

2010

First Quarterly Report



KEG

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

* For identification purpose only

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

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

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

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

HIGHLIGHTS

- Upon completion of disposal of the business operation of providing beauty and repairs services to motor vehicles, details of which were discussed in the section headed "Business Review", the coking coal business operation represented the only business operation generating turnover for the Group for the three months ended 30 June 2010. Turnover of the Group recorded a decrease compared to that of the same period last year, which mainly represented turnover from the business operation of providing beauty and repairs services to motor vehicles.
- Turnover of the Group for the three months ended 30 June 2010 from continuing and discontinued operations amounted to approximately HK\$4.8 million (2009: HK\$11.3 million), representing a decrease of approximately 57.5% as compared to the same period last year.
- The Group recorded total comprehensive income for the period of approximately HK\$6.4 million (2009: HK\$(12.2) million). During the period, the Group recorded a gain of approximately HK\$15.67 million from the exchange difference of translation of currency from foreign operations, which offset the loss for the period of approximately HK\$(9.3) million (2009: HK\$(12.3) million).
- Total comprehensive income attributable to owners of the Company for the three months ended 30 June 2010 amounted to approximately HK\$1.7 million (2009: HK\$(12.4) million).
- Loss per share of the Group from continuing and discontinued operations amounted to approximately HK cents 0.45 (2009: HK cents 1.62) for the three months ended 30 June 2010.

The board of directors (the “Board” or the “Directors”) of Kaisun Energy Group Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30 June 2010, together with the unaudited comparative figures for the corresponding period in 2009 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS ENDED 30 JUNE 2010

		Unaudited Three months ended 30 June	
	<i>Note</i>	2010 HK\$'000	2009 HK\$'000
Turnover	4	4,796	—
Cost of goods sold		(3,571)	—
Gross profit		1,225	—
Other income		70	10
Selling and distribution costs		(10)	—
Administrative and other operating expenses		(4,387)	(2,728)
Finance costs		(3,411)	(8,742)
Share of loss of an associate		—	(1,188)
Loss on disposal of available-for-sale financial assets		(2,791)	—
Loss before tax		(9,304)	(12,648)
Income tax credit	5	9	—
Loss for the period from continuing operations		(9,295)	(12,648)
Discontinued operations			
Profit for the period from discontinued operations		—	395
Loss for the period		(9,295)	(12,253)

Unaudited
Three months ended
30 June

	<i>Note</i>	2010 HK\$'000	2009 HK\$'000
Loss attributable to:			
Owners of the Company		(9,272)	(12,471)
Non-controlling interests		(23)	218
		(9,295)	(12,253)
Dividend	6	—	—
Loss per share (HK Cents)			
From continuing and discontinued operations			
— basic		(0.45)	(1.62)
— diluted		(0.24)	(0.23)
From continuing operations			
— basic		(0.45)	(1.64)
— diluted		(0.24)	(0.25)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Three months ended	
	30 June	
<i>Note</i>	2010	2009
	HK\$'000	HK\$'000
Loss for the period	(9,295)	(12,253)
Other comprehensive income for the period, net of tax:		
Exchange differences on translation of currency from foreign operations	15,672	37
Total comprehensive income for the period	6,377	(12,216)
Total comprehensive income attributable to:		
Owners of the Company	1,702	(12,434)
Non-controlling interests	4,675	218
	6,377	(12,216)

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

During the three months ended 30 June 2010, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting periods beginning on 1 April 2010. HKFRSs comprise of Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the three months ended 30 June 2010 and the same period in last year.

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

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

The accounting policies and basis of the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2010.

4. TURNOVER

**Unaudited
Three months ended
30 June**

	2010	2009
	HK\$'000	HK\$'000
Turnover		
Sales of goods	4,796	336
Services rendered	—	11,004
	4,796	11,340
Representing:		
Continuing operations	4,796	—
Discontinued operations	—	11,340
	4,796	11,340

5. INCOME TAX EXPENSES

	Unaudited	
	Three months ended	
	30 June	
	2010	2009
	HK\$'000	HK\$'000
Income tax credit		
Current tax — PRC enterprise income tax	9	—
Representing:		
Continuing operations	9	—
Discontinued operations	—	—
	9	—

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

Pursuant to relevant laws and regulations in the People's Republic of China (the "PRC"), the tax rate applicable to the subsidiaries in the PRC was 25%.

