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

If you have sold or transferred all your Shares, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities 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)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**

AmCap

Ample Capital Limited

豐盛融資有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular. A letter from the Board is set out on pages 6 to 41 of this circular.

A notice convening the EGM to be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong at 10:30 a.m. on Monday, 24 October 2011 is set out on pages EGM-1 to EGM-2 of this circular. If you are not able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with Computershare Hong Kong Investor Services Limited, the Company’s branch share registrar and transfer office in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

6 October 2011

* *For identification purpose only*

CHARACTERISTICS OF GEM

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

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

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“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 of the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer
“AsiaMin”	AsiaMin Consulting Limited, an independent consultant engaged by the Company to prepare the Reconciliation Report set out in Appendix IV to this circular
“Board”	the board of Directors
“Closing Date”	31 December 2011, being the last day on which all of the conditions precedent to Completion are to be fulfilled
“Company”	Kaisun Energy Group Limited (凱順能源集團有限公司*), a company incorporated in the Cayman Islands with limited liability and its shares are listed on the GEM
“competent person”	has the meaning ascribed to it under Chapter 18A of the GEM Listing Rules
“competent person’s report”	has the meaning ascribed to it under Chapter 18A of the GEM Listing Rules
“Completion”	completion of the Equity Transfer Agreement
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	RMB810 million, being the total consideration payable by the Purchaser to the Vendor for the Equity Transfer
“controller”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on Monday, 24 October 2011 at 10:30 a.m. or any adjournment thereof for the purpose of considering, and if thought fit, seeking approval by the Independent Shareholders of the Equity Transfer Agreement and the Equity Transfer contemplated thereunder
“Equity Interest”	70% of the registered capital in Mengxi Minerals held by the Vendor

DEFINITIONS

“Equity Transfer”	the disposal and transfer of the Equity Interest by the Vendor to the Purchaser pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	a conditional sale and purchase agreement entered into between the Vendor and the Purchaser on 15 June 2011 in connection with the Equity Transfer
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company (comprising Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, being all the independent non-executive Directors) formed by the Company to advise the Independent Shareholders as to whether the terms of the Equity Transfer are fair and reasonable and whether the Equity Transfer are in the interests of the Company
“Independent Financial Adviser”	Ample Capital
“Independent Shareholders”	Shareholders which are not required to abstain from voting at the EGM convened for the approval of the transaction contemplated under the Equity Transfer Agreement
“Independent Third Party”	has the meaning ascribed thereto in the GEM Listing Rules
“Inner Mongolian Government”	the People’s Government of the Inner Mongolia Autonomous Region (內蒙古自治區人民政府)
“JORC Code” or “JORC”	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2004
“Kamarob”	Kamarob LLC, a subsidiary of Saddleback incorporated in Tajikistan and the operating vehicle of the Kaftar Hona anthracite deposit.
“Latest Practicable Date”	30 September 2011

DEFINITIONS

“Mengxi HT”	內蒙古蒙西高新技術集團有限公司 (Inner Mongolia Mengxi Gaoxing High Tech Limited*), a company incorporated in the PRC and owner of 30% equity interest in Mengxi Minerals
“Mengxi Minerals”	內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Co., Ltd.*), an indirect non wholly owned subsidiary of the Company
“Mines”	the three mines owned by the Saddleback Group in Tajikistan, namely the Kaftar Hona anthracite deposit, the East Zeddi coal deposit and the Mienadu coal deposit
“NAV”	the net asset value attributable to the Equity Interest of approximately RMB1,506.8 million (equivalent to approximately HK\$1,815.4 million), included in the audited consolidated financial statements of the Group as at 31 December 2010 prepared in accordance with Hong Kong Financial Reporting Standards
“Notice”	A notice entitled 內蒙古自治區人民政府關於印發自治區煤炭企業兼併重組工作方案的通告 (notice issued by the Inner Mongolian Government on the printing and distribution of the working proposal on merger and reorganisation of local coal enterprises) published on 18 March 2011 regarding the proposed merger and restructuring of coal mining industry in the Inner Mongolia Autonomous Region
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	鄂托克旗新亞煤焦有限責任公司 (Otog Banner Xin Ya Coking Coal Co. Ltd*), a company incorporated in the PRC
“Reconciliation Report”	the report prepared by AsiaMin on reconciliation of the resources classification of the Mines from the Russian system to the Committee for Mineral Reserves International Reporting Standards System, a copy of which is set out in Appendix IV to this circular
“Remaining Group”	the Group following the Completion
“RMB”	Renminbi, the lawful currency of the PRC
“Saddleback”	Saddleback Mining Limited, a company incorporated in England and Wales and an indirect wholly owned subsidiary of the Company, which in turn owns the Mines through its subsidiaries

DEFINITIONS

“Saddleback Gold”	Saddleback Gold Corporation LLC, a wholly-owned subsidiary of Saddleback incorporated in Tajikistan
“Saddleback Group”	Saddleback and all its subsidiaries
“Sangghalt”	Sangghalt LLC, a subsidiary of Saddleback incorporated in Tajikistan and the operating vehicle of the East Zeddi coal deposit
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Mining Transaction”	the transaction entered into, among others, by Shandong Mining Machinery Group Co., Ltd. (stock code: 002526), a company listed on the Shenzhen Stock Exchange, in relation to its disposal of 51% equity interests in a company, which indirectly held interest in a coal mine in Paishupo, Jungger, Inner Mongolia, the details of which is published in the announcement of the said company dated 18 May 2011
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tajikistan”	the Republic of Tajikistan
“Vendor”	Joy Harvest Holdings Limited (鴻欣集團有限公司), a wholly owned subsidiary of the Company incorporated in Hong Kong
“VSD Announcement”	the announcement of the Company dated 18 July 2011 in relation to, among others, the Equity Transfer
“Vuromun”	Vuromun LLC, a subsidiary of Saddleback incorporated in Tajikistan and the operating vehicle of the Mienadu coal deposit
“UK”	the United Kingdom
“GBP”	British pound, the lawful currency of UK
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“TJS”	Tajikistani somoni, the lawful currency of Tajikistan
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent.

Unless otherwise stated, in this circular, for illustration purpose only, amounts quoted in RMB, US\$, GBP and TJS have been converted into HK\$ at the rate of HK\$1 to RMB0.83, HK\$ to US\$0.128, HK\$1 to GBP0.082 and HK\$1 to TJS0.628 respectively. Such exchange rates have been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at these or any other rates or at all.

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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 and acting Chief Executive Officer)
Dr. Chow Pok Yu, Augustine
Mr. Yang Yongcheng
Mr. Li Hong

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

6 October 2011

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

*To the Independent Shareholders and,
for information purpose only, the holders of
share options and the bondholders of the Company*

Dear Sir or Madam,

INTRODUCTION

References are made to the announcements made by the Company on 18 July 2011, 31 August 2011, 15 September 2011, 23 September 2011 and 30 September 2011.

On 18 July 2011, the Company announced that after the trading hours of the Stock Exchange on 15 June 2011, the Vendor entered into the Equity Transfer Agreement with the Purchaser, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Equity Interest at the Consideration of RMB810 million (equivalent to approximately HK\$976 million). The Equity Interest represents 70% of the registered capital of, and the Group's entire interest in, Mengxi Minerals.

* For identification purpose only

LETTER FROM THE BOARD

The Equity Transfer constitutes a very substantial disposal and a connected transaction for the Company under the GEM Listing Rules and is therefore subject to the approval of the Independent Shareholders at the EGM by way of poll. As at the Latest Practicable Date, to the best knowledge of the Directors, given that the Purchaser, its ultimate beneficial owner(s) and Mengxi HT are not Shareholders, no Shareholder has a materially different interest in the Equity Transfer, and thus no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its associates (as defined in the GEM Listing Rules) did not hold any Shares as at the Latest Practicable Date.

The purpose of this circular is to provide you with (i) information on the Equity Transfer Agreement; (ii) the financial information of Mengxi Minerals; (iii) the unaudited pro forma financial information of the Remaining Group; (iv) financial information of Saddleback Gold and its subsidiaries; (v) a report on reconciliation of the resources classification of the Mines from the Russian system to the Committee for Mineral Reserves International Reporting Standards System; (vi) other information as required under the GEM Listing Rules; and (vii) a notice of the EGM.

EQUITY TRANSFER AGREEMENT DATED 15 JUNE 2011

Parties

- (1) 鄂托克旗新亞煤焦有限責任公司 (Otog Banner Xin Ya Coking Coal Co. Ltd) (for identification purposes only), a company incorporated in the PRC (as the Purchaser); and
- (2) Joy Harvest Holdings Limited (鴻欣集團有限公司), a wholly-owned subsidiary of the Company incorporated in Hong Kong (as the Vendor)

To the Directors' best knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Group and any of the Group's connected persons. The Purchaser is a company principally engaged in coal mining in Inner Mongolia, the PRC.

Assets to be disposed of

Pursuant to the Equity Transfer Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Equity Interest, representing 70% equity interest in the entire registered capital of Mengxi Minerals.

The Equity Transfer and the Consideration

Under the Equity Transfer Agreement, the Vendor shall sell and the Purchaser shall acquire the Equity Interest at a cash Consideration of RMB810 million (equivalent to approximately HK\$976 million), which is to be paid in the following manner:

- (a) as to RMB220 million (equivalent to approximately HK\$265 million), already paid by the Purchaser in cash to the Vendor prior to signing of the Equity Transfer Agreement as deposit and part payment of the Consideration; and

LETTER FROM THE BOARD

- (b) as to the remaining balance of the Consideration, namely RMB590 million (equivalent to approximately HK\$711 million), to be paid by the Purchaser to the Vendor immediately upon the fulfillment of the conditions precedent (c) and (e) as described in the paragraph headed “Completion of the Equity Transfer and conditions precedent” below.

The sum of RMB220 million (equivalent to approximately HK\$265 million) was paid to the Vendor on 24 May 2011 initially as earnest money. No letter of intent or memorandum of understanding was entered into at time of such payment. When the Equity Transfer Agreement was entered into, such sum was, on the terms of the Equity Transfer Agreement, treated as deposit and part payment of the Consideration.

The Consideration was determined after arm’s length negotiations between the Company and the Purchaser with reference to, inter alia, the coking coal reserves and production capacity of Mengxi Minerals, the NAV, the original investment costs, impairment on value of the Equity Interest as a result of introduction of the Inner Mongolian Government policy on proposed merger and restructuring of coal mining industry and transacted prices of equity interest in mining companies in Inner Mongolia, the PRC.

The Board was referred to, and took into account in determining the amount of the Consideration an announcement in relation to the Shangdong Mining Transaction, a disposal of 51% equity interests in a company, which is indirectly interested in a coal mine in Paishupo, Jungger, Inner Mongolia. Compared with the Shangdong Mining Transaction, a deep discount for the price per tonne was applicable to the Equity Transfer. The Shangdong Mining Transaction was the only transaction the Company had found which was properly announced with figures available in the public domain at the time of the Board’s deliberation process. The Shangdong Mining Transaction was only one of the numerous factors considered by the Board during the deliberation process for the Consideration, but it found that a direct comparison between the two was not applicable due to the difference in scale, coal reserve volume, quality, etc.. The Board also considered other factors when reaching the decision which other companies might not need to take into account, such as the future development needs of the Group’s other operations such as the Mines, and the substantial capital input that would be required to increase the annual production of Mengxi Minerals to avoid elimination in light of the Notice. Please refer to the section headed “Mengxi Minerals” under “Management Discussion and Analysis on the Remaining Group” for further details. The Board considered that raising substantial funds from the equity market may not be feasible due to the unfavourable market sentiment, while the Purchaser was the only buyer willing to offer the consideration entirely in cash, which might be used to strengthen the Group’s Tajikistan operation immediately. Moreover, in view of the Notice, the Board believed that a swift decision had to be made as offers were limited. Given the above, the Board therefore considered that deep discount in price per tonne compared to that of the Shangdong Mining Transaction is justifiable.

Taking into account the matters disclosed herein, the reasons and benefits as stated in the paragraph headed “Reasons for and Benefits of the Equity Transfer” below and the financial effect as stated in the paragraph headed “Financial Effect of the Equity Transfer”, the Board considers that the terms of the Equity Transfer Agreement, the Equity Transfer and the Consideration are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Completion of the Equity Transfer and conditions precedent

The Equity Transfer Agreement takes effect upon signing, and will remain effective regardless of whether all of the conditions precedent to Completion have been fulfilled by the Closing Date. Under the Equity Transfer Agreement, completion of the Equity Transfer is conditional upon, among other things, fulfilment of the following conditions precedent:

- (a) Mengxi HT waiving its pre-emptive right over the Equity Transfer;
- (b) the board of directors and shareholders of Mengxi Minerals approving the Equity Transfer and the making of amendments to the articles of Mengxi Minerals consequential to consummation of the Equity Transfer;
- (c) the passing of an effective resolution by the Shareholders (or where applicable, by the Independent Shareholders) at a general meeting to be convened approving the Equity Transfer Agreement and the Equity Transfer contemplated thereby;
- (d) compliance with all requirements under the GEM Listing Rules or of the Stock Exchange or other regulatory authorities applicable to the Equity Transfer, all necessary approvals and compliance with all legal and regulatory requirements applicable to the Equity Transfer at time of execution of the Equity Transfer Agreement;
- (e) the Bureau of Commerce of the Inner Mongolia Autonomous Region (內蒙古自治區商務廳) granting its approval to the Equity Transfer;
- (f) the issuance of a new business licence upon the conversion of Mengxi Minerals from a sino-foreign equity joint venture into a PRC domestic enterprise;
- (g) China Construction Bank Corporation, Ordos Branch (“CCB”) granting its written consent to the Equity Transfer and agreeing to release or vary the equity pledge agreement entered into by CCB and the Vendor concerning the Equity Interest; and
- (h) full payment of the Consideration by the Purchaser to the Vendor in accordance with the terms of the Equity Transfer Agreement and payment by the Purchaser in accordance with applicable laws of all taxes and charges levied upon the Equity Transfer and other administrative or registration fees chargeable upon consummation of the Equity Transfer and production by the Purchaser to the Vendor of evidence of due payment of such taxes.

If the resolution proposed at the general meeting of the Shareholders for approving the Equity Transfer Agreement and the Equity Transfer is not passed by the Shareholders (or where applicable, the Independent Shareholders), the Vendor shall refund to the Purchaser all amounts of Consideration received under the Equity Transfer Agreement, without interest.

LETTER FROM THE BOARD

The above conditions precedent to Completion shall be fulfilled on or before the Closing Date. If by the Closing Date, conditions (c), (d) and (e) have been fulfilled and the other conditions shall remain outstanding, the Purchaser may require the Vendor to transfer the management of and control in Mengxi Minerals to the Purchaser and Mengxi Minerals would accordingly cease to become a subsidiary of the Group. Upon the control of Mengxi Minerals being transferred from the Group to the Purchaser, the results of Mengxi Minerals will be de-consolidated from the Group. As by the Closing Date the full amount of the Consideration would have been received, the Board is of the view that this arrangement is in the interest of the Shareholders and the Company's position is well protected.

The Equity Transfer Agreement may only be terminated based on four grounds, namely (i) breach of any obligation, promises, representation or warranties contained therein and the failure on the part of the breaching party to rectify the said breach within prescribed period; (ii) any of the conditions not being fulfilled on or before the Closing Date due to the Purchaser's default; (iii) the full amount of Consideration not being received after conditions (c) and (e) above having been fulfilled; and (iv) the default on the part of the Purchaser to produce to the Vendor evidence of due payment of payment by the Purchaser of all taxes and charges levied upon the Equity Transfer in accordance with applicable laws. Except for (i), all other grounds can only be relied on and exercised by the Vendor. The parties are not prohibited from extending the Closing Date under the Equity Transfer Agreement. In the event that the Closing Date is mutually agreed to be extended, the financial effect that will follow will depend on the ground(s) of termination, the merits of the relevant claim and the financial condition of Mengxi Minerals.

If non-fulfillment of any of the conditions set out above by the Closing Date, namely 31 December 2011, shall be caused by the Purchaser, the Vendor shall be entitled to terminate the Equity Transfer Agreement and refuse to refund the Consideration received to the Purchaser.

Neither party to the Equity Transfer Agreement may unilaterally waive any of the conditions set out above.

Completion shall take place on the date on which all the above conditions precedents have been fulfilled.

Purchaser's right to participate in management of Mengxi Minerals

After signing of the Equity Transfer Agreement, the Purchaser may appoint a finance officer to participate in the management of Mengxi Minerals. Approval from the Purchaser has to be sought prior to the entry into of any contract by Mengxi Minerals in relation to production or conduct of its business of an amount greater than RMB3 million.

Acquisition by the Purchaser of remaining 30% interest in Mengxi Mineral from Mengxi HT

The Purchaser has entered into separate agreement with Mengxi HT for its acquisition from Mengxi HT the remaining 30% interest in Mengxi Minerals. As a result, the Purchaser will own 100% of Mengxi Minerals. It is a term of the Equity Transfer Agreement that the Purchaser's acquisition of remaining interest in Mengxi Minerals will be consummated either at the same time as or after consummation of the Equity Transfer.

LETTER FROM THE BOARD

References are made to the VSD Announcement and the Company's clarification announcement dated 15 September 2011. The Board wishes to clarify that although the Purchaser and its ultimate beneficial owner are Independent Third Parties, given the fact that (i) Mengxi HT owns 30% equity interest in the entire registered capital of Mengxi Minerals, Mengxi HT is a substantial shareholder and controller of Mengxi Minerals; and (ii) the Purchaser has entered into an agreement with Mengxi HT to acquire the 30% equity interest in Mengxi Minerals, the Equity Transfer constitutes a connected transaction of the Company under Rule 20.13 (1) (b) (i) of the GEM Listing Rules as it involves the Group disposing of its interest in Mengxi Minerals where Mengxi HT, the substantial shareholder of Mengxi Minerals, is a controller and none of the exemptions set out in the notes to Rule 20.13 (1) (b) (i) are applicable. Save as aforesaid, Mengxi HT does not have any interest in the Equity Transfer. The Board wishes to clarify that the terms of the Equity Transfer Agreement remained the same since the VSD Announcement, but inadvertently omitted to make reference to Rule 20.13 (1) (b) (i) of the GEM Listing Rules in the VSD Announcement.

FINANCIAL EFFECT OF THE EQUITY TRANSFER

Upon completion of the Equity Transfer, Mengxi Minerals will cease to be a subsidiary of the Company and its financial results will not be consolidated into the financial statements of the Group.

Included in the audited consolidated financial statements of the Group as at 31 December 2010, the net asset value of Mengxi Minerals was approximately RMB2,152.6 million (equivalent to approximately HK\$2,593.5 million) and the net asset value attributable to the Equity Interest was approximately RMB1,506.8 million (equivalent to approximately HK\$1,815.4 million). The Equity Transfer is expected to record an estimated loss of approximately HK\$800 million (after relevant expenses and subject to audit) for the Group, which was arrived at by subtracting the Consideration from the NAV. The original investment costs of Mengxi Minerals were approximately HK\$901.37 million, which was arrived at by adding up original investment cost of acquiring 49% and 21% interests in Mengxi Minerals on 10 June 2008 and 10 December 2009 respectively. The investment costs of acquiring 49% interests in Mengxi Minerals comprised (i) the share capital and convertible bonds issued as partial consideration; (ii) cash paid for the investment cost and loan and debt; and (iii) the professional fee incurred, which was approximately HK\$305.7 million, HK\$545.9 million and HK\$29.9 million respectively. The investment costs of acquiring 21% interests in Mengxi Minerals mainly consisted of the cash paid for additional investment costs of approximately HK\$19.8 million. If the Consideration is compared to the original investments costs, the Equity Interest would be disposed of at a premium of approximately HK\$74.6 million. The net asset value of Mengxi Minerals was substantially increased at the time of acquisition due to different accounting treatment between the Hong Kong Financial Reporting Standards and the relevant PRC accounting standards. The total amount of capital expenditure made by the Group in Mengxi Minerals since its acquisition was approximately HK\$299 million, which was incurred for acquiring and construction of building, plant and machinery, for construction in progress, for deposit paid for construction in progress, and for other items, the amount of which was approximately about HK\$27.6 million, HK\$13.8 million, HK\$34 million, HK\$221.7 million and HK\$1.9 million respectively.

LETTER FROM THE BOARD

Based on the unaudited pro forma financial information of the Remaining Group as set out in the Appendix II to this circular, the financial effects of the Equity Transfer on the Group are summarised as follows:

- (i) the Group's total assets would decrease by approximately 71% from approximately HK\$3,870 million to HK\$1,125 million, and the Group's total liabilities would decrease by approximately 81% from approximately HK\$1,383 million to approximately HK\$261 million assuming the Equity Transfer had been completed on 31 December 2010; and
- (ii) the Group's loss would increase by approximately 2,571% from a loss for the nine months ended 31 December 2010 of approximately HK\$28 million to approximately HK\$754 million, which is calculated based on (a) the exclusion of the profit of Mengxi Minerals for the nine months ended 31 December 2010 of approximately HK\$12 million; and (b) the inclusion of the estimated loss of approximately HK\$714 million arising from the Equity Transfer, after deducting expenses incidental to the Equity Transfer assuming the Equity Transfer had been completed on 1 April 2010.

It is intended that the sale proceeds of the Equity Transfer will be used as to HK\$250 million for making provision for cash redemption of the outstanding convertible bonds falling due on 10 June 2013; as to HK\$49.5 million planned for expanding the production capacity of the three Mines held by the Group in Tajikistan for the year 2011; as to the remaining balance of Consideration, for general working capital and potential investment opportunity.

The Group is negotiating with the Tajikistan government to obtain the rights for other coal mines in Tajikistan. The Company is also actively seeking other energy and resources based investment opportunities and at preliminary stage of reviewing a few potential investment opportunities. However apart from the on-going negotiation with the Tajikistan government for other coal mines in Tajikistan, the Company has not started negotiation with the counterparties on the pricing and commercial terms of the potential investments. At present, no legally binding agreements have been entered into by the Company to acquire or inject new business or assets into the Group. Furthermore, the Company has not entered into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, nor negotiation (whether concluded or not) and intention to dispose of or downsize its remaining business after the completion of the Equity Transfer. The Company will make appropriate disclosure in accordance with the GEM Listing Rules upon the occurrence of any price sensitive development concerning the Group or the entering into of legally binding agreements for the acquisition or injection of new business or assets into the Group.

INFORMATION ON MENGXI MINERALS AND THE GROUP

Mengxi Minerals is a sino-foreign equity joint venture established in the PRC and is owned as to 70% by the Company indirectly and 30% by Mengxi HT. Mengxi Minerals is a subsidiary of the Company. As disclosed in the Company's announcements dated 11 June 2008 and 15 December 2009, the Company acquired 49% equity interest in Mengxi Minerals on 10 June 2008 and a further 21% equity interest in Mengxi Minerals on 10 December 2009. The equity interest in Mengxi Minerals to be disposed of in favour of the Purchaser represents the entire interest held by the Vendor. The Company will therefore cease to hold any remaining interest in Mengxi Minerals after completion of the Equity Transfer.

LETTER FROM THE BOARD

Mengxi Minerals is principally engaged in 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 holds a mining license giving the right of exploitation of a coal mine located at the Zhou Zi Shan Kulihuoshatu Coal Mine, Inner Mongolia, the PRC.

Set out below is a summary of certain financial information of Mengxi Minerals for the nine months ended 31 December 2010 and for the year ended 31 March 2010 prepared according to Hong Kong Financial Reporting Standards:

	For the nine months ended 31 December 2010 HK\$	For the year ended 31 March 2010 HK\$
Turnover	59,618,521	20,548,130
Net profit/(loss) before taxation and extraordinary items	15,444,076	(31,768,141)
Net profit/(loss) after taxation and extraordinary items	11,989,856	(32,154,834)

Included in the audited consolidated financial statements of the Group made up to 31 December 2010, the net asset value of Mengxi Minerals is approximately RMB2,152.6 million (equivalent to approximately HK\$2,593.5 million) and the net asset value attributable to the Equity Interest is approximately RMB1,506.8 million (equivalent to approximately HK\$1,815.4 million) as at 31 December 2010. For the period ended 31 December 2010, the net profit before and after taxation and extraordinary items attributable to the Equity Interest amounted to RMB9.38 million and RMB7.28 million respectively. For the period from 10 December 2009 (being the date from which Mengxi Minerals became a subsidiary of the Company and its accounts were consolidated into that of the Group's consolidated accounts) to 31 March 2010, the net loss before and after taxation and extraordinary items attributable to the Equity Interest amounted to RMB2.45 million and RMB2.66 million respectively. The said net loss represented the losses recognised by the Group for the period from 10 December 2009 (date of Mengxi Minerals becoming a subsidiary of the Group) to 31 March 2010.

The Group is principally engaged in the investments in mining, sale and processing of coking coal in the PRC as well as coal and anthracite mining and exploration in Tajikistan.

The Purchaser is a company principally engaged in coal mining in Inner Mongolia.

REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER

Following the consolidation of the coal mining industry in Henan, Guizhou and Shanxi, Inner Mongolia is also implementing such kind of consolidation exercise and therefore merger and acquisition of coal mines in Inner Mongolia is expected to materialize.

LETTER FROM THE BOARD

A notice entitled 內蒙古自治區人民政府關於印發自治區煤炭企業兼併重組工作方案的通知 (notice issued by the Inner Mongolian Government on the printing and distribution of the working proposal on merger and reorganisation of Inner Mongolian Autonomous Region local coal enterprises) was published by the Inner Mongolian Government on 18 March 2011 regarding the proposed merger and restructuring of coal mining industry in the Inner Mongolia Autonomous Region. Objective of the proposal is that by the end of year 2013 all operators of coal mines with annual production capacity below 1.2 million tonnes will be eliminated, and for areas with potential, the minimum annual production capacity requirement could be raised to 3 million tonnes. The elimination will be effected by a process of mergers, acquisitions and restructuring. The list of the mine operators to be classified as acquirers or acquirees is expected to be announced by the Inner Mongolian Government shortly. Mengxi Minerals has not received any formal notice or official document from any relevant authorities of the Inner Mongolian Government regarding the policy as at the Latest Practicable Date. The Company sought legal advice from its PRC legal advisers on how the Inner Mongolian Government policy on proposed merger and restructuring of coal mining industry may impact Mengxi Minerals. The responses received were mixed and inconclusive. According to the Notice, the proposed merger and restructuring of the coal mining industry in Inner Mongolia will be implemented in the period from the second half of year 2011 and to year 2013. Settlement of the list of mine operators to be classified as acquirers or acquirees is expected to be among the first steps to be taken in the implementation process of the policy. Since implementation of the Notice will commence in the second half of year 2011, the list of mine operators to be classified as acquirers or acquirees can be expected to be announced within the second half of year 2011.

The underground mining license operated by Mengxi Minerals is currently 1.2 million tonnes per annum. Mengxi Minerals is located in the regulatory region of Ordos in Inner Mongolia. Based on discussion with the Company's joint venture partner, Mengxi HT, having regard to the fact that the mine held by Mengxi Minerals is located in an area which is conventionally regarded as an area which produces coal of above average quality, the minimum annual production requirement imposed for Ordos is very likely to be substantially higher than the general requirement of 1.2 million tonnes per annum, and highly likely to reach 2.4 million tonnes per annum. As such Mengxi Minerals is subject to the government restructuring proposal and is liable to be eliminated unless its annual production capacity can be increased to above 2.4 million tonnes by acquisition of other coal mines. Since announcement of the restructuring proposal, prospects and outlook of small coal mine operators in the Inner Mongolia Autonomous Region have become uncertain. In light of the uncertain prospects and outlook brought by this recently imposed government policy, the short time given to mining operators before the Inner Mongolian Government officially announces the classification of mine operators as acquirers and acquirees, and the current unfavorable sentiment in the capital market for the Company to raise capital needed to acquire other mines, the Directors consider the Equity Transfer to be necessary for the Company to eliminate the uncertainty by liquidating its investment in Mengxi Minerals at a reasonable price.

The Purchaser is a coal producer in Otog, Ordos, holding production license of total up to 1.8 million tonnes per annum. After acquiring Mengxi Minerals, the Purchaser's production capacity can reach above 2.4 million tonnes per annum, which is likely to be the minimum annual production requirement by the Inner Mongolian Government.

The Directors therefore consider that the terms of the Equity Transfer Agreement are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP

The financial and trading prospects of the Group and its future plans

Pursuant to the share sale and purchase agreement entered by the Company, West Glory Development Limited (“West Glory”), a wholly-owned subsidiary of the Company and an independent third party dated 15 March 2011, Saddleback Group was acquired conditionally by West Glory at a total consideration of US\$22,433,089 (approximately HK\$174,978,000). As at 31 December 2010, the book value of the total assets of Saddleback Gold and its subsidiaries was GBP4,739,381 (approximately HK\$59,053,000) and completion of acquire the Saddleback Group took place on 25 March 2011. Following the Equity Transfer, the Saddleback Group will be the only remaining operating asset of the Group. The Group will continue to engage in the energy and resources based business. Saddleback Group operates the coal and anthracite mining and exploration business in Tajikistan through the Mines.

Mengxi Minerals

Shareholders are referred to the section headed “Reasons for and benefits of the Equity Transfer” above. Based on discussion with the Company’s joint venture partner, Mengxi HT, it is considered that under the proposed merger and restructuring of coal mining industry in the Inner Mongolia, the PRC, Mengxi Minerals is liable to be eliminated unless its annual production capacity can be increased to above 2.4 million tonnes by acquisition of other coal mines.

Based on the verification works conducted by a team of mining consultants in compliance with JORC, Mengxi Minerals had a total estimated resource of approximately 130.85 million tonnes.

Current status of Mengxi Minerals and its coal mine is as follows:

- Current production capacity: 1.2 million tonnes per annum;
- Beneficiation plant for washing coal: in progress, will be completed within 2 months (designed capacity 1.5 million tonnes per annum);
- Control room (for overseeing underground mining operation): the roof has been constructed (which is the most important step), likely to be completed within 2-3 months;
- 2 water storage (for overall operation and for mining): the first one was completed 2 months ago and it is for the operation of Mengxi Minerals, the second one was completed a month ago specifically used for coal washing/mines;
- Vacuum room (for underground mine): completed 2 months ago;
- Boiler room for heating (for overall operation of Mengxi Minerals): completed 4 months ago;
- Construction of the whole underground mine will be complete by June 2012.

LETTER FROM THE BOARD

Resource estimate of each coal seam of Mengxi Minerals' coal mine is as follows:

Tonnes (t)	Measured	Indicated	Inferred	Total
Seam 9	25,699,331.82	20,813,141.21	0	46,512,473.04
Seam 10	5,190,880.936	3,650,680.007	0	8,841,560.94
Seam 12	7,118,529.669	5,740,352.602	274,739.2662	13,133,621.54
Seam 13	4,813,930.367	4,688,314.463	128,168.8302	9,630,413.66
Seam 14	21,676,338.2	15,568,845.59	355,132.3086	37,600,316.10
Seam 15	5,641,126.992	4,527,379.425	24,098.1806	10,192,604.60
Seam 16	3,057,399.961	1,939,484.501	3,745.9884	5,000,630.45
Total	73,197,538	56,928,197.8	785,884.6	
	56%	43.5%	0.5%	100%

Total Tonnes 130,911,620.33

Coal quality of each coal seam in Mengxi Minerals' coal mine is as follows:

Coal Seam	Thickness Range (m)	Thickness Average (m)	Average calorific value, Qnet.ad. (MJ/kg)	Coal Types	Ash content* (Ad)%	Total sulphur value* (St.d)%	Phosphorus content
Seam 9	0.6-17.44	4.26	21.09	1/3JM	30.53 (high)	1.2 (low)	Low
Seam 10	0.25-3.32	0.94	20.49	1/3JM	32.57 (high)	1.31 (low)	Low
Seam 12	0.4-2.13	1.3	26.75	FM 36 & 1/3 JM	21.28 (low to medium)	1.76 (medium)	Low
Seam 13	0.1-1.3	0.6	-	FM 36	20.74 (low to medium)	1.29 (low)	Medium
Seam 14	0.3-7.7	4.4	23.38	FM 36 & 1/3 JM	28.75 (medium to high)	1.84 (medium)	Low
Seam 15	0-2.8	1.12	22.83	FM 36 & 1/3 JM	27 (medium to high)	1.33 (low)	Low
Seam 16	0-2.24	0.68	22.15	1/3JM	29.58 (medium to high)	1.67 (medium)	Low

Other than the said estimated resource of approximately 130.85 million tonnes owned by Mengxi Minerals, the Board has also taken Mengxi Minerals' currently low production capacity into account which the Board considered to be a more imminent and critical factor when determining the Consideration. With Mengxi Minerals' current production capacity of 1.2 million tonnes per annum, the Group is unable to effectively capitalize and utilize the coal resource with Mengxi Minerals' existing infrastructure. If the Group is to double Mengxi's production capacity to at least 2.4 million tonnes per annum in order to make economic sense of the resources in the near future in light of the consolidation policy set out on the Notice described above, the Group must bear a substantial capital expenditure. However, in terms of feasibility under the current market sentiment, it would be hard for the Group to raise sufficient funds to meet the capital expenditure requirement for increasing Mengxi Minerals' coal mine to a production level of 2.4 million tonnes per year. At the same time, the Board understood the Purchaser will face the same problem when mining the coal resources of Mengxi Minerals after Completion. This factor was also taken into account in determining the Consideration.

LETTER FROM THE BOARD

Saddleback Group's Mines

The Company will expand the production capacity of the Mines, detailed plans of which are set out below:

Kaftar Hona Anthracite Mine ("Kaftar Hona")

Kaftar Hona anthracite open pit mine was brought into small scale production in 2009. Planning for the underground mine is already underway.

Kaftar Hona presently has just over 158,000,000 tonnes of anthracite resources under the Russian GKZ Standard.

It is intended that production of anthracite can reach 35,000 tonnes for 2011, and that production can be increased afterwards depending on the availability of a new road and construction of an underground mine.

East Zeddi Coal Mine ("East Zeddi")

East Zeddi goes into production in June each year in order to coincide with the Tajikistan coal buying season, which continues from June until November each year. East Zeddi has been producing since 2008 with an average annual production of 40,000 tonnes per year since 2009. The Company plans to increase annual production to 177,000 tonnes or more in 2012 and 2013. This increase in production capacity was intended to cater for the increasing demand from factories that are either under construction or planned for construction. As this new demand emerges it will be necessary to start production earlier in the year and extend the mining season up to ten months from the present six months.

East Zeddi presently has just over 17,000,000 tonnes of coal resources under the Russian GKZ Standard.

Mienadu Steam Coal Mine ("Mienadu")

Mienadu has been in pilot scale production of between 2,000 to 5,000 tonnes per year since 2007. The relevant future plans are presently to continue small scale production while in parallel exploring for further reserves and developing plans as to the best way to market and use the future coal production from Mienadu.

The funding of expansion of production capacity of the Mines would be from proceeds arising from the Equity Transfer, if it is consummated. Based on the abovementioned production plan, the Board expects that the business of the Remaining Group will generate positive cash flows in the future.

The Saddleback Group has not yet concluded any large sales agreements with international off takers. Due to the fact that production of export quality anthracite will not start within near future, it is premature to conclude sales agreements at this moment. The Saddleback Group has been engaged in negotiation with several potential off takers for rights to buy anthracite from the Saddleback Group. The Saddleback Group's planned export markets for the anthracite include India and the PRC and Saddleback is in negotiations with off takers from both of these countries.

LETTER FROM THE BOARD

For domestic sales in Tajikistan, the Saddleback Group has concluded some smaller off take agreements with Tajikistan State enterprises and some factories for supply of coal in the year 2011. In Tajikistan, buyers generally prefer to come to the Mines and make purchases on the spot, and take all the coal they require for the year in one deal.

On the other hand, the Group will continue to actively seek other energy and resources based investment opportunities.

Prospects

Tajikistan is strategically located adjacent to the PRC and near India, two of the largest economies in the world. A proposal to construct a railway connecting Kashgar to Pakistan via Kunjerab Pass is under study, and if feasible, construction may start in the next 7 to 10 years. Another proposal to construct new line connecting the PRC and Tajikistan is also under study. These new rail links may facilitate easier access to export to these markets. The decrease in costs of transporting coal and anthracite to India and the PRC may potentially increase the profit margin gained by the Remaining Group from sale of Saddleback's resources.

Meanwhile, the domestic market in Tajikistan is showing signs of expansion, with a number of new industrial projects that require large quantities of coal announced in 2011. One of such projects will be the construction of Tajikistan's first coal-fired power station as announced by the Tajik energy firm named Barqi Tojik on 27 April 2011.

The Saddleback Group has plans in place to start exporting anthracite coal, with India and the PRC as target market. On the other hand, the Saddleback Group intends to increase its production capacity according to the above mentioned plans to satisfy potentially growing domestic market demand for coal in Tajikistan.

The Saddleback Group has planned to work on developmental plans to create value added products from coal such as fertilizer, hydrocarbon fuels and/or synthetic natural gas. Tajikistan is importing liquid fuels and therefore there is potential for producing diesel and petrol from coal for the domestic market.

Rules and regulations applicable to the Saddleback Group's mining operations

(A) *Licensing of subsoil use activity*

The procedure of licensing the coal activity

Pursuant to Article 18 of the Law of Tajikistan On licensing separate kind of activities ("**Licensing Law**") the activity in the field of mining, processing and working the coal is subject to licensing.

The order of licensing the activity in the field of mining, processing and working the coal is determined by the Licensing Law, as well as Regulation On specifics of licensing separate kind activities (new edition) ("**Licensing Regulation**").

LETTER FROM THE BOARD

According to p.1, article10 of the Licensing Law the license is to be issued by the licensing body during the time period not later than 30 days after application for the licence concerned and presentation of all documents needed by the applicant. The list of these documents is determined by article 9 of the Licensing Law as well as by p. 3 of chapter 26 of the Licensing Regulation.

Pursuant to the article 9 of the Licensing Law as well as p. 3 of chapter 26 of the Licensing Regulation the following documents are required for the purposes of obtaining the license for mining, processing and working of coal:

- application with indication of the activity subject to licensing;
- copy of founding documents of the applicant;
- copy of the certificate on registering the applicant as tax-payer;
- information on qualification of employees of the applicant;
- document confirming the payment of the license fee for consideration of the application for obtaining license;
- a list of the normative-technical documents on the basis of which the licensing activity will be conducted;
- positive conclusion of the bodies of the sanitary-epidemiology inspection and control, state energy inspection, state mining and technical inspection, ecology, fire inspections and of the standardization of metrology and certification;
- certification about production and technical basis.

Additional licensing conditions and requirements the applicant is to be meeting were, as of date of issuing license, as follows:

- availability of the quality controlling system;
- satisfactory status of the material and technical basis;
- qualification and professional staff of specialists with taking into consideration the level of education, length and record of service in the relevant field of the energy activity;
- observation of the order set up in the field of production, transportation, processing, storage, transformation, mining, transfer, distribution and sale of energy resources.

As, pursuant to the Law of Tajikistan “On subsoil” mining coal is a subsoil use, provisions of chapter 59 of the Licensing Regulation is implemented to this kind of activity too.

LETTER FROM THE BOARD

Pursuant to p. 4 chapter 59 of the Licensing Regulation the following documents are required for the purposes of granting the license for mining, processing and working the coal:

- the consent of the local government;
- a certificate of technical, technological and human resources capabilities, with the exception of free-lance miners;
- a certificate of technical and economic performance for the most recent 5 years, with the exception of entities that are engaged in subsoil use for the first time and free-lance miners;
- a certificate of the geological knowledge about the licensed subsoil area;
- a business plan for the development of the licensed subsoil area, with the exception of free-lance miners;

According to p. 3 chapter 59 of the Licensing Regulation the Tajik government is a licensing body in the field of subsoil.

The executive licensing body for the granting the exploration license is Main Geological Department under the Tajik government. Ministry of energy and industry is an executive licensing body for the mining activity.

The exploration right is granted in respect of a geological allotment allocated by Geological Department. The right to mine the minerals is granted in respect of a mining allotment allocated by the Main Department on State Supervision of Safe Works in Industry and Mountain Supervision under the Tajik government.

A proposal for the issue of a subsoil license must be negotiated and agreed with a range of ministries and agencies including:

- (a) the Ministry of Economic Development and Trade;
- (b) the Ministry of Justice;
- (c) the Ministry of Finance;
- (d) the Main Department on State Supervision of Safe Works in Industry and Mountain Supervision (Gosgortekhnadzor);
- (e) the State Committee on Environmental Protection;
- (f) the State Committee on Land Administration and Geodesy; and
- (g) the Geological Department (in a case of granting the mining license).

LETTER FROM THE BOARD

The Main Geological Department or the Ministry of Industry and Energy must notify the State committee on environmental protection, Gosgortekhnadzor and the State Fund of Geological Information on Subsoil that a license has been granted within one month of the grant of the license.

The Licensing Law specifies the procedure and the grounds for cancellation of licenses (including subsoil licenses).

Grounds for cancellation or revocation of a license for subsoil use

According to part 4 art. 14 of the above mentioned Law, any license granted by the Tajik government can be cancelled on the basis of decision of the court and in the case of:

- (i) violation of subsoil use licensing requirements and conditions, resulting in damage to the rights and legitimate interests, citizens' health, defense and national security, cultural heritage of the people of Tajikistan;
- (ii) if the subsoil user does not eliminate violations identified by the licensing authority within 3 months from the date of the suspension of an activity under the license and notifying the subsoil user on elimination of detected violations by the licensing authority.

Additional grounds for cancellation or revocation of a license issued for subsoil use are determined by the Subsoil Law. According to part 2 article 20 of the Subsoil Law the right for subsoil use may be prematurely cancelled, suspended, or restricted by the authority which issued the license in case:

- (i) of direct threat to life or health of people working or residing the zone affected by works related to subsoil use;
- (ii) of violation of licensing requirements;
- (iii) of systematic violations by the subsoil user of the rules determined with regards to subsoil use;
- (iv) of emergencies (natural disasters, acts of war and others);
- (v) if a subsoil user has not commenced to use subsoil within the period specified under the license and due to the reasons beyond his control and in prescribed volumes;
- (vi) of liquidation of the enterprise or other economic entity, to which the subsoil has been provided for use.

Cancellation of licenses issued for subsoil use pursuant to the Subsoil Law on the grounds specified under clauses (i) and (iv) above shall be executed upon making such a decision by the relevant authorized authority (court).

The decision with regards to cancellation of the license on the grounds specified under clauses (ii), (iii), (v) above shall be made by the relevant authorized authority (court) upon 3 months from the date of written notification of the subsoil user on the violations that had been revealed.

LETTER FROM THE BOARD

The court may cancel a license on the basis of the request of the licensing authority, which revealed violations of licensing requirements and conditions.

The licensing body can also itself abrogate a license in case of non-payment of license duty by license taker in 15 days after granting the license (part 3 art. 14 of the Licensing Law).

According to provisions under part 5, art.14 of the Licensing Law decision of the licensing authority to cancel a license, as well as sending to the court the complaint on cancellation of a license shall be provided to the subsoil user by the licensing authority no later than 3 days from the date of such decision making. This decision can be appealed in the court on the basis part 6 of article 14 of the law.

The aforesaid grounds for cancellation of the license are related directly with non-execution of licensing conditions by subsoil user, as well as requirements of Tajik legislation. In the event of cancellation of the license on grounds non-stipulated by Tajikistan's legislation acts, as well as in the case of occurring at the same time any material damage and availability of the side causing such damage, the subsoil user is entitled to go to court to protect its interests through the general civil procedure. However, it should be taken into consideration that one of grounds for annulling license could be force-majeure, in case of occurrence of which nobody will bear responsibility.

In case of transformation of a legal entity due to change of its name or location, the entity shall, not later than fifteen days from occurrence of the change, apply to the relevant agencies with the request to reissue the document confirming availability of the license, along with the documents confirming the changes occurred. The license can be renewed by the licensing authority within ten days upon receipt of application for renewing. For the purpose of renewal of a license no extraordinary inspections or examinations of the licensee shall be implemented. In case of refusal in reissuing of the license an entity has the right to appeal to the court. According to p. 3 chapter 6 of the Licensing Regulation the Tajik government in case of renewing of a document confirming availability of the license fee must be charged at the rate of two indicators for the calculation, which is around US\$20 (approximately HK\$156).

If the person or entity fails or delays re-issuing of a license within 15 days, pursuant to the Code on Administrative Violations a fine will be imposed at the amount of TJS8,750 (approximately HK\$13,900) due to carrying out of operation with infringement of the license conditions. Also there is a risk of suspension of a license due to failure to comply with legal requirements.

(B) *Land use rights*

Legal matters relating to land within Tajikistan are regulated by (i) the Constitution of Tajikistan, (ii) the Land Code of Tajikistan and (iii) a number of other normative legal acts.

Land is owned exclusively by the state and may be granted to local and foreign entities for use (art. 13 of the Constitution and art. 2 of the Land Code). Article 25 of the Land Code establishes limits on granting certain lands to foreigners, these limits do not apply to land used for subsoil purposes.

LETTER FROM THE BOARD

Land may be allocated on an unlimited basis, for a specified period or for the period of a lifetime. The use of land may be granted for specified periods or for an unlimited period. Foreigners are not entitled to an unlimited grant of land use. Time limited grants of land are subdivided into short-term and long-term grants. Short-term means up to three years and long-term means from 3 to 20 years.

The right to use land may be granted to foreign legal entities for up to the 50 years. Land and the rights to land may not be sold or purchased (even if the subsoil under the land is to be used for mining). Subsoil users obtain and register their rights to use land on the same basis as other entities.

Certification

Land may be leased to other persons by a person who is entitled to use it.

The right to use land is based on a certificate of entitlement to land use (“**Certificate**”) issued on behalf of the state by authorized state agencies (see below).

A Certificate certifies the state registration of the right to use the relevant land plot. It is prohibited to use the land plot prior to (i) receipt of a Certificate; and (ii) registration of the right to use the land. Use of land plots without a Certificate may result in administrative liability and fines.

The State Body for Land Administration is responsible for registration of the right to use land and issuing Certificates. The State Committee on Land Administration and Geodesy and its local bodies (land commissions) are the state bodies which regulate relations in respect of land.

The grant of a Certificate and registration of the right to use land may be refused on the following grounds:

- the absence of a resolution of the relevant bodies of the executive granting the right to use the land;
- documentary evidence that there is a dispute over the right to use the land;
- an unauthorized change of the purpose for which the land is used.

Grant of right to use land

The grant of rights to use land, including for the purposes of mining, is regulated by the Regulation “On allocation of land plots to physical persons and legal entities” approved by the Resolution of the Tajik government as of July 2, 2009 No 374.

The grant of rights to use land is conducted on the basis of a resolution of the Tajik government or a decision taken by the chairman of the relevant region, city or district.

LETTER FROM THE BOARD

In order to obtain the right to use land for subsoil activities the subsoil user must submit an application to the chairman of the relevant city, district or village attaching a copy of the written conclusion of an “expertise” (or expert analysis) of industrial safety in relation to the proposed subsoil facility carried out by Gosgortekhnadzor and a copy of the relevant mining allotments.

The chairman has 15 days to consider the application. If the chairman approves the application, such application is submitted to a commission which is created to map the borders of the land plot and to produce:

- a summary of the commission’s works confirming that the commission has taken all of the steps required by law;
- an extract from the land use plan (confirming the size and contours of the land plot); and
- an act of the commission confirming the selection of the land.

On the basis of these documents a specially authorized state body on land administration (a land commission) prepares a file and presents it for consideration to the chairman of the city, district, or village who will take a decision based upon it.

If the decision is positive, a Certificate will be issued by an authorized state body on the basis of the decision taken by the chairman of the city, district or village.

A person who has a subsoil exploration (prospecting) license may carry out exploration activities on land with the consent of the land users and the executive bodies of local state authorities without having a right to use the land.

However when a person is carrying out extraction of minerals pursuant to an extraction license it must have a right to use the land plot on which mining activities are carried out.

Pursuant to art. 30 of the Land Code the following types of land can only be allocated by the Tajik government:

- from the “agricultural lands and state reserves” category: arable land, perennial plantations, nurseries, hay meadows and pastures;
- from the “lands of settlements” category: national parks, recreational, botanic and other gardens, forests of first category, national monuments, recreational facilities, land with a historical or cultural designation, scientific areas, research institutions;
- from the “lands of state forest and state water fund” category: arable land, land of perennial plants, plantations, nurseries, hay fields, pastures and forests of the first category.

LETTER FROM THE BOARD

Risk factors of the Remaining Group

Risk relating to inclement weather

Inclement weather conditions may require the Saddleback Group to evacuate personnel or curtail operations and may cause damages to the mining sites, equipment or facilities, which could result in the temporary suspension of operations or generally reduce productivity. In particular, as all of Mines are located at high altitude, snowfall has substantial effects on both production and transport of coal at the Mines and effectively dictates the length of the Mines' respective mining seasons. There can be no assurance that severe weather will not occur. Any damage to Saddleback's projects or delays in its operations caused by prolonged periods of inclement weather could materially and adversely affect the Remaining Group's business and results of operations.

Exploration and Development

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. There can be no guarantee that the estimates of quantities and grades of minerals disclosed will be available to extract. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any mineralization discovered will result in an increase in the Saddleback Group's resource base.

While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop beneficiation processes and to construct mining and processing facilities at the site. It is impossible to ensure that the current exploration programme planned by the Saddleback Group will continue to result in profitable commercial mining operations.

Fluctuation in the price and demand of coal and anthracite

The market price of coal and anthracite is volatile and is affected by numerous factors which are beyond the Saddleback Group's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events as well as a range of other market forces.

Additionally, the purchase and sale of coal and anthracite by dealers may have an impact on the market price. Sustained downward movements in market prices could render less economic or uneconomic some or all of the coal and anthracite extraction activities to be undertaken by the Saddleback Group. The price of these products has fluctuated in recent years and future significant price falls could cause commercial production to be uneconomic and have material adverse impact on the business, operations and financial performance of the Saddleback Group.

LETTER FROM THE BOARD

Resource Estimates

The Saddleback Group has derived the ore resources of the respective Mines from the geological data calculations set out in geological reports previously obtained, and relied on such reports in management decision making. Resource figures were estimates and there can be no assurance that the estimated tonnage of resources will be recovered or that the relevant Mines can be brought to profitable production. Resource estimates may require revision based on further test work and/or actual production experience. Further, a decline in coal or anthracite prices may render lower grade material uneconomic to recover and may in certain circumstances ultimately lead to a restatement of resources.

Uncertainties in coal exploration

The amounts of coal resources in the Mines may be different from the estimation by geological experts previously engaged by the Saddleback Group and there is no assurance that further exploration work to be performed by the Saddleback Group can lead to discovery of economically feasible resources.

Economic and political risk

The operations of subsidiaries of Saddleback are in a foreign jurisdiction, namely Tajikistan, where there may be a number of associated risks over which the Saddleback Group will have no control. These may include economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability, changes of laws affecting foreign ownership or obligatory application of law, government participation, taxation, working conditions, rates of exchange, exchange control and exploration licensing. In particular, the region in which the Saddleback Group's exploration and mining interests are based presents a significant political and economic risk in terms of stability, political and economic uncertainty, war, terrorism and civil unrest.

Legal system

Tajikistan has a less developed legal system in comparison with the more established economies which may result in risks such as (i) effective legal redress in the courts of such jurisdiction, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. In consequence the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurances that licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of an enforcement of such arrangements in the Tajik Republic cannot be assured.

LETTER FROM THE BOARD

The Tajik government regulations and licensing on the coal industry

The Tajik coal mining industry is subject to various government policies and regulations. Any changes to these regulatory and/or licensing policies may increase the operating costs of the Saddleback Group and hence, adversely affect the operating results of the Remaining Group. In addition, the Saddleback Group's business and operating results could be adversely affected by: (i) imposition of restrictions on currency conversion and remittances abroad; (ii) reduction in tariff or quota protection and other import restrictions; (iii) industrial disruptions; or (iv) economic growth or slowdown. There is no assurance that the Tajik government will maintain, or continue to pursue, economic and political reforms. Failure to comply with the relevant laws and regulations in the mine development and coal production projects may adversely affect the Saddleback Group.

Land use rights

According to the laws of Tajikistan, a person who has a subsoil exploration (prospecting) license may carry out exploration activities on land with the consent of the land users and the executive bodies of local state authorities without having a right to use the land. However, when a person is carrying out extraction of minerals pursuant to an extraction license, it must have a right to use the land plot on which mining activities are carried out.

Kamarob is currently extracting anthracite at the Kaftar Hona anthracite deposit, while the application for the land use right over the said mining site is still under progress and is unlikely to be completed by the date of the EGM. Further, the Company is given to understand that, as a condition to the grant of the land use right concerned (if the grant is made), Kamarob must fully indemnify the losses of land users, from whom land is withdrawn and compensate to the state the loss associated with withdrawal of land from turnover.

In this connection, Saddleback Corporation Limited, the vendor of Saddleback to the Group when the Group first acquired Saddleback in March 2011, gave certain indemnities to the Group against all losses arising from, among others, the amount of indemnity claims or compensation paid by or made on Kamarob by users or occupiers of the Kaftar-Hona anthracite deposit, being one of the Mines, arising from or as a result of the allocation of such land to Kamarob in excess of US\$10,000 (equivalent to approximately HK\$78,000). Moreover, Kamarob has applied to the government for the land use right certificate, but because the management of Kamarob has spent the last six months at the Mines focusing on bringing, inter alia, Kamarob back into production, there has been no substantial effort made to obtain the land use right certificate during the summer 2011. It is planned that at the end of 2011 when the mining season is over, Kamarob's management will return to Dushanbe, Tajikistan, and make a renewed effort to obtain the land use right certificate. There is no expiry date stated in the temporary decision. In the said decision there was a request to the Tajik government to approve the land withdrawal and allocate lands to Kamarob.

The Kamarob land use right certificate is expected to be received in early 2012. Applications are submitted to the relevant Tajik governmental departments and final approval is pending. The Company is advised by its Tajik legal advisers that there is no legal impediment for obtaining the relevant land use right.

LETTER FROM THE BOARD

Licences

The Saddleback Group's exploration and production activities are dependent upon the granting of the appropriate licences, concessions, leases and permits which may be granted for a defined time period. They may be subject to limitations and may provide for withdrawal in certain circumstances. Saddleback currently holds licences through Kamarob (Kaftar-Hona anthracite deposit), Vuromun (Mienadu coal deposit) and Sangghalt (East Zeddi coal deposit), each of these companies being subsidiaries of Saddleback and therefore members of the Saddleback Group.

Under the laws of Tajikistan, mining licences already granted to the Saddleback Group may be prematurely revoked by the Court on the licensing authority's request in cases of (among others):

- direct threat to life or health of people working or residing the zone affected by works related to subsoil use;
- violation of licensing requirements;
- systematic violations by the subsoil user of the rules determined with regards to subsoil use;
- emergencies such as natural disasters and acts of war.

Under the laws of Tajikistan, mining licences can also be cancelled on the basis of decision of the court and in case of, for instance, violation of subsoil use licensing requirements and conditions, resulting in damage to the rights and legitimate interests, citizens' health, defense and national security, cultural heritage of the people of Tajikistan.

Each of Sangghalt, Kamarob and Vuromun has not obtained all licenses or permits required regarding environmental protection, safety and health and use/storage of dangerous substance, including but not limited to the licence for use and storage of explosive materials with an industrial purpose, the licence for use of explosive, flammable and chemical objects, the license for carrying out activity connected with the use of radioactive substances, etc. The Company's Tajik legal advisers confirmed that all the approval, licences and permits in relation to environmental, health and safety and use of explosive/flammable, chemically hazardous production facilities, hazardous waste management are either not required as each of Kamarob, Sangghalt or Vuromun does not conduct the relevant activities, or the relevant activities (for instance the use of explosives) have been outsourced to contractors who are in possession of the requisite approval, licences and permits. The Tajik legal advisers confirmed that the above arrangements are in compliance all the applicable Tajik laws and regulations.

LETTER FROM THE BOARD

Risk relating to limited insurance coverage

Exploration, development and production operations on mineral properties involve numerous risks and hazards, including:

- rock bursts, slides, fires, earthquakes or other adverse environmental occurrences;
- industrial accidents;
- labor disputes;
- technical difficulties due to unusual or unexpected geological formations;
- failures of pit walls; and
- periodic interruptions due to inclement or hazardous weather condition.

These risks can result in, among other things:

- damage to, and destruction of, mineral properties or production facilities;
- personal injury;
- environmental damage;
- delays in mining;
- monetary losses; and
- legal liability.

The insurance industry is not yet well developed in Tajikistan and many forms of insurance protection employed in economically developed countries are unavailable on the terms common in such countries or at all. Furthermore, the Saddleback Group, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of the high premium costs. The Saddleback Group may incur liabilities to third parties (in excess of any insurance cover) arising from negative environmental impact or other damage or injury.

If any natural disasters, hazard or disruption occurs, the Remaining Group may have to pay out of its funds for financial and other losses, damages and liabilities, including those caused by fire, weather, disease, civil strife, industrial strikes, breakdowns of equipment, difficulties or delays in obtaining raw materials and equipment, natural disasters, terrorist incidents, industrial accidents or other causes.

LETTER FROM THE BOARD

Any business disruption or natural disaster may result in substantial costs and diversion of resources. Losses incurred by or payments which the Remaining Group may be required to make may have a material adverse effect on its business, prospects, financial condition and results of operations to the extent such losses or payments are not insured or the insured amount is not adequate.

Further, Tajik laws oblige enterprises involved in subsoil activities to hold compulsory insurances against:

- accidents involving employees involved in operations highly hazardous to life and health;
- production accidents and occupational illnesses of employees; and
- liability insurance for causing harm to life, health or property of other persons and the environment in of the event of an accident on a dangerous production facility.

The Saddleback Group has not, for any of the Mines, taken out any of the above mentioned insurance policy. The Company is advised by its Tajik legal advisers that although there is no Tajik law and regulation expressly stating the legal consequences of failure to take obligatory insurance, there is still a potential risk that the absence of such obligatory insurance may cause suspension of mining licences granted in respect of the Mines as the licencing body may view the absence of the mandatory insurance a breach of the licensing conditions. In this connection, it is the intention of the Company to take out the obligatory insurance in November 2011 so as to minimize the risk exposure of the Saddleback Group.

Risk relating to delay or failure to develop as scheduled

The future profitability of the Saddleback Group depends in large part on its ability to successfully implement its development plan as scheduled, which in turn depends on a number of factors including, among others, the particular attributes of the deposit, such as size, grade and proximity to infrastructure; commodity prices, which are highly cyclical; and government regulations including regulations relating to prices, taxes, royalties, land use, importing and exporting of mineral resources and environmental protection. Delay or failure to develop as scheduled may materially and adversely affect the financial position and results of operations of the Saddleback Group.

LETTER FROM THE BOARD

Risk relating to shortages in diesel supply or increases in electricity and water prices

The Saddleback Group consumes a substantial amount of diesel in connection with the production of raw coal. Demand for diesel will increase as the production capabilities of the Saddleback Group increase. Although the Saddleback Group has not experienced any major shortage or disruption in diesel supply in the past, there can be no assurance that sufficient supply of diesel will be available to the Saddleback Group in the future. Any shortages or disruption in diesel supply could lead to lengthy production shutdowns and increased costs related to recommencement of operations. Insufficient diesel supply may force the Saddleback Group to limit or delay its production, which could have a material adverse effect on the Saddleback Group's business or results of operations. Any significant increase in diesel prices will increase the production costs and may adversely affect the Saddleback Group's results of operations if the Saddleback Group is not able to pass the increased costs on to its customers.

Competition

The Saddleback Group may face competition from domestic or international competitors. The Saddleback Group's future success will depend on its ability to respond in an effective and timely manner to competitive pressure (if any).

Operational considerations and risks

The Saddleback Group's operational targets are subject to the completion of planned operational goals on time and according to budget and are dependent on the effective support of the Saddleback Group's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with consequent material adverse impact on the business, operations and financial performance of the Saddleback Group.

Unscheduled interruptions in the Saddleback Group's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

The coal mining business of the Saddleback Group is also subject to and may be interrupted by a number of risks and hazards, including in relation to environmental pollution, accidents or spills, industrial and transportation accidents, unexpected labour shortages and compensatory claims, disputes or strikes, cost increases for contracted and/or purchased mechanical and electrical equipment failure; unexpected maintenance or technical problem; infrastructure and logistics, mine constructions; industrial accidents; power of fuel supply interruptions; changes in the regulatory environment; natural phenomena, such as inclement weather conditions, floods, earthquakes, pit wall failures, tailings dam failures and caveins, encountering unusual or unexpected climatic conditions which may or may not result from global warming; and encountering unusual or unexpected geological conditions.

LETTER FROM THE BOARD

Risk relating to disruption on transportation

Inadequate transportation infrastructure, snowfall and the high altitude of the Mines are likely to affect the pricing terms on which the Saddleback Group can sell the coal to customers and the willingness and ability of such customers to purchase coal from the Saddleback Group. Potential customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay to purchase the coal of the Saddleback Group.

There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, the customers may not be able to take delivery of the coal of the Saddleback Group, which may lead to delays in payment, or refusal to pay, for the coal of the Saddleback Group and, as a result, the Saddleback Group's business and results of operations could be materially and adversely affected.

Reliance on senior management and technical staff

The Saddleback Group is dependent upon the services of certain key members of the executive management team and its consultants. While the Saddleback Group has entered into employment contracts and consultancy agreements with such personnel, the retention of their services cannot be guaranteed. The loss of any key member of the management team or a consultant may have a material adverse impact on the business, operations and financial performance of the Saddleback Group although this is unlikely due to the number of well trained staff.

Exchange rates risk

The Remaining Group will be exposed to foreign exchange fluctuations with respect to the GBP, TJS, RMB and the US\$. The financial results of the Remaining Group are reported in HK\$. The salaries for local laborers in Tajikistan are paid in TJS. Export of coal to jurisdictions other than Tajikistan may be settled in RMB and/or US\$. Since the operation of the Saddleback Group is conducted in Tajikistan, a portion of the Remaining Group's expenses are in TJS, the value of which as Saddleback understands is not very stable against US\$. As a result, the Remaining Group's financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies.

The expansion of the Mines will increase the level of risk exposure of the Remaining Group. Shareholders should be aware of the aforementioned risk factors, which may not be exhaustive, when considering whether to approve the Equity Transfer.

LETTER FROM THE BOARD

Level and quality of resources in the Saddleback Group's Mines

Below is a table showing the Saddleback Group's coal resource in Tajikistan in terms of the Russian GKZ Resource Category, their broad equivalent in terms of the JORC Resource Category and estimated tonnage:

Mine	Coal Type	Coal Tonnes	GKZ Resource Category	Broad Equivalent JORC Resource Category
Kaftar Hona	Anthracite	158,000,000	P1	Inferred
East Zeddi	Bituminous Coal	6,558,000	C2	Indicated
East Zeddi	Bituminous Coal	11,140,000	P1	Inferred
Mienadu	Bituminous Coal	2,252,000	C1	Indicated
Mienadu	Bituminous Coal	2,549,000	C2	Indicated

Total Tonnes (GKZ Resource:C1 & C2 classification) 11,359,000

Total Tonnes (GKZ Resource:P1 classification) 169,140,000

The above table is prepared based on the Reconciliation Report compiled by AsiaMin.

The quality of the resources of the Mines is given as follows:

Kaftar Hona

Kaftar Hona consists of anthracite grade coal. Coal samples taken from Kaftar Hona have been tested during the Soviet Union and more recently in 2008 some composite samples were sent to be tested in India. Laboratory results show the anthracite to have an ash content of 1.6 – 12.7% in the mining zones the Saddleback Group plans to develop. The volatile matter, sulphur, moisture, and phosphorus were also low enough to make it suitable for manufacturing of steel and certain electrode types. Further coal samples will be taken to gain a better understanding of the coal seams. The median range of anthracite coal quality results is listed below.

- Ash = 1.6% – 12.7%
- Sulphur = 0.16% – 0.70%
- Fixed Carbon = 85% – 87%
- Inherent Moisture = 2.5% – 6.4%
- Volatile Matter = 8.4% – 8.7%
- Phosphorus = 0.005% – 0.052%
- Gross Calorific Value = 6,000 – 8,200 Kcal/kg

LETTER FROM THE BOARD

East Zeddi

East Zeddi consists of high grade bituminous coal for thermal uses. Coal samples taken from East Zeddi have been tested during the Soviet Union and more recently in 2008 a composite sample was sent to be tested in India. Laboratory results have shown the coal to be a high energy bituminous coal. Energy and ash content varies according to location in the deposit where the sample has been taken. With an average gross calorific value of 6,900 the coal can be considered high energy which is beneficial for use in power plants and heating applications. The other detrimental components such as ash and sulphur which power station buyers like to keep at a minimum are low enough to not cause any concern.

- Ash = Average Ash 26%
- Sulphur = 0.28% – 1.1%
- Fixed Carbon = 40% – 60% (Mostly Untested)
- Inherent Moisture = 3.4% – 7.6%
- Volatile Matter = 40% – 46%
- Gross Calorific Value = 6,708 – 6,900 Kcal/kg

Mienadu

Mienadu consists of bituminous coal. All testing was done during the Soviet Union but information is more limited than the other deposits. Mienadu has a high content of methane in its coal which could make a deposit suitable for production of coal bed methane. Average assay results included.

- Ash = 21.9% – 29.2%
- Sulphur = 2% – 2.9%
- Fixed Carbon = 77% – 86%
- Inherent Moisture = 2.4% – 3.4%
- Volatile Matter = 21% – 50%

Licences

Under Tajik law, in order to be entitled to the exploitation/exploration rights to each of the Mines, the following licences are required:

- (a) Mining licence;
- (b) Mining allotment (which draws out boundaries of the mining area of each of the Mines); and
- (c) Contract for subsoil use (pursuant to which the rate of royalties payable to the government was stated).

LETTER FROM THE BOARD

Kamarob, the licence holding company of Kaftar Hona, possesses valid mining licence, the validity period of which is from 1 August 1997 to 1 August 2017, and valid mining allotment, the validity period of which is from 1 August 1997 to 1 August 2017, and was issued with a valid contract for subsoil use, the validity period is limited to that of the mining licence. Since it did not renew the mining licence for Kaftar Hona area of Nazar-Aylok deposit upon transformation of its legal organizational form from an industrial-commercial firm to LLC (Limited Liability Company), Kamarob is subjected to a risk of suspension of the mining licence due to failure to comply with legal requirements. According to the Company's Tajik legal advisers, the said mining licence is valid until suspended and the likelihood of suspension of the mining licence is low. For the circumstances that may lead to the suspension of the mining licence, please refer to the sections headed "Grounds for cancellation or revocation of a license for subsoil use" under "Rules and regulations applicable to the Saddleback Group's mining operations" and "Licences" under "Risk factors of the Remaining Group". The reason of Kamarob's failure to renew its licence upon transformation of its legal organization form was that Saddleback was not a shareholder of Kamarob when the said transformation took place. The director of Kamarob who was responsible for such decision at that time has now passed away. The Saddleback Group's management plans to apply for renewal of the mining licence in the second half of 2011.

Sangghalt has obtained a valid mining licence, the validity period of which is from 12 September 2010 to 12 September 2018, and a valid mining allotment for East Zeddi, the validity period of which is from 5 April 2011 to 12 September 2018. Sangghalt's subsoil use contract has now expired on 12 September 2010 along with Sangghalt's old mining licence, and Sangghalt is taking steps to procure conclusion of a new one and has submitted the relevant application for renewal when the relevant applicable tax law was under review. In such connection Sangghalt received a letter from the Tajik government stating that it would consider renewing the subsoil use contract after the new tax law is adopted. Since the adoption of the relevant applicable tax law, the management of Sangghalt has yet to receive any feedback from the Tajik government and would liaise with the relevant official on the status of application. Until the contract for subsoil use is concluded, the royalties may be paid at the highest rate of 10% of the value of the mineral resources sold per year, which is determined based on the average monthly selling price for the whole period of activity without contract concluded. According to the Company's Tajik legal advisers, Sangghalt possesses valid mining licence, but the said licence is subjected to a risk of suspension due to the absence of the concluded contract on subsoil use, which is a violation of the requirements of Tajik legislation. According to the Company's Tajik legal advisers, the said mining licence is valid until suspended.

It is expected that Sangghalt's new subsoil use contract will be concluded when the Tajik government is ready to draw up the agreement, which is expect to take 3 months or more.

LETTER FROM THE BOARD

Vuromun has a valid licence for coal production (mining) at Mienadu, the validity period is from 14 September 2010 to 14 September 2018, but has not procured a mining allotment nor concluded a valid contract for subsoil use for Mienadu. Each of the said omissions constitutes a breach of Tajik legal requirements. The Saddleback Group's management plans to apply for the mining allotment of Vuromun within the second half of 2011. Vuromun's subsoil use contract has now expired and Vuromun is taking steps to procure conclusion of a new one and has submitted the relevant application when the relevant applicable tax law was under review. Since the adoption of the relevant applicable law, the management of Vuromun has yet to receive any feedback from the Tajik government and would liaise with the relevant official on the status of application. Until the contract for subsoil use is concluded, the royalties may be paid at the highest rate of 10% of the cost of recovered mineral resources, which is determined based on the average monthly selling price for the whole period of activity without contract concluded. Moreover, the absence of the mining allotment and the concluded contract on subsoil use is a violation of the requirements of the Tajik legislation. There is a risk of suspension of a license due to failure to comply with legal requirements. According to the Company's Tajik legal advisers, the said mining licence is valid until suspended.

It is expected that Vuromun's new subsoil use contract will be concluded when the Tajik Government is ready to draw up the agreement, which is expected to take 3 months or more.

The Group's Tajik legal advisers confirmed that there is no legal impediment for the Saddleback Group to renew the above mining licence and to obtain the outstanding mining allotment and contract for subsoil use.

The Group's Tajik legal advisers further advised that they were not aware of any contingent liabilities on the part of the Saddleback Group due to absence of valid licenses/permits for the Saddleback Group's mining operations.

Competent person's report

The Company has engaged a company to procure a competent person to prepare a JORC compliant competent person's report on the resources/reserves level of the Mines. Site visits to the Mines by the competent person took place from 2 September 2011 to 6 September 2011. It is expected that exploration drilling will be conducted in 2012 and a JORC compliant competent person's report will be compiled by December 2012 or later. The Company will disclose the competent person's report in the next annual report of the Company when the same is available.

LETTER FROM THE BOARD

Given that currently all the Mines are open-pit operations and due to the visible outcropping of the coal seams, it is possible to provide many years of coal extraction from the Mines without being necessary to undertake exploration drilling activities at this time. Coal mining operations at the Mines are simple extractions requiring the use of mining equipment operated by the Saddleback Group's mine workers. The Directors are therefore of the view that for each of the Mines, any further exploration drilling is not required on an urgent basis.

Management team and consultants of the Saddleback Group

The name, academic background, qualification and relevant experience of the Saddleback Group's management team and consultants are as follows:

1. *William Ralston-Saul*

- a. Age and date of Joining: 2004 at the age of 24
- b. Tertiary qualification: not applicable
- c. Qualification: graduate of Eton College (A-level mathematics, physics, design)
- d. Positions held with past employers:

2000 – 2004 *Administration Manager of Tajikistan Projects, Gulf International Minerals Ltd and Chairman of Joint Venture "Aprelevka"*
- e. Job title and responsibilities: Chief Operating Officer of Saddleback, being the most senior director of Saddleback.

2. *Alastair Ralston-Saul*

- a. Age and date of joining; in 2004 at the age of 59
- b. Degree: officer of the British Army
- c. Qualification: Mons Office Training College – graduated as Officer in the British army

LETTER FROM THE BOARD

d. Positions held with past employers:

1997 – 2004	<i>President & CEO, Gulf International Minerals Ltd and Chairman of Joint Venture “Aprelevka”</i>
1994 – 1996	<i>Director, Ming Financial</i> Copper mining company in Bay Vert, Newfoundland, Canada; diamond exploration in Canadian Arctic.
1991 – 1993	<i>Executive Director, Nichols Associates</i> Large scale civil engineering project management company, UK. Resigned to join Ming Financial
1985 – To Date	<i>Managing Director, Ralston Construction</i> Industrial & domestic construction company, UK
1976 – 1985	<i>Managing Director, St. James’s House & Company</i> Gold & silver manufacturing & retailing company with offices in seven countries. Sold company in 1985
1972 – 1976	<i>Managing Director, Gainsborough Ralston Publications</i> British publishing company owning 8 leading magazines. Company sold in 1976 to leading American publisher
1965 – 1972	<i>Officer in the British Army</i> The Parachute Regiment

e. Job title and responsibilities: Director of Investor Relations of Saddleback.

3. *Dr. Jan Ketelaar*

a. Age and Date of joining: in 2008 at the age of 56

b. Degree: Doctor of Philosophy, University of Newcastle upon Tyne

c. Qualification:

- Chartered Engineer, Engineering Council of the United Kingdom
- European Engineer, European Federation of National Engineering Associations

LETTER FROM THE BOARD

d. Positions held with Past Employers:

- | | |
|-------------|--|
| 1994 – 2008 | <i>Mining Engineer Consultant</i>
Mining and development specialist, major projects in India, Ukraine, Sierra Leone |
| 1989 – 1994 | <i>Engineering and Research Manager, Hunwood International</i>
Conveyors company bases in Sunderland |
| 1987 – 1989 | <i>University Lecturer, Mining Department of Newcastle University</i> |
| 1984 – 1987 | <i>Postgraduate Student, University of Newcastle</i> |
| 1981 – 1984 | <i>Section Manager, Anglo American Corporation</i>
Coal operations in South Africa |
| 1977 – 1981 | <i>Mining Engineer, Charles Brand</i>
<i>(now French Kier Construction)</i>
Dinorwig pumped storage hydro-electric scheme in North Wales |
| 1976 – 1977 | <i>Miner, Thyssen Mining UK</i>
A tin mine based in Cornwall |

e. Job title and responsibilities: Chief Mining Engineer of Saddleback – responsible for mine planning and engineering in Tajikistan

4. *Sushil Kumar*

- a. Age and date of joining: in 2006 at the age of 32
- b. Degree: Bachelor in Mechanical Engineering, Dushanbe Technical University
- c. Positions held with past employers
- | | |
|-------------|---|
| 2000 – 2004 | <i>Site Manager of Tajikistan Projects, Gulf International Minerals Ltd and Chairman of Joint Venture “Aprelevka”</i> |
| 1995 – 2000 | <i>Site Manager of GME Darvaz</i>
A British/Tajik joint venture mining company |
- d. Job Title & Responsibilities: Administration Manager of Saddleback
Responsible for administration and mine management in Tajikistan

5. *Rao Vasireddy*

- a. Age and Date Joining: in 2006 at the age of 38
- b. Degree: Bachelor in Mechanical Engineering, Dushanbe Technical University

LETTER FROM THE BOARD

- c. Positions held with past employers;
- | | |
|-------------|--|
| 2000 – 2004 | Procurement Manager of <i>Tajikistan Projects, Gulf International Minerals Ltd and Chairman of Joint Venture “Aprelevka”</i> |
| 1995 – 2000 | <i>Procurement Manager of GME Darvaz</i>
A British/Tajik joint venture mining company |
- d. Job title & responsibilities: Political Consultant – responsible for political relations in Tajikistan

Consultant

The Saddleback Group has engaged a competent person to conduct the Kamarob site visit, coordinate with technical consultant with respect to the design and supervision of the drill program and, upon completion of the drill program and receipt of all relevant data, the preparation of a JORC-compliant technical report that will include a resource estimate for the Kamarob deposit.

The deliverable to the Company is a signed, JORC compliant technical report that will conform to the Chapter 18A of the GEM Listing Rules and will contain a resource estimate of the Kamarob deposit, which can be delivered to Company within 2-3 months after the Company submitted all necessary exploration data required by the competent person for a JORC report.

LISTING RULES IMPLICATION

As the relevant applicable percentage ratios as referred to in Chapter 19 of the GEM Listing Rules exceed 75%, the Equity Transfer constitutes a very substantial disposal under the GEM Listing Rules and is conditional upon the approval of the Independent Shareholders at the EGM. The Equity Transfer constitutes a connected transaction of the Company under Rule 20.13 (1) (b) (i) of the GEM Listing Rules as it involves the Group disposing of its interest in Mengxi Minerals where Mengxi HT, the substantial shareholder of Mengxi Minerals, is a controller.

Any connected person with a material interest in the Equity Transfer and any shareholder with a material interest in the Equity Transfer and its associates shall not vote at the EGM. As at the Latest Practicable Date, to the best knowledge of the Directors, given that the Purchaser, its ultimate beneficial owner(s) and Mengxi HT are not Shareholders, no Shareholder will be required to abstain from voting at the EGM as no Shareholder has any interest in the Equity Transfer which is different from other Shareholders, and none of the Directors has a material interest in the Equity Transfer.

Under Rule 19.82 of the GEM Listing Rules if the assets of a listed issuer consist wholly or substantially of cash or short-dated securities, it will not be regarded as suitable for listing and trading in its securities will be suspended. Under Rule 19.84 of the GEM Listing Rules, the listed issuer may apply to the Stock Exchange to lift the suspension once it has a business suitable for listing. The Stock Exchange will treat its application for lifting of the suspension as if it were an application for listing from a new applicant. The Stock Exchange has right to cancel the listing if such suspension continues for more than 6 months or in any other case where it considers it necessary.

LETTER FROM THE BOARD

Upon Completion, the Company may become a “cash company” under Rule 19.82 of the GEM Listing Rules. It is the Company’s intention to maintain its listing status on the Stock Exchange and will take appropriate action to warrant its listing status. Such action may include application of proceeds arising from Completion of the Equity Transfer in making further capital investment in the Group’s Tajikistan coal and anthracite mining projects and funding of suitable investment opportunities identified by the Group.

The Company has no current intention to enter into any acquisition or series of acquisitions which will constitute a “reverse takeover” under Rule 19.06 (6) of the GEM Listing Rules. If the Company should undertake any acquisition or series of acquisitions in the future, the Stock Exchange will assess the implication thereof and may consider whether such acquisition(s) will constitute a reverse takeover under Rule 19.06 (6) of the GEM Listing Rules. If such acquisition(s) is deemed by the Stock Exchange to be a reverse takeover, the Stock Exchange will treat the Company as if it were a new listing applicant pursuant to Rule 19.54 of the GEM Listing Rules.

EGM

The EGM will be convened and held at 10:30 a.m. on Monday, 24 October 2011. at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong for the purpose of considering, and if thought fit, approving the Equity Transfer Agreement and the transaction contemplated thereunder.

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed in this circular. Whether or not you intend to attend the meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude shareholders from attending and voting at the meeting, or any adjourned meeting, should they so wish.

Pursuant to Rule 17.47 (4) of the GEM Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the resolution proposed at the EGM will be taken by way of poll. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 17.47 (5) of the GEM Listing Rules.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Equity Transfer Agreement and the transactions contemplated thereby at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
KAISUN ENERGY GROUP LIMITED
Chan Nap Kee, Joseph
Chairman

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)

6 October 2011

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

We refer to the circular issued by the Company to the Independent Shareholders and dated 6 October 2011 (the “Circular”) of which this letter forms part. Terms defined in this circular have the same meanings when used in this letter unless the context otherwise requires.

As the relevant applicable percentage ratios as referred to in Chapter 19 of the GEM Listing Rules exceed 75%, the Equity Transfer constitutes a very substantial disposal under the GEM Listing Rules. The Equity Transfer constitutes a connected transaction of the Company under Rule 20.13 (1) (b) (i) of the GEM Listing Rules as it involves the Group disposing of its interest in Mengxi Minerals where Mengxi HT, the substantial shareholder of Mengxi Minerals, is a controller and none of the exemption set out in the notes to Rule 20.13 (1) (b) (i) are applicable and is therefore conditional upon the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider whether the Equity Transfer, in our opinion, is fair and reasonable so far as the Independent Shareholders are concerned. Ample Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Ample Capital as set out in this circular. Having considered the principal factors and reasons considered by, and the advice of Ample Capital as set out in its letter of advice, we consider that the Equity Transfer is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Equity Transfer at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Liew Swee Yean

Siu Siu Ling, Robert

Dr. Wong Yun Kuen

Anderson Brian Ralph

Independent non-executive Directors

* For identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Ample Capital, the Independent Financial Adviser to the Independent Shareholders and the Independent Board Committee, which has been prepared for the purpose of inclusion in this circular.

AmCap
Ample Capital Limited
豐盛融資有限公司

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

6 October 2011

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

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer, the particulars of which have been set out in a circular to the Shareholders dated 6 October 2011 (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 (i) to give our recommendation as to whether terms of the Equity Transfer are fair and reasonable so far as the Independent Shareholders are concerned; (ii) give our recommendations as to whether the Equity Transfer are in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the EGM. Details of the reasons for the Equity Transfer are set out in the section headed “Letter from the Board” in the Circular (the “**Board Letter**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the relevant applicable percentage ratios as referred to in Chapter 19 of the GEM Listing Rules exceed 75%, the Equity Transfer constitutes a very substantial disposal under the GEM Listing Rules and is conditional upon the approval of the Shareholders at the EGM. The Equity Transfer constitutes a connected transaction of the Company under Rule 20.13 (1) (b) (i) of the GEM Listing Rules as it involves the Group disposing of its interest in Mengxi Minerals where Mengxi HT, the substantial shareholder of Mengxi Minerals, is a controller and none of the exemption set out in the notes to Rule 20.13 (1) (b) (i) is applicable.

Any connected person with a material interest in the Equity Transfer and any shareholder with a material interest in the Equity Transfer and its associates shall not vote at the EGM. As at the Latest Practicable Date, to the best knowledge of the Directors, given that the Purchaser, its ultimate beneficial owner(s) and Mengxi HT are not Shareholders, no Shareholder will be required to abstain from voting at the EGM as no Shareholder has any interest in the Equity Transfer which is different from other Shareholders, and none of the Directors has a material interest in the Equity Transfer.

BASIS OF ADVICE

In formulating our opinions and recommendations, we have relied on the information supplied to us by the Company, 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 no reason to doubt the truth, accuracy and completeness of the information and presentation provided to us by the Directors.

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 Equity Transfer.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Equity Transfer we have taken into consideration the following factors:

1. Background information

The Company is incorporated in the Cayman Islands with limited liability whose shares are listed on the GEM. The Group is principally engaged in the investments in mining, sale and processing of coking coal in the PRC as well as coal and anthracite mining and exploration in Tajikistan. The table below summarises the certain key financial information as extracted from the Group's interim report for the six months ended 30 June 2011 (the "Interim Report").

	Six months ended	
	30 June 2011 <i>HK\$'000</i> <i>(unaudited)</i>	30 September 2010 <i>HK\$'000</i> <i>(unaudited)</i>
Turnover	22,684	21,386
Loss attributable to owners of the Company	22,948	16,945

	As at	
	30 June 2011 <i>HK\$'000</i> <i>(unaudited)</i>	31 December 2010 <i>HK\$'000</i> <i>(audited)</i>
Total assets	4,529,732	3,870,185
Total liabilities	1,819,572	1,383,418
Net assets attributable to owners of the Company	1,931,856	1,730,416

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the Company recorded a consolidated turnover of approximately HK\$22,684,000 for the six months ended 30 June 2011, representing an approximately 6.07% increase when compared with the consolidated turnover of approximately HK\$21,386,000 recorded during the six months ended 30 September 2010. During the six months ended 30 June 2011, the Company also recorded a consolidated loss attributable to Shareholders of approximately HK\$22,948,000 which represents an approximately 35.43% increase over the loss attributable to Shareholders of approximately HK\$16,945,000 recorded during the six months ended 30 September 2010. As at 30 June 2011, the Company had consolidated total assets, total liabilities and net assets attributable to owners of the Company of approximately HK\$4,529,732,000, HK\$1,819,572,000 and HK\$1,931,856,000 respectively.

2. Reasons for and the benefits of the Equity Transfer

It is stated in the Board Letter that a notice entitled 內蒙古自治區人民政府關於印發自治區煤炭企業兼併重組工作方案的通告 (notice issued by the Inner Mongolian Government on the printing and distribution of the working proposal on merger and reorganisation of Inner Mongolian Autonomous Region local coal enterprises) was published by the Inner Mongolian Government on 18 March 2011 regarding the proposed merger and restructuring of coal mining industry in the Inner Mongolia Autonomous Region. Objective of the proposal is that by the end of year 2013 all operators of coal mines with annual production capacity below 1.2 million tonnes will be eliminated, and for areas with potential, the minimum annual production capacity requirement could be raised to 3 million tonnes. The elimination will be effected by a process of mergers, acquisitions and restructuring. The list of the mine operators to be classified as acquirers or acquirees is expected to be announced by the Inner Mongolian Government shortly. Mengxi Minerals has not received any formal notice or official document from any relevant authorities of the Inner Mongolian Government regarding the policy as at the Latest Practicable Date. The Company sought legal advice from its PRC legal advisers on how the Inner Mongolian Government policy on proposed merger and restructuring of coal mining industry may impact Mengxi Minerals. The responses received were mixed and inconclusive. According to the Notice, the proposed merger and restructuring of the coal mining industry in Inner Mongolia will be implemented in the period from the second half of year 2011 and to year 2013. Settlement of the list of mine operators to be classified as acquirers or acquirees is expected to be among the first steps to be taken in the implementation process of the policy. Since implementation of the Notice will commence in the second half of year 2011, the list of mine operators to be classified as acquirers or acquirees can be expected to be announced within the second half of year 2011.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The underground mining license operated by Mengxi Minerals is currently 1.2 million tonnes per annum. Mengxi Minerals is located in the regulatory region of Ordos in Inner Mongolia. Based on discussion with the Company's joint venture partner, Mengxi HT, having regard to the fact that the mine held by Mengxi Minerals is located in an area which is conventionally regarded as an area which produces coal of above average quality, the minimum annual production requirement imposed for Ordos is very likely to be substantially higher than the general requirement of 1.2 million tonnes per annum, and highly likely to reach 2.4 million tonnes per annum. As such Mengxi Minerals is subject to the government restructuring proposal and is liable to be eliminated unless its annual production capacity can be increased to above 2.4 million tonnes by acquisition of other coal mines. Since announcement of the restructuring proposal, prospects and outlook of small coal mine operators in the Inner Mongolia Autonomous Region have become uncertain. In light of the uncertain prospects and outlook brought by this recently imposed government policy, the short time given to mining operators before the Inner Mongolian Government officially announces the classification of mine operators as acquirers and acquirees, and the current unfavorable sentiment in the capital market for the Company to raise capital needed to acquire other mines, the Directors consider the Equity Transfer to be necessary for the Company to eliminate the uncertainty by liquidating its investment in Mengxi Minerals at a reasonable price.

The Purchaser is a coal producer in Otog, Ordos, holding production license of total up to 1.8 million tonnes per annum. After acquiring Mengxi Minerals, the Purchaser's production capacity can reach above 2.4 million tonnes per annum, which is likely to be the minimum annual production requirement by the Inner Mongolian Government.

The Directors therefore consider that the terms of the Equity Transfer Agreement are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In relation to our works done with regards to the Notice:

- (i) we have studied a copy of the Notice, and note that the disclosure in the section headed "Reasons for and benefits of the Equity Transfer" regarding all coal mines with annual production capacity below 1.2 million tonnes (and for areas with potential, the minimum annual production capacity could be raised to 3 million tonnes) will be eliminated by the end of year 2013 is in line with paragraph 1 (iii) of the Notice; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) we have studied an article on the website of 中國煤炭信息網 (China Coal Information*) as extracted from 第一財經日報 (China Business News*) dated 20 July 2011 which states, amongst others:
 - (a) head of 內蒙古社會科學院經濟研究所 (Economic Research Institute, Inner Mongolia Academy of Social Science Academy) 于光軍 (Yu Guangjun*) stated in an interview that the 1.2 million tonnes annual production is merely a minimum standard, and entities meeting such standard will be subject to various other tests as well; and
 - (b) professor of 中央財經大學中國煤炭經濟研究中心 (China Coal Economics Research Centre, Central University of Finance and Economics) 刑雷 (Xing Lei*) states that coal resources in Inner Mongolia are mainly concentrated in various areas including Ordos, Inner Mongolia (i.e. location of Mengxi Mineral). Accordingly, the entry standard of Ordos is expected to be higher than those generally proposed in the Inner Mongolia Autonomous Region.

Having considered the above, it would appear that unless (i) Mengxi Minerals can substantially increase its licensed production capacity of 1.2 million tonnes per annum to a level that would meet the requirements set out in the Notice; or (ii) it is merged with other coal mines, Mengxi Minerals is likely to be eliminated upon the implementation of such policies. Under such circumstance where Mengxi Minerals is indeed eliminated, we note that:

- (i) Mengxi Minerals will need to cease its mining operation which is its existing principal business;
- (ii) the results and financial position of Mengxi Minerals will be materially and adversely affected;
- (iii) Mengxi Minerals will cease to have the mining rights and it is likely that a substantial portion or the entire amount of the intangible assets related to mining rights held by Mengxi Minerals of approximately HK\$3,289,216,000 (as mentioned in section 4.2 of this letter) will be impaired;
- (iv) the Group will inevitably suffer substantial losses from its investments in Mengxi Minerals; and
- (v) the Group will likely recover an amount close to nil from its investments in Mengxi Minerals instead of receiving the Consideration upon Completion if the Equity Transfer were to take place.

* for identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, we concur with the Directors' view that the Equity Transfer is necessary for the Company to eliminate the uncertainty by liquidating its investment in Mengxi Minerals, and we consider that the Equity Transfer is in the interest of the Company and the Shareholders as a whole.

3. Information on Mengxi Minerals

It is stated in the Board Letter that Mengxi Minerals is a sino-foreign equity joint venture established in the PRC and is owned as to 70% by the Company indirectly and 30% by Mengxi HT. Mengxi Minerals is a subsidiary of the Company. As disclosed in the Company's announcements dated 11 June 2008 and 15 December 2009, the Company acquired 49% equity interest in Mengxi Minerals on 10 June 2008 and a further 21% equity interest in Mengxi Minerals on 10 December 2009. The equity interest in Mengxi Minerals to be disposed of in favour of the Purchaser represents the entire interest held by the Vendor. The Company will therefore cease to hold any remaining interest in Mengxi Minerals after completion of the Equity Transfer.

Mengxi Minerals is principally engaged in 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 holds a mining license giving the right of exploitation of a coal mine located at the Zhou Zi Shan Kulihuoshatu Coal Mine, Inner Mongolia Autonomous Region, the PRC.

Set out below is a summary of certain financial information of Mengxi Minerals for the nine months ended 31 December 2010 and for the year ended 31 March 2010 prepared according to Hong Kong Financial Reporting Standards:

	For the nine months ended 31 December 2010 HK\$	For the year ended 31 March 2010 HK\$
Turnover	59,618,521	20,548,130
Net profit/(loss) before taxation and extraordinary items	15,444,076	(31,768,141)
Net profit/(loss) after taxation and extraordinary items	11,989,856	(32,154,834)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Included in the audited consolidated financial statements of the Group made up to 31 December 2010, the net asset value of Mengxi Minerals is approximately RMB2,152.6 million (equivalent to approximately HK\$2,593.5 million) and the net asset value attributable to the Equity Interest is approximately RMB1,506.8 million (equivalent to approximately HK\$1,815.4 million) as at 31 December 2010. For the period ended 31 December 2010, the net profit before and after taxation and extraordinary items attributable to the Equity Interest amounted to RMB9.38 million and RMB7.28 million respectively. For the period from 10 December 2009 (being the date from which Mengxi Minerals became a subsidiary of the Company and its accounts were consolidated into that of the Group's consolidated accounts) to 31 March 2010, the net loss before and after taxation and extraordinary items attributable to the Equity Interest amounted to RMB2.45 million and RMB2.66 million respectively. The said net loss represented the losses recognised by the Group for the period from 10 December 2009 (date of Mengxi Minerals becoming a subsidiary of the Group) to 31 March 2010.

The Independent Shareholders may refer to the section headed "Financial information of Mengxi Minerals" set out in Appendix I to the Circular for certain unaudited financial information of Mengxi Minerals (the "**Mengxi Minerals Financial Information**").

4. Terms of the Equity Transfer

4.1 *Subject of the Equity Transfer*

It is stated in the Board Letter that pursuant to the Equity Transfer Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Equity Interest, representing 70% equity interest in the entire registered capital of Mengxi Minerals.

4.2 *The Consideration*

The Board Letter further states that under the Equity Transfer Agreement, the Vendor shall sell and the Purchaser shall acquire the Equity Interest at a cash Consideration of RMB810 million (equivalent to approximately HK\$976 million), which is to be paid in the following manner:

- (a) as to RMB220 million (equivalent to approximately HK\$265 million), already paid by the Purchaser in cash to the Vendor prior to signing of the Equity Transfer Agreement as deposit and part payment of the Consideration; and
- (b) as to the remaining balance of the Consideration, namely RMB590 million (equivalent to approximately HK\$711 million), to be paid by the Purchaser to the Vendor immediately upon the fulfilment of the conditions precedent (c) and (e) as described in the paragraph headed "Completion of the Equity Transfer and conditions precedent" in the Board Letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The sum of RMB220 million (equivalent to approximately HK\$265 million) was paid to the Vendor on 24 May 2011 initially as earnest money. No letter of intent or memorandum of understanding was entered into at time of such payment. When the Equity Transfer Agreement was entered into, such sum was, on the terms of the Equity Transfer Agreement, treated as deposit and part payment of the Consideration.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser with reference to, inter alia, the coking coal reserves and production capacity of Mengxi Minerals, the NAV, the original investment costs, impairment on value of the Equity Interest as a result of introduction of the Inner Mongolian Government policy on proposed merger and restructuring of coal mining industry and transacted prices of equity interest in mining companies in Inner Mongolia, the PRC.

Taking into account the matters disclosed in the Board Letter, the reasons and benefits as stated in the paragraph headed "Reasons for and Benefits of the Equity Transfer" in the Board Letter and the financial effect as stated in the paragraph headed "Financial Effect of the Equity Transfer", the Board considers that the terms of the Equity Transfer Agreement, the Equity Transfer and the Consideration are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We note from the Board Letter that the NAV (attributable to the Equity Interest) included in the audited consolidated financial statements of the Group as at 31 December 2010 is approximately RMB1,506.8 million (equivalent to approximately HK\$1,815.4 million). Accordingly, the Consideration of RMB810 million (equivalent to approximately HK\$976 million) represents an approximately 46.24% discount to the NAV. To assess the fairness and reasonableness of the Consideration, we have identified 9 Hong Kong listed companies (the "**Comparables**") which have a sole principal business that is similar to that of Mengxi Minerals, i.e. coal mining/production. The Comparables were identified in our research on a best effort basis, and contains all of the relevant companies as identified by us. As the Comparables are involved in similar business as Mengxi Minerals, we are of the view that they provide benchmark valuation against which Mengxi Minerals can be compared with. We have adopted the price-to-book ratio ("**P/B**"), a commonly adopted benchmark in the valuation of companies, in our analysis which is set out below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Name of company (stock code)	Principal business	Market capitalization/ valuation ¹ <i>HK\$'000</i>	Net assets attributable to shareholders ² <i>HK\$'000</i>	P/B <i>times</i>
Mongolia Energy Corporation Ltd. (276)	Principal project of the Khushuut Coking Coal Project located in Khovd province, Western Mongolia	8,059,988	13,074,102	0.62
Up Energy Development Group Ltd. (307)	Coal mining and offering a range of coal and coal-related products	1,579,289	3,800,153	0.42
China CBM Group Ltd. (578)	Production and sale of coal in the PRC	5,772,657	1,254,387	4.60
Shougang Fushan Resources Group Ltd. (639)	Production and sales of coking coal products and side products	22,867,396	18,859,499	1.21
Mongolian Mining Corporation (975)	Open-pit mining of coking coal	34,827,343	5,672,791 ³	6.14
Loudong General Nice Resources (China) Holdings Ltd. (988)	Coal processing and production of industrial coke and coal-related chemicals	2,038,071	3,092,790	0.66
International Resources Enterprise Ltd. (1229)	Mining, sales and distribution of coal	1,094,484	131,681	8.31
Hidili Industry International Development Ltd. (1393)	Mining and sale of coke, raw coal and clean coal	13,073,609	8,400,978 ⁴	1.56

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Name of company (stock code)	Principal business	Market capitalization/ valuation ¹ <i>HK\$'000</i>	Net assets attributable to shareholders ² <i>HK\$'000</i>	P/B <i>times</i>
SouthGobi Resources Ltd. (1878)	Acquisition, exploration, development and production of coal properties	14,833,986	5,517,065 ³	2.69
			Maximum:	8.31
			Minimum:	0.42
			Average:	2.91
			Median:	1.56
Mengxi Minerals	Sale of coal, the building of early stage infrastructure for exploitation of sagger, washing and choosing of mine run coal and processing of coal	1,394,148^{4, 5}	2,593,494^{4, 6}	0.54

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

Notes:

1. For the Industry Comparables, the market capitalization was calculated based on their respective closing price on 15 June 2011, i.e. the date of the Equity Transfer Agreement.
2. The net profit attributable to shareholders and net assets attributable to shareholders are derived from the latest published financial statements.
3. For illustrative purpose only, this amount has been converted at an exchange rate of US\$1 = HK\$7.8.
4. For illustrative purpose only, this amount has been converted at an exchange rate of HK\$1 = RMB0.83.
5. Mengxi Minerals' valuation is for a 100% equity interest which was calculated based on the Consideration of RMB810 million for a 70% equity interest.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Mengxi Minerals net assets of approximately HK\$2,593,494,000 is derived from the net asset value of Mengxi Minerals in the audited consolidated financial statements of the Group made up to 31 December 2010 in the amount of RMB2,152.6 million as stated in the section headed “Information on Mengxi Minerals and the Group” in the Board Letter.

As illustrated in the analysis above, the P/B of the Comparables range from a low of approximately 0.42 times to a high of approximately 8.31 times with the average P/B being approximately 2.91 times. The P/B of Mengxi Minerals of approximately 0.54 times calculated with reference to the Consideration is therefore at the low end of the Comparables and is significantly below the average figure, indicating the valuation of Mengxi Minerals with reference to the Consideration is at the low end of its industry peers when using net assets as a yardstick.

We also note from the section headed “Financial effect of the Equity Transfer” that the Equity Transfer is expected to record an estimated loss of approximately HK\$800 million (after relevant expenses and subject to audit) for the Group, which was arrived at by subtracting the Consideration from the NAV. As advised by the Group’s management, this estimated loss is expected to be non-cash in nature.

The management of the Group has advised us that in the event that Mengxi Minerals is not merged with other coal mine(s) to meet the production requirements set out in the Notice, it is highly likely that Mengxi Minerals will be eliminated as a result of the restructuring of the coal mining industry in Inner Mongolia to be conducted pursuant to the Notice. Accordingly, it is stated in the Board Letter that the Directors consider the Equity Transfer to be necessary for the Company to eliminate the uncertainty by liquidating its investment in Mengxi Minerals at a reasonable price. We note that in the determination of the Consideration, the Company has considered, amongst others, the impairment on value of the Equity Interest as a result of the introduction of the Notice. In our discussion with the Group’s management, we have learnt that the impairment is mainly related to the Group’s intangible assets in the mining rights of Mengxi Minerals. As at the Latest Practicable Date, the exact amount of impairment cannot be ascertained. We note from note 10 of the Interim Report that as at 30 June 2011, the Group held unaudited intangible assets in mining rights of approximately HK\$3,507,575,000. As advised by the Group’s management, approximately HK\$3,289,216,000 of which is related to the mining rights held by Mengxi Minerals.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Shareholders should note that in the event that Mengxi Minerals is indeed eliminated (an event which the Group's management considers to be highly likely if it is not merged with other coal mine(s)) pursuant to the policy set out in the Notice, the Group and Mengxi Minerals will have to face the 5 unfavourable situations mentioned in the later parts of section 2 of this letter. These unfavourable situations pose significant uncertainties and therefore risks to the Group's investment in Mengxi Minerals so we concur with the Director's view that the Equity Transfer is necessary for the Company to eliminate the uncertainty by liquidating its investment in Mengxi Minerals. We believe the significant risks and uncertainties faced by Mengxi Minerals also explain why Mengxi Minerals' P/B (calculated with reference to the Consideration) is at the low end of the Comparables.

It is noted that although the Consideration represents an approximately 46.24% discount to the NAV as discussed earlier in this section, the Board Letter states that if the Consideration is compared to the original investment costs, the Equity Interest would be disposed at a premium of approximately HK\$74.6 million. Furthermore, we also note from the Mengxi Minerals Financial Information that Mengxi Minerals had unaudited net assets of approximately HK\$134,832,000 as at 31 May 2011 (the "**Unaudited Net Assets**"). It is noted that the Unaudited Net Assets may better reflect the actual underlying value of Mengxi Minerals as it does not take into account the aforementioned intangible assets related to mining rights (the inclusion of which is mainly for the satisfaction of the reporting requirements set out in the Hong Kong Financial Reporting Standards) which is likely to be substantially or fully impaired in the event that Mengxi Minerals is indeed eliminated pursuant to the policy set out in the Notice. The Unaudited Net Assets attributable to the Equity Interest is approximately HK\$94,382,000. When compared with such Unaudited Net Assets attributable to the Equity Interest, the Consideration represents an approximately 934.10% premium.

Having considered the above, we are of the view that the P/B ratio of Mengxi Minerals which is at the low end of the Comparables' P/B is justifiable. Accordingly, we consider that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4.3 Conditions precedent of the Equity Transfer Agreement

We note that as stated in the sub-section headed “Completion of the Equity Transfer and conditions precedent” in the Board Letter, if by the Closing Date conditions (c), (d) and (e) stated therein have been fulfilled and the other conditions shall remain outstanding by 31 December 2011, the Purchaser may require the Vendor to transfer the management of and control in Mengxi Minerals to the Purchaser and Mengxi Minerals would accordingly cease to become a subsidiary of the Group. The Group’s management has advised us that the Equity Transfer is essential for the continued survival of both Mengxi Minerals and the Purchaser after the issue of the Notice by the Inner Mongolian Government. We have been further advised that although the implementation of the Notice is expected to commence in the second half of 2011 and the elimination of smaller mines are to take place by the end of year 2013, there is no guarantee that the deadline for consolidation of coal mines will indeed be close to the end of 2013 considering the Notice was issued approximately 6 months before the Latest Practicable Date. Having assessed the above, the Directors and the Group’s management are of the view that the inclusion of the aforementioned arrangement in relation to the early transfer of management of and control in Mengxi Minerals to the Purchaser is beneficial to both the Group and the Purchaser. The Directors and the Group’s management believe that the aforementioned arrangement would reduce the risk of Mengxi Mineral and the Purchaser being eliminated due to any potential delay in Completion arising out of unforeseen circumstance(s) that prevent timely fulfilment of all of the conditions precedent set out in the Equity Transfer Agreement.

Having considered the above, we are of the view that the aforementioned arrangement is acceptable as it would reduce risk and appears to be beneficial to both the Group and the Purchaser.

4.4 Conclusion regarding the Equity Transfer Agreement

Having considered the factors discussed in this section, we consider that the terms of the Equity Transfer Agreement (including the Consideration) are fair and reasonable and in the interest of the Shareholders and the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The Remaining Group

We note from the section headed “Management discussion and analysis on the Remaining Group” in the Board Letter that following the Equity Transfer, Saddleback Group will be the only remaining operating asset of the Group. The Group will continue to engage in the energy and resources based business. Saddleback Group operates the coal and anthracite mining and exploration business in Tajikistan through the Mines. As per the Board Letter, the Saddleback Group currently operates the three Mines in Tajikistan, namely Kaftar Hona, East Zeddi and Miuenadu.

As advised by the Group’s management, the aforementioned mines are still in the early stages of development and additional capital investments (e.g. for infrastructure and machineries) are expected for these mines in the coming years. The Group’s management further advised us that the estimated net sale proceeds of approximately HK\$897.9 million from the Equity Transfer are expected to be applied as to (i) approximately HK\$250 million for cash redemption of the outstanding convertible bonds falling due on 10 June 2013; (ii) approximately HK\$49.5 million for expanding the production capacity of the Mines; and (iii) the remaining balance of approximately HK\$598.4 million as general working capital and potential investment opportunity. In addition, the Group’s management has advised that based on their assessment as at the Latest Practicable Date, the aforementioned amount allocated for expanding the production capacity of the Mines together with any additional capital investment (if necessary) which may be funded by the remaining balance of the sale proceeds are expected to be sufficient for the purpose of significantly bringing up the scale of operations of the Saddleback Group. Above all, the remaining balance of sale proceeds arising from the Equity Transfer of approximately HK\$598.4 million will give the Group the ability to broaden its investment in the energy and resources based business beyond those undertaken by the Remaining Group.

We note that the Group will need further capital for the Mines in order to ramp up production which would contribute towards revenue growth in the future. Having considered that (i) the Group’s management is of the view that the sale proceeds from the Equity Transfer is expected to be sufficient for the purpose of significantly bringing up the scale of operations of the Saddleback Group; (ii) the Group’s ability to broaden its investment in the energy and resources based business beyond those undertaken by the Remaining Group afforded by the remaining balance of sale proceeds arising from the Equity Transfer; and (iii) the 5 unfavourable factors as discussed in the later part of section 2 of this letter, we are of the view that the Equity Transfer is in the interests of the Company and the Shareholders as a whole within the context of the Remaining Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Financial effects

6.1 Earnings

It is stated in the section headed “Unaudited pro forma financial information of the Remaining Group” in Appendix II to the Circular (the “**Pro Forma Financial Information**”) that the Group recorded audited loss of approximately HK\$28,238,000 for the nine months ended 31 December 2010. As a result of the Equity Transfer, the Remaining Group is expected to have unaudited pro forma loss of approximately HK\$754,148,000, representing an increase of approximately 2,570.68%. We note that such unaudited pro forma loss is mainly attributable to the loss on disposal of a subsidiary of approximately HK\$713,921,000.

6.2 Net assets

As stated in the Pro Forma Financial Information, the Group had audited net assets of approximately HK\$2,486,766,000 as at 31 December 2010. After taking into account of the effect of the Equity Transfer, the Remaining Group is expected to have unaudited pro forma net assets of approximately HK\$863,424,000, representing an approximately 65.28% decrease.

6.3 Gearing

As per the Pro Forma Financial Information, the Group had audited debts of approximately HK\$537,586,000 (comprising (i) bank loan (current portion) of approximately HK\$5,856,000; (ii) convertible bonds of approximately HK\$186,211,000; and (iii) bank loan (non-current portion) of approximately HK\$345,519,000) and total assets of approximately HK\$3,870,186,000 as at 31 December 2010, translating into a gearing ratio (total debts / total assets x 100%) of approximately 13.89%. After the pro forma adjustments, the Remaining Group is expected to have unaudited pro forma total debts of approximately HK\$186,211,000 (comprising convertible bonds of approximately HK\$186,211,000) and total assets of approximately HK\$1,050,547,000, translating into a gear ratio of approximately 17.73%.

6.4 Liquidity

The Pro Forma Financial Information states that Group had audited current assets and current liabilities of approximately HK\$348,357,000 and HK\$55,288,000 respectively as at 31 December 2010, translating into a current ratio (current assets/ current liabilities) of approximately 6.30 times. After the pro forma adjustments, the Remaining Group is expected to have unaudited pro forma current assets and current liabilities of approximately HK\$1,050,466,000 and HK\$911,000, translating into a current ratio of approximately 1,153.09 times.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

It should be noted that the aforementioned analysis is for illustrative purpose only and does not purport to represent how the Group's financial position will be upon completion of the Equity Transfer.

CONCLUSION

Having considered the above principal factors, we are of the opinion that the terms of the Equity Transfer are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution(s) to approve the Equity Transfer at the EGM.

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

Yours faithfully,
For and behalf of
Ample Capital Limited
Kevin So
Vice President

APPENDIX I FINANCIAL INFORMATION OF MENGXI MINERALS

Set out below are the unaudited statements of financial position of Inner Mongolia Mengxi Minerals Co., Ltd. (the “Disposal Company”) as at 31 March 2009 and 2010, 31 December 2010 and 31 May 2011 and the unaudited statements of comprehensive income, statements of changes in equity and statements of cash flows of the Disposal Company (“Unaudited Financial Information”) for each of the two years ended 31 March 2010, the nine months ended 31 December 2010 and the five months ended 31 May 2010 and 2011 (the “Relevant Periods”), which have been reviewed by the Company’s auditor, RSM Nelson Wheeler, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

1. FINANCIAL INFORMATION

A. STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 March		Nine months ended 31 December	Five months ended 31 May	
	2009	2010	2010	2010	2011
	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	–	20,548,130	59,618,521	14,871,064	10,343,285
Cost of goods sold	–	(7,994,246)	(30,765,265)	(10,308,644)	(1,671,672)
Gross profit	–	12,553,884	28,853,256	4,562,420	8,671,613
Other income	11,755	230,056	419,015	53,645	125,727
Selling and distribution costs	(1,147)	(288,959)	(120,524)	(17,396)	(21,149)
Administrative and other operating expenses	(26,325,653)	(44,263,122)	(13,707,671)	(7,128,692)	(8,482,868)
(Loss)/profit from operations	(26,315,045)	(31,768,141)	15,444,076	(2,530,023)	293,323
Finance costs	(43)	–	–	–	–
(Loss)/profit before tax	(26,315,088)	(31,768,141)	15,444,076	(2,530,023)	293,323
Income tax (expense)/credit	–	(386,693)	(3,454,220)	67,311	(783,658)
(Loss)/profit for the year/period	(26,315,088)	(32,154,834)	11,989,856	(2,462,712)	(490,335)
Other comprehensive income for the year/period, net of tax					
Exchange differences on translation	337,527	115,420	3,752,490	106,095	3,280,786
Total comprehensive income for the year/period	(25,977,561)	(32,039,414)	15,742,346	(2,356,617)	2,790,451

APPENDIX I FINANCIAL INFORMATION OF MENGXI MINERALS

B. STATEMENTS OF FINANCIAL POSITION

	As at 31 March		As at 31 December	As at 31 May
	2009	2010	2010	2011
	HK\$	HK\$	HK\$	HK\$
Non-current assets				
Fixed assets	5,667,331	32,721,120	101,022,053	120,784,819
Intangible assets	12,772,107	13,029,707	13,416,774	14,711,010
Deposits paid for construction in progress	15,330,897	155,524,547	221,707,925	289,967,604
	<u>33,770,335</u>	<u>201,275,374</u>	<u>336,146,752</u>	<u>425,463,433</u>
Current assets				
Inventories	48,105	88,540	142,171	195,719
Trade and bills receivables	–	5,793,531	30,570,552	32,978,943
Deposits, prepayments and other receivables	7,616,420	4,386,819	13,080,200	6,120,449
Current tax assets	–	–	–	552,436
Bank and cash balances	16,988,232	286,142,113	153,470,076	84,232,002
	<u>24,652,757</u>	<u>296,411,003</u>	<u>197,262,999</u>	<u>124,079,549</u>
Current liabilities				
Other payables and accruals	522,713	22,085,692	26,000,670	24,325,861
Deposits received and receipts in advance	73,718	15,740,270	19,558,990	28,836,213
Amount due to immediate parent	–	1,933,682	1,472,029	1,428,896
Amount due to a fellow subsidiary	–	90,514,140	–	–
Bank loan	–	–	5,856,250	6,002,000
Current tax liabilities	–	387,346	2,961,501	–
	<u>596,431</u>	<u>130,661,130</u>	<u>55,849,440</u>	<u>60,592,970</u>
Net current assets	<u>24,056,326</u>	<u>165,749,873</u>	<u>141,413,559</u>	<u>63,486,579</u>
Total assets less current liabilities	57,826,661	367,025,247	477,560,311	488,950,012
Non-current liabilities				
Bank loan	–	341,238,000	345,518,750	354,118,000
NET ASSETS	<u><u>57,826,661</u></u>	<u><u>25,787,247</u></u>	<u><u>132,041,561</u></u>	<u><u>134,832,012</u></u>
Capital and reserves				
Equity capital	86,652,700	86,652,700	177,563,100	177,563,100
Reserves	(28,826,039)	(60,865,453)	(45,521,539)	(42,731,088)
	<u><u>57,826,661</u></u>	<u><u>25,787,247</u></u>	<u><u>132,041,561</u></u>	<u><u>134,832,012</u></u>

APPENDIX I FINANCIAL INFORMATION OF MENGXI MINERALS

C. STATEMENTS OF CHANGES IN EQUITY

	Equity capital HK\$	Accumulated losses HK\$	Capital reserve HK\$	Foreign currency translation reserve HK\$	Other reserve HK\$	Total HK\$
At 1 April 2008	52,631,500	(6,284,653)	–	3,306,622	–	49,653,469
Increase in paid-in capital	34,021,200	–	129,553	–	–	34,150,753
Total comprehensive income for the year	–	(26,315,088)	–	337,527	–	(25,977,561)
Changes in equity for the year	34,021,200	(26,315,088)	129,553	337,527	–	8,173,192
At 31 March 2009 and 1 April 2009	86,652,700	(32,599,741)	129,553	3,644,149	–	57,826,661
Total comprehensive income for the year	–	(32,154,834)	–	115,420	–	(32,039,414)
Changes in equity for the year	–	(32,154,834)	–	115,420	–	(32,039,414)
At 31 March 2010 and 1 April 2010	86,652,700	(64,754,575)	129,553	3,759,569	–	25,787,247
Increase in registered and paid-in capital	90,910,400	–	–	–	(398,432)	90,511,968
Total comprehensive income for the period	–	11,989,856	–	3,752,490	–	15,742,346
Changes in equity for the period	90,910,400	11,989,856	–	3,752,490	(398,432)	106,254,314
At 31 December 2010 and 1 January 2011	177,563,100	(52,764,719)	129,553	7,512,059	(398,432)	132,041,561
Total comprehensive income for the period	–	(490,335)	–	3,280,786	–	2,790,451
Changes in equity for the period	–	(490,335)	–	3,280,786	–	2,790,451
At 31 May 2011	<u>177,563,100</u>	<u>(53,255,054)</u>	<u>129,553</u>	<u>10,792,845</u>	<u>(398,432)</u>	<u>134,832,012</u>
At 1 January 2010	86,652,700	(65,042,927)	129,553	3,378,934	–	25,118,260
Total comprehensive income for the period	–	(2,462,712)	–	106,095	–	(2,356,617)
Changes in equity for the period	–	(2,462,712)	–	106,095	–	(2,356,617)
At 31 May 2010	<u>86,652,700</u>	<u>(67,505,639)</u>	<u>129,553</u>	<u>3,485,029</u>	<u>–</u>	<u>22,761,643</u>

APPENDIX I FINANCIAL INFORMATION OF MENGXI MINERALS

D. STATEMENTS OF CASH FLOWS

	Year ended 31 March		Nine months ended 31 December	Five months ended 31 May	
	2009	2010	2010	2010	2011
	HK\$	HK\$	HK\$	HK\$	HK\$
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/profit before tax	(26,315,088)	(31,768,141)	15,444,076	(2,530,023)	293,323
Adjustments for:					
Finance costs	43	-	-	-	-
Depreciation	31,857	339,292	1,000,172	197,541	1,429,337
Loss on disposals of fixed assets	-	-	334,265	-	-
Written off of other receivables	23,864,820	-	-	-	-
Written off of amount due from an equity holder	-	28,161,392	-	-	-
Interest income	(11,755)	(19,754)	(400,686)	(15,617)	(121,509)
Operating (loss)/profit before working capital changes	(2,430,123)	(3,287,211)	16,377,827	(2,348,099)	1,601,151
(Increase)/decrease in inventories	(48,105)	(40,435)	(53,631)	207,144	(53,548)
Increase in trade and bills receivables	-	(5,793,531)	(24,777,021)	(6,185,876)	(2,408,391)
Decrease/(increase) in deposits, prepayments and other receivables	3,146,243	3,229,601	(8,693,381)	4,562,889	6,959,751
Increase in deposits received and receipts in advance	73,718	15,666,552	3,818,720	1,257,520	9,277,223
Increase/(decrease) in other payables and accruals	832,850	21,562,979	3,845,336	16,489,060	(1,674,809)
Cash generated from/(used in) operations	1,574,583	31,337,955	(9,482,150)	13,982,638	13,701,377
Income tax paid	-	-	(880,065)	(115,576)	(4,331,820)
Interest paid	(43)	(11,689,646)	(15,944,756)	(7,080,409)	(8,882,160)
Net cash generated from/(used in) operating activities	1,574,540	19,648,309	(26,306,971)	6,786,653	487,397
CASH FLOWS FROM INVESTING ACTIVITIES					
Combination of a fellow subsidiary	-	-	482	-	-
Proceeds from disposals of fixed assets	-	-	23,026	-	-
Additions of deposits paid for construction in progress	(15,330,897)	(140,193,650)	(66,183,378)	(25,754,893)	(68,259,679)
Purchase of intangible assets	(88,808)	(219,727)	-	(220,282)	(949,752)
Purchase of fixed assets	(3,590,475)	(15,641,157)	(51,335,897)	(3,545,074)	(9,605,898)
Interest received	11,755	19,754	400,686	15,617	121,509
Net cash used in investing activities	(18,998,425)	(156,034,780)	(117,095,081)	(29,504,632)	(78,693,820)

APPENDIX I FINANCIAL INFORMATION OF MENGXI MINERALS

	Year ended 31 March		Nine months ended 31 December	Five months ended 31 May	
	2009	2010	2010	2010	2011
	HK\$	HK\$	HK\$	HK\$	HK\$
CASH FLOWS FROM FINANCING ACTIVITIES					
Advance from a fellow subsidiary	-	90,514,140	-	-	-
Advance to an equity holder	-	(28,161,392)	-	-	-
Advance from/(to) immediate parent	-	1,933,682	(461,653)	-	-
Proceeds from paid-in capital	34,150,753	-	-	-	-
Bank loan raised	-	341,238,000	-	114,131,000	-
	<u>-</u>	<u>405,524,430</u>	<u>(461,653)</u>	<u>114,131,000</u>	<u>-</u>
Net cash generated from/(used in) financing activities	34,150,753	405,524,430	(461,653)	114,131,000	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	16,726,868	269,137,959	(143,863,705)	91,413,021	(78,206,423)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	261,364	15,922	11,191,668	1,127,285	8,968,349
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ PERIOD	<u>-</u>	<u>16,988,232</u>	<u>286,142,113</u>	<u>177,463,540</u>	<u>153,470,076</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	<u>16,988,232</u>	<u>286,142,113</u>	<u>153,470,076</u>	<u>270,003,846</u>	<u>84,232,002</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS					
Bank and cash balances	<u>16,988,232</u>	<u>286,142,113</u>	<u>153,470,076</u>	<u>270,003,846</u>	<u>84,232,002</u>

E. NOTES TO THE UNAUDITED FINANCIAL INFORMATION**1. General**

On 15 June 2011, Joy Harvest Holdings Limited, a wholly-owned subsidiary of Kaisun Energy Group Limited (the “Company”), entered into an equity transfer agreement for the disposal of the 70% equity interest in Inner Mongolia Mengxi Minerals Co., Ltd. (the “Disposal Company”) to 鄂托克旗新亞煤焦有限責任公司 (Otog Banner Xin Ya Coking Coal Co. Ltd) at a consideration of RMB810 million (subject to adjustment) (the “Disposal”). Upon completion of the Disposal, the Disposal Company will cease to be a subsidiary of the Company.

The Disposal Company was incorporated in the People’s Republic of China (the “PRC”) with limited liability. The address of its registered office is Mengxi High-Tech Industrial Zone, Ordos, Inner Mongolia, the PRC.

The Disposal Company is engaged in exploitation of coal and coal processing business.

2. Basis of presentation of the Unaudited Financial Information

The Unaudited Financial Information of the Disposal Company has been prepared in accordance with Rule 19.68(2)(a)(i) of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and is solely for the purpose of inclusion in the circular issued by the Company in connection with the Disposal.

The amounts included in the Unaudited Financial Information for each of the two years ended 31 March 2010, the nine months ended 31 December 2010 and the five months ended 31 May 2010 and 2011 have been recognised and measured in accordance with the relevant accounting policies of the Company and its subsidiaries adopted in the preparation of the Company’s consolidated financial statements, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The Unaudited Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 “Presentation of Financial Statements”.

F. REVIEW REPORT ON THE FINANCIAL INFORMATION OF MENGXI MINERALS

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
KAISUN ENERGY GROUP LIMITED**
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the financial information of Inner Mongolia Mengxi Minerals Co., Ltd. (the “Disposal Company”) set out on pages I-1 to I-6 which comprises the statements of financial position as at 31 March 2009 and 2010, 31 December 2010 and 31 May 2011 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the two years ended 31 March 2010, the nine months ended 31 December 2010 and the five months ended 31 May 2010 and 2011 (the “Relevant Periods”). The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the accounting policies used in the preparation of the financial information of the Disposal Company for the Relevant Periods are those of Kaisun Energy Group Limited (the “Group’s Accounting Policies”). The directors of Kaisun Energy Group Limited are responsible for the preparation of this financial information for the Relevant Periods in accordance with the Group’s Accounting Policies. Our responsibility is to express a conclusion on this financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information of the Disposal Company for the Relevant Periods is not prepared, in all material respects, in accordance with the Group’s Accounting Policies.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

6 October 2011

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE REMAINING GROUP**

The accompanying unaudited pro forma financial information of the Remaining Group has been prepared to illustrate the effect of the proposed disposal of the 70% equity interest in Inner Mongolia Mengxi Minerals Co., Ltd. (the “Disposal”) might have affected the financial information of the Group.

The unaudited pro forma consolidated income statement and statement of cash flows of the Remaining Group for the period from 1 April 2010 to 31 December 2010 are prepared based on the audited consolidated income statement and statement of cash flows of the Group for the period from 1 April 2010 to 31 December 2010 as extracted from the Company’s December 2010 annual report as if the Disposal had been completed on 1 April 2010.

The unaudited pro forma consolidated statement of financial position of the Remaining Group as at 31 December 2010 is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2010 as extracted from the Company’s December 2010 annual report as if the Disposal had been completed on 31 December 2010.

The unaudited pro forma financial information of the Remaining Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the unaudited pro forma financial information of the Remaining Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Remaining Group that would have been attained had the Disposal actually occurred on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Remaining Group does not purport to predict the Remaining Group’s future financial position, results of operation or cash flows.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the financial information of the Disposal Company as set out in Appendix I and other financial information included elsewhere in this circular.

APPENDIX II**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

**B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE
REMAINING GROUP**

	The Group	Pro forma		The
	<i>HK\$</i>	<i>adjustments</i>	<i>Notes</i>	Remaining
		<i>HK\$</i>		Group
				<i>HK\$</i>
Turnover	59,618,521	(59,618,521)	<i>1</i>	–
Cost of goods sold	<u>(30,765,265)</u>	30,765,265	<i>1</i>	<u>–</u>
Gross profit	28,853,256			–
Other income	809,590	(419,015)	<i>1</i>	390,575
Selling and distribution costs	(120,524)	120,524	<i>1</i>	–
Administrative and other operating expenses	(38,081,584)	13,707,671	<i>1</i>	(24,373,913)
Loss on disposal of a subsidiary	<u>–</u>	(713,920,560)	<i>2</i>	<u>(713,920,560)</u>
Loss from operations	(8,539,262)			(737,903,898)
Finance costs	<u>(16,244,593)</u>			<u>(16,244,593)</u>
Loss before tax	(24,783,855)			(754,148,491)
Income tax expense	<u>(3,454,220)</u>	3,454,220	<i>1</i>	<u>–</u>
Loss for the period	<u><u>(28,238,075)</u></u>			<u><u>(754,148,491)</u></u>

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
**C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OF THE REMAINING GROUP**

	The Group HK\$	Pro forma adjustments HK\$	Notes	The Remaining Group HK\$
Non-current assets				
Fixed assets	101,102,623	(101,022,053)	3	80,570
Intangible assets	3,199,018,096	(3,199,018,096)	3	–
Deposits paid for construction in progress	221,707,925	(221,707,925)	3	–
	<u>3,521,828,644</u>			<u>80,570</u>
Current assets				
Inventories	142,171	(142,171)	3	–
Trade and bills receivables	30,570,552	(30,570,552)	3	–
Deposits, prepayments and other receivables	75,201,368	(13,080,200)	3	62,121,168
Amount due from a former subsidiary	–	1,472,029	3	1,472,029
Bank and cash balances	242,442,501	(153,470,076)	3	986,872,425
		972,000,000	4	
		(74,100,000)	5	
	<u>348,356,592</u>			<u>1,050,465,622</u>
Current liabilities				
Other payables and accruals	26,911,753	(26,000,670)	3	911,083
Deposits received and receipts in advance	19,558,990	(19,558,990)	3	–
Bank loan	5,856,250	(5,856,250)	3	–
Current tax liabilities	2,961,501	(2,961,501)	3	–
	<u>55,288,494</u>			<u>911,083</u>
Net current assets	<u>293,068,098</u>			<u>1,049,554,539</u>
Total assets less current liabilities	3,814,896,742			1,049,635,109
Non-current liabilities				
Deferred tax liabilities	796,400,332	(796,400,332)	3	–
Convertible bonds	186,211,165			186,211,165
Bank loan	345,518,750	(345,518,750)	3	–
	<u>1,328,130,247</u>			<u>186,211,165</u>
NET ASSETS	<u>2,486,766,495</u>			<u>863,423,944</u>
Capital and reserves				
Share capital	21,143,838			21,143,838
Reserves	1,709,271,622	(54,079,316)	3	842,280,106
		(812,912,200)	6	
Equity attributable to owners of the Company	1,730,415,460			863,423,944
Non-controlling interests	756,351,035	(756,351,035)	3	–
TOTAL EQUITY	<u>2,486,766,495</u>			<u>863,423,944</u>

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
**D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE
REMAINING GROUP**

	The Group <i>HK\$</i>	Pro forma adjustments <i>HK\$</i>	<i>Notes</i>	The Remaining Group <i>HK\$</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	(24,783,855)	(15,444,076)	7	(754,148,491)
		(713,920,560)	2	
Adjustments for:				
Depreciation	1,035,422	(1,000,172)	7	35,250
Loss/(gain) on disposals of fixed assets	333,668	(334,265)	7	(597)
Loss on disposals of available-for-sale financial assets	2,851,965			2,851,965
Equity-settled share-based payments	9,501,293			9,501,293
Finance costs	16,244,593			16,244,593
Interest income	(791,259)	400,686	7	(390,573)
Loss on disposal of a subsidiary	–	713,920,560	2	713,920,560
Operating profit/(loss) before working capital changes	4,391,827			(11,986,000)
Increase in inventories	(53,631)	53,631	7	–
Increase in trade and bills receivables	(24,777,021)	24,777,021	7	–
Increase in deposits, prepayments and other receivables	(55,567,198)	8,693,381	7	(46,873,817)
(Decrease)/increase in other payables and accruals	(5,037,134)	(3,914,978)	7	(8,952,112)
Increase/(decrease) in deposits received and receipts in advance	3,808,802	(3,818,720)	7	(9,918)
Cash used in operations	(77,234,355)			(67,821,847)
Interest paid	(15,944,756)	15,944,756	7	–
Income tax paid	(880,065)	880,065	7	–
Net cash used in operating activities	(94,059,176)			(67,821,847)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	791,259	(400,686)	7	390,573
Purchases of fixed assets	(51,335,897)	51,335,897	7	–
Additions of deposits paid for construction in progress	(66,183,378)	66,183,378	7	–
Proceeds from disposals of fixed assets	368,475	(23,026)	7	345,449
Net proceeds from disposals of available- for-sale financial assets	739,220			739,220
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	–	685,857,887	8	
		(74,100,000)	5	611,757,887

APPENDIX II**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	The Group <i>HK\$</i>	Pro forma adjustments <i>HK\$</i>	<i>Notes</i>	The Remaining Group <i>HK\$</i>
Net cash (used in)/generated from investing activities	<u>(115,620,321)</u>			<u>613,233,129</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment on replacement convertible bonds converted	(11,733)			(11,733)
Advance from a former subsidiary	–	461,653	7	461,653
Proceeds from shares issued in exercise of share options	<u>1,339,389</u>			<u>1,339,389</u>
Net cash generated from financing activities	<u>1,327,656</u>			<u>1,789,309</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(208,351,841)			547,200,591
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>11,055,685</u>	(11,122,508)	7	<u>(66,823)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>439,738,657</u>			<u>439,738,657</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>242,442,501</u>			<u>986,872,425</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	<u>242,442,501</u>			<u>986,872,425</u>

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
REMAINING GROUP

- The adjustments represent the exclusion of the operating result of Inner Mongolia Mengxi Minerals Co., Ltd. for the period from 1 April 2010 to 31 December 2010 as if the Disposal had been completed on 1 April 2010.
- The adjustment represents the loss on disposal of Inner Mongolia Mengxi Minerals Co., Ltd. as if the Disposal had been completed on 1 April 2010 and calculated as follows:

	<i>HK\$</i>	<i>HK\$</i>
Cash consideration of RMB810,000,000		972,000,000
Estimated expenses related to the Disposal		<u>(74,100,000)</u>
Net consideration receivable by the Remaining Group		897,900,000
Adjusted net asset value as at 31 March 2010		
– Net asset value of Inner Mongolia Mengxