practicable Date, Harmony Asset Limited, Glimmer and Grand Pacific had interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. As at the Latest Practicable Date, Dr. Chow Pok Yu, Augustine is a director of Harmony Asset Limited and Mr. Chan Nap Kee, Joseph is a director of Glimmer and Grand Pacific.

4. SERVICE AGREEMENT

Mr. Yeap Soon P, Jonathan has entered into a director's service agreement with the Company commencing on 10 June 2008 for a term of three years. Mr. Yeap is entitled to Director's remuneration together with housing allowance of HK\$4,200,000 per annum together with other benefits as determined by the remuneration committee of the Company and subject to Shareholders' approval with reference to his duties and responsibilities with the Company's performance and the prevailing market situation and the Company's remuneration policy.

Save as disclosed, as at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service agreement with any member of the Group (excluding contracts expiring or determinate by the employer within 1 year without payment of compensation (other than statutory compensation)).

5. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date to which the latest published audited financial statements of the Group were made up.

6. INTEREST IN ASSETS

As at the Latest Practicable Date, save for the Sale and Purchase Agreement and the Variation Agreement as set out in this circular, none of the Directors or Ample Capital had any interest, direct or indirect, in any asset which had been since 31 March 2009, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL INTEREST IN CONTRACTS

As at the Latest Practicable Date, save for the Sale and Purchase Agreement and the Variation Agreement as disclosed in this circular, none of the Directors was materially interested in any contracts or arrangement subsisting as at the date hereof which was significant in relation to the business of the Group.

8. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Company's business.

9. EXPERT

Ample Capital is licensed under the SFO for Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO. Its letter of advice to the Independent Board Committee and the Independent Shareholders or the VA Independent Shareholders (as the case may be) dated as of the date of this circular was given for the purpose of incorporation herein.

Ample Capital has given and has not withdrawn its written consent to the issue of this circular with copy of its letter and the reference to its name and its advice included in this circular in the form and context in which they respectively appear.

As at the Latest Practicable Date, Ample Capital did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. GENERAL

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of each of the following documents will be available for inspection at the head office and principal place of business in Hong Kong of the Company at 5/F, 31C-D Wyndham Street, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

- (a) the director's service agreement dated 10 June 2008 entered between Mr Yeap Soon P and the Company;
- (b) the Sale and Purchase Agreement;
- (c) the MOA; and
- (d) the Variation Agreement.

NOTICE OF EGM

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Kaisun Energy Group Limited (the “**Company**”) will be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on 2 September 2009 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the share transfer agreement dated 7 July 2009 and entered into between (i) Joy Harvest Holdings Limited (“**Joy Harvest**”), a wholly-owned subsidiary of the Company as purchaser, and (ii) 上海意歐汽車銷售有限公司 (Yiou Auto Sales Limited) (“**Yiou Auto**”) as vendor, in relation to the acquisition (the “**Acquisition**”) of 21% equity interest of 內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Co., Ltd.), as set out in the circular (the “**Circular**”) of the Company dated 17 August 2009 (copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) (the “**Sale and Purchase Agreement**”) (copy of which has been produced to the meeting marked “B” and signed by the Chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and they are hereby approved; and
- (b) the directors of the Company (the “**Directors**”) (or a duly authorised committee thereof) be and they are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps which, in the opinion of the Directors (or a duly authorised committee thereof), are necessary, appropriate, desirable or expedient to give effect to or implement the terms of the Sale and Purchase Agreement or any of the transactions contemplated thereunder and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors (or a duly authorised committee hereof), in the interests of the Company.”

* *For identification purpose only*

NOTICE OF EGM

2. **“THAT**

- (a) the agreement dated 20 July 2009 and entered into among (i) the Company and (ii) Glimmer Stone Investments Limited, Pacific Top Holding Limited and Grand Pacific Source Limited, in relation to amendments to the terms and conditions of the Existing Bonds (as defined in the Circular) as set out in the Circular (the **“Variation Agreement”**) (copy of which has been produced to the meeting marked **“C”** and signed by the Chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and they are hereby approved;
- (b) the creation and issue of the Replacement Bonds as set out in the Circular, on and subject to the terms of the Variation Agreement, be and it is hereby approved;
- (c) the Directors (or a duly authorised committee thereof) be and they are hereby authorised to allot and issue such number of new shares in the capital of the Company as may be allotted and issued upon the exercise of conversion rights in full attaching to the Replacement Bonds;
- (d) the Directors (or a duly authorised committee thereof) be and they are hereby authorised to amend the terms and conditions of the Replacement Bonds before or after the issue of the Replacement Bonds as are, in the opinion of the Directors (or a duly authorised committee thereof), in the interests of the Company;
- (e) the Directors (or a duly authorised committee thereof) be and they are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps which, in the opinion of the Directors (or a duly authorised committee thereof), are necessary, appropriate, desirable or expedient to give effect to or implement the terms of the Variation Agreement, the issue of the Replacement Bonds or any of the transactions contemplated under the Variation Agreement and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors (or a duly authorised committee hereof), in the interests of the Company.”

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

Hong Kong, 17 August 2009

NOTICE OF EGM

Head office and principal

place of business in Hong Kong:

5/F

31C-D Wyndham Street

Central

Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company but must attend the meeting in person to represent the member of the Company.
2. In order to be valid, a form of proxy must be deposited at the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. Completion and delivery of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.