6. DIVIDENDS

The Directors do not recommend the payment of dividend for the three months ended 30 June 2010 (2009: HK\$Nil).

7. LOSS PER SHARE

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

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

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

	Unaudited Three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Earnings		
Continuing and discounted operations:		
Loss for the purpose of calculating basic earnings per share	(9,272)	(12,471)
Net financial costs saving on conversion of conversion of convertible bonds outstanding	3,434	8,741
Loss for the purpose of calculating diluted earnings per share	(5,838)	(3,730)
Continuing operations:		
Loss for the purpose of calculating basic earnings per share	(9,272)	(12,648)
Net financial costs saving on conversion of conversion of convertible bonds outstanding	3,434	8,741
Loss for the purpose of calculating diluted earnings per share	(5,838)	(3,907)
Number of shares		
Issued ordinary shares at beginning of the year	2,005,675	770,000
Effect of conversion of replacement convertible bonds	39,597	—
Effect of exercise of options	101	—
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,045,373	770,000
Effect of dilutive potential ordinary shares arising from share options outstanding	59,376	53,005
Effect of dilutive potential ordinary shares arising from replacement convertible bonds outstanding	320,692	770,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	2,425,441	1,593,005

8. CONVERTIBLE BONDS

The maturity date of the Replacement Bonds is 10 June 2013. The bondholders have the right to convert at any time from issue date up to Maturity Date into Shares at a fixed conversion price at HK\$0.70 per Share. The outstanding principal amount of the Replacement Bonds together with the accrued interest (if not paid by cash on redemption at maturity or upon acceleration) shall be automatically converted to Shares upon Maturity Date unless such conversion will result 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 the issued shares of the Company (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 the public float of the shares of the Company will fall below the minimum public float requirements stipulated under the GEM Listing Rules. Interest of 3.75 per cent per annum (compounded annually) is payable (i) in conversion shares on conversion; or (ii) in cash at maturity. The Company has no right to require the early cancellation or redemption of any of the Replacement Bonds prior to the Maturity Date.

During the period, the Company has received from the Bondholders a conversion notice regarding the conversion of a principal amount of HK\$72,870,000 of the Replacement Bonds into 106,900,000 new Shares. Upon completion the conversion exercise, the outstanding principle of the Replacement Bonds was amounting HK\$217,660,000 and there are maximum of approximately 357,410,000 new Shares that can be converted into new Shares.

9. SHARE CAPITAL

	Unaudited	Audited
	as at	as at
	30 June	31 March
	2010	2010
	HK\$'000	HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid:		
2,113,115,000 (31 March 2010: 2,005,675,000) ordinary shares of HK\$0.01 each	2,113,115	2,005,675

During the period, the Company has received from the grantee an exercise notice regarding the exercise of share option of conversion into 540,000 new Shares.

10. RESERVE

	Attributable to owners of the Company								
	Share capital	Share premium	Foreign currency translation reserve	Share-based payment reserve	Convertible bonds reserve	Retained profits	Total	Non-controlling interests	Total equity
At 1 April 2009	7,700	142,936	(273)	12,981	—	116,145	279,489	39,707	319,196
Total comprehensive income for the period	—	—	37	—	—	(12,471)	(12,434)	218	(12,216)
At 30 June 2009	7,700	142,936	(236)	12,981	—	103,674	267,055	39,925	306,980
At 1 April 2010	20,057	889,428	3,265	22,244	138,553	568,855	1,642,402	730,975	2,373,377
Total comprehensive income for the period	—	—	10,974	—	—	(9,272)	1,702	4,675	6,377
Conversion of replacement convertible bonds	1,069	91,877	—	—	(34,752)	—	58,194	—	58,194
Exercise of share options	5	514	—	(147)	—	—	372	—	372
At 30 June 2010	21,131	981,819	14,239	22,097	103,801	559,583	1,702,670	735,650	2,438,320

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the reporting period, the Group generated its turnover from the sale of raw coal from Inner Mongolia, amounting to approximately HK\$4.8 million. The Group's open pit operation was interrupted during the reporting period because of a government imposed cessation on coal mining and related construction activities in Inner Mongolia caused by the flooding incident in the Lou Tou Mountain Coal Mine (駱駝山煤礦). The Group's progress on the underground mine construction was similarly affected. To make up for the loss of construction time, the Group had advanced the purchase of coal excavators to enable construction contractors to accelerate the progress of tunneling work.

On 30 June 2010, the Group disposed of its remaining 14.57% interest in Long Capital Development Limited ("Long Capital"), details of which were discussed in the Company's announcement dated 30 June 2010 ("Announcement"). Capitalized terms used herein shall have the same meanings as those defined in the Announcement.

As the Group's business strategy is to reposition itself as an integrated coke producer in the PRC, further to the completion of "very substantial disposal — issue of new shares by Long Capital Development Limited" where the Group's interest in Long Capital was reduced from 51% to 14.57% in March 2010, the Directors considered it would be more beneficial to the Group to dispose of its remaining 14.57% interest in Long Capital in order to focus its resources and management time in the coking coal business operations.

Long Capital is an investment holding company incorporated in the British Virgin Islands with limited liability and an indirectly owned investment of the Company. Challenger Auto Services Limited is a wholly-owned subsidiary of Long Capital engaging in the business of providing repairs and maintenance services to motor vehicles, operating car accessories shops, car wash, cleaning and beauty services and brokerage of motor vehicle insurance in Hong Kong.

Following completion of the aforesaid disposal on 30 June 2010, the Group will no longer be involved in the business of providing repairs and maintenance services to motor vehicles and its principal business is the coking coal business operation.

Taking into account the Purchase Price, the professional fees payable for the Disposal and the carrying value of the Sales Shares as at 31 March 2010, the Group recorded a loss of approximately HK\$2.8 million from the aforesaid Disposal.

OUTLOOK

Construction of the Group's 1.5 mtpa beneficiation plant is progressing and is targeted for completion in the first half of 2011.

The Group has applied for the renewal of its approved license to build and operate a 0.80 mtpa coking plant. Subsequent to the renewal of the 0.80 mtpa license, the Group intends to apply for approval to enlarge the processing capacity of the coking plant to 0.96 mtpa. Construction of the coking plant has been planned to commence in early 2011, and is expected to take twelve months to complete.

The Group's coking coal mine, located in the district of Qian Li Gou (千里溝) in Ordos, 35 kilometers from Wuhai, Inner Mongolia. Wuhai is the main area that produces coking coal and coke in Inner Mongolia, with approximately 20 million tonnes of annual raw coking coal production. The Group's mine is one of the thirteen mines in the district. The majority of these mines are not in production because they cannot meet the minimum 0.6 mtpa production quota in Ordos. The Group's coking coal mine, being the largest in the district and the only one being owned by a listed company, is favorably supported by the local government and the Group is regarded as having the financial resources and technical capability to acquire and consolidate the other small coking coal mines in the district for commencing production in future. The Group is actively evaluating these acquisition opportunities as well as others.

Capital expenditures for the construction of the underground mine, which is anticipated to be around RMB480 million, are being satisfied by the Group's internal resources together with a RMB300 million loan provided by the China Construction Bank (the "Bank"). Recently, in response to a credit review process, an undertaking letter affirming the Group's commitment to provide about RMB50 million to RMB70 million, being the estimated balance of the Group's RMB180 million internal resources funding commitment, was issued by a subsidiary of the Group to the Bank.

The Group continues to look towards the steel industry to gauge the health of the coking coal industry. The latest crude steel production estimate for 2010 remains robust with some industry experts predicting a 11% increase over last year's China's historical record breaking performance of 568 million tonnes.

A research paper recently published by an investment bank provided yet another positive outlook for the coking coal industry. The paper reported “a much needed and long-awaited hike to long-term commodity prices has taken place” with coking coal being named amongst its list of winners. In the report, the long-term global price for coking coal has been revised upward by 42% to USD170 per tonne.

On 15 October 2009, the Company announced the entering into a memorandum of understanding (“MOU”) concerning the proposed acquisition of interest by the Company in Nobel Holdings Investments Ltd. Such proposed acquisition still remains on foot. The recently introduced Chapter 18A to the GEM Listing Rules and other changes in the application of relevant rules have given rise to regulatory issues and complications on the proposed transactions in terms of transaction structure and contents of disclosure materials. Despite the challenges presented by regulatory issues, the Company remains interested in pursuing the proposed acquisition on structure and terms that are satisfactory to the parties and in manner that complies with all applicable regulatory requirements. However it should be pointed out that there is no commitment on the parties to the MOU to pursue the proposed acquisition in the manner contemplated under the MOU or at all.

The Group’s strategy continues to be looking for other appropriate investment opportunities in the energy and resources sector.

FINANCIAL REVIEW

Upon completion of disposal of the business operation of providing beauty and repairs services to motor vehicles during the period under review, the coking coal business operation represented the only business operation generating turnover for the Group for the three months ended 30 June 2010. Turnover of the Group recorded a decrease compared to that of the same period last year, which mainly represented turnover from the business operation of providing beauty and repairs services to motor vehicles.

Turnover from the Group’s continuing and discontinued operations for the three months ended 30 June 2010 was approximately HK\$4.8 million (2009: HK\$11.3 million), representing a decrease of approximately 57.5% as compared to the same period last year.

Correspondingly, gross profit from the Group’s continuing operations for the three months ended 30 June 2010 was approximately HK\$1.2 million.

For the three months ended 30 June 2010, the total administrative and other operating expenses from the Group's continuing operations and discontinued operations totaled HK\$4.4 million (2009: HK\$10.9 million).

For the three months ended 30 June 2010, total finance cost from the Group's continuing operations amounted to HK\$3.4 million (2009: HK\$8.7 million), representing an accrued interest payable on the Convertible Bonds upon the Bondholders redemption of Convertible Bonds.

The Group recorded loss for the period of approximately HK\$9.3 million (2009: HK\$12.3 million). During the period, because exchange differences of translation of currency from foreign operations recorded a gain of approximately HK\$15.67 million, hence the Group recorded total comprehensive income for the period of approximately HK\$6.4 million (2009: (12.2) million).

The Group recorded the total comprehensive income attributable to owners of the Company of approximately HK\$1.7 million (2009: HK\$(12.4) million) for the three months ended 30 June 2010.

LIQUIDITY AND FINANCIAL RESOURCE

As at 30 June 2010, the Group has a bank and cash balance of approximately HK\$441 million (as at 31 March 2010: HK\$440 million).

In May 2009, Mengxi Minerals, a subsidiary company of the Group, secured a RMB300 million bank loan with an effective term of 89 months to provide partial funding to construct the underground mine and the beneficiation plant. The balance of capital expenditure requirement will be funded from cashflow generated from our open pit operation and internal resources of the Group. The loan was secured by the Mining License and 100% Equity Shares of Mengxi Minerals.

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total assets, was 0.44 as at 30 June 2010 (as at 31 March 2010: 0.37).

CAPITAL STRUCTURE

During the period, the Company has received from conversion notice from the Bondholders regarding the conversion of a principal amount of HK\$72,870,000 of the Replacement Bonds into 106,900,000 new Shares. Upon completion of the conversion exercise during the period, the outstanding principal of the Replacement Bonds was amounting HK\$217,660,000 and a maximum of approximately 357,410,000 new Shares can be converted on the maturity date.

During the period, the Company has received an exercise notice from the grantee regarding the exercise of share option of conversion into 540,000 new Shares.

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi ("RMB"). As at 30 June 2010, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

OTHER INFORMATION

1. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 2010, the interests and short positions of the directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the directors are as follows:

Long position in Shares and underlying Shares

Name of Directors	Capacity	Number of Shares	Approximate percentage of the total issued Shares as at 30 June 2010	
			Number of underlying Shares	(Note 1)
Chan Nap Kee, Joseph	Beneficial owner	200,000	24,981,750	1.19%
Yeap Soon P, Jonathan	Beneficial owner	300,000	7,700,000	0.38%
Chow Pok Yu, Augustine	Beneficial owner	700,000	4,925,000	0.27%
Yang Geyan (Note 2)	Beneficial owner	118,345,000	—	5.60%
Yang Yongcheng	Beneficial owner	—	4,925,000	0.23%
Liew Swee Yean	Beneficial owner	540,000	—	0.03%
Siu Siu Ling, Robert	Beneficial owner	540,000	—	0.03%
Wong Yun Kuen	Beneficial owner	540,000	—	0.03%
Anderson Brian Ralph	Beneficial owner	—	1,200,000	0.06%

Note 1: 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.

Note 2: Zhong Well Enterprises Limited is wholly-owned by Yang Geyan who is deemed to be interest in the 103,620,000 Shares held by Zhong Well Enterprises Limited under the SFO.

Save as disclosed above, as at 30 June 2010, 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.

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

- (a) As at 30 June 2010, 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 underlying Shares	Total Interest	Approximate percentage of the total issued Shares as at
					30 June 2010
<i>(Note 5)</i>					
<i>Substantial shareholders</i>					
Zhang Zhi Ping	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 <i>(Note 1)</i>	25.09%
Zhang Gaobo	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 <i>(Note 1)</i>	25.09%
Oriental Patron Financial Group Limited ("OPFGL")	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 <i>(Note 1)</i>	25.09%
OP Financial Investments Limited ("OPFIL")	Interest of a controlled corporation	129,260,000	206,070,000	335,330,000 <i>(Note 1)</i>	15.87%
Profit Raider Investments Limited ("PRIL")	Beneficial owner	129,260,000	206,070,000	335,330,000 <i>(Note 1)</i>	15.87%

Kaisun Energy Group Limited

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number underlying Shares	Approximate percentage of the total issued Shares as at	
				Total Interest	30 June 2010
<i>(Note 5)</i>					
<i>Other persons who had interests in the Shares and underlying Shares</i>					
Oriental Patron Financial Services Group Limited ("OPFSG")	Interest of a controlled corporation	86,380,000	108,420,000	194,800,000	9.22%
				<i>(Note 1)</i>	
Pacific Top Holding Limited ("PTHL")	Beneficial owner	86,380,000	108,420,000	194,800,000	9.22%
				<i>(Note 1)</i>	
Yang Geyan	Beneficial owner/Interest of a controlled corporation	118,345,000	—	118,345,000	5.60%
				<i>(Note 2)</i>	
Zhong Well Enterprises Limited	Beneficial owner	103,620,000	—	103,620,000	4.90%
				<i>(Note 2)</i>	
Hung Shui Chak	Beneficial owner/Interest of a controlled corporation	113,615,000	—	113,615,000	5.38%
				<i>(Note 3)</i>	
Dragonfair International Limited	Beneficial owner	103,390,000	—	103,390,000	4.89%
				<i>(Note 3)</i>	
GEM Global Yield Fund Limited ("GEM Global")	Beneficial owner/Interest of a controlled corporation	230,000,000	791,000,000	1,021,000,000	48.32%
				<i>(Note 4)</i>	

Notes:

1. OPFGL holds 215,640,000 Shares and 314,490,000 underlying Shares. OPFGL is 51% owned by Zhang Zhi Ping and is 49% owned by Zhang Gaobo.

Of these 215,640,000 Shares and 314,490,000 underlying Shares of the Company, 86,380,000 Shares and 108,420,000 underlying Shares are held by PTHL. PTHL is wholly owned by OPFSGL, OPFSGL is 95% held by OPGFL. Zhang Zhi Ping, Zhang Gaobo, OPFGL and OPFSGL are deemed to be interested in the interests held by PTHL under the SFO.

Of these 215,640,000 Shares and 314,490,000 underlying Shares, 129,260,000 Shares and 206,070,000 underlying Shares are held by PRIL. PRIL is wholly owned by OPFIL, OPFIL is 42.07% held by Ottness Investments Limited ("OIL"). Zhang Zhi Ping, Zhang Gaobo, OPFGL, OIL and OPFIL are deemed to be interested in the interests held by PRIL under the SFO.

2. Zhong Well Enterprises Limited is wholly-owned by Yang Geyan who is deemed to be interested in the 103,620,000 Shares held by Zhong Well Enterprises Limited under the SFO.
3. Dragonfair International Limited is wholly-owned by Hung Shui Chak who is deemed to be interested in the 103,390,000 Shares held by Dragonfair International Limited under the SFO.
4. These 1,021,000,000 Shares and underlying Shares represent the aggregate of: (i) the 230,000,000 Shares held by Grand Pacific Source Limited ("Grand Pacific"), which was a wholly-owned subsidiary of GEM Global; and (ii) 170,000,000 underlying Shares held by Grand Pacific and 621,000,000 underlying Shares held by GEM Global. Accordingly, GEM Global is deemed to be interested in those Shares and underlying Shares held by Grand Pacific under the SFO.

The Directors are unable to ascertain the interests of GEM Global as at 30 June 2010, and confirm whether the interests of GEM Global as at 30 June 2010, 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 Stone Investments Limited ("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).

5. The long positions in underlying Shares mentioned above represent the interests held by such Bondholders as at 30 June 2010 in the convertible bonds in the principal amount of HK\$273,330,000 convertible into 400,300,000 new Shares issued by the Company on and subject to the terms of the Variation Agreement.

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 30 June 2010, 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 30 June 2010, Zhong Well Enterprises Limited 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, Yang Geyan is a director of Zhong Well Enterprises Limited.

3. SHARE OPTIONS

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

As at 30 June 2010, a total of 110,897,000 Shares, representing 5.25% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Details of the Options granted under the Scheme during the period ended 30 June 2010 are as follows:

	Date of Grant	Exercise Period	No. of Options				
			Outstanding as at 1/4/2010	Grant during the	Exercise during the	Lapsed during the	Outstanding as at 30/6/2010
				Period	Period	Period	
Directors							
Wong Yun Kuen	19/2/2008	19/2/2008–18/2/2011	540,000	—	(540,000)	—	—
Yeap Soon P, Jonathan	24/6/2008	24/6/2008–23/6/2011	7,700,000	—	—	—	7,700,000
Chan Nap Kee, Joseph	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	4,925,000
	9/2/2010	9/2/2010–8/2/2013	20,056,750	—	—	—	20,056,750
Chow Pok Yu, Augustine	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	4,925,000
Yang Yongcheng	11/8/2009	11/8/2009–10/8/2012	4,925,000	—	—	—	4,925,000
Anderson Brian Ralph	11/8/2009	11/8/2009–10/8/2012	1,200,000	—	—	—	1,200,000
		Sub-total	44,271,750	—	(540,000)	—	43,731,750
Employees in aggregate	24/6/2008	24/6/2008–23/6/2011	5,000,000	—	—	—	5,000,000
	11/8/2009	11/8/2009–10/8/2012	7,143,750	—	—	—	7,143,750
	18/11/2009	18/11/2009–17/11/2012	3,000,000	—	—	—	3,000,000
Other participants in aggregate	19/2/2008	19/2/2008–18/2/2011	500,000	—	—	—	500,000
			59,915,500	—	(540,000)	—	59,375,500

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

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

5. AUDIT COMMITTEE

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

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

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

The unaudited quarterly results for the three months ended 30 June 2010 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

6. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the three months ended 30 June 2010. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the three months ended 30 June 2010.

7. CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the three months ended 30 June 2010. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by Directors.

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

Hong Kong, 9 August 2010

The English text of this report shall prevail over the Chinese text in case of inconsistencies.

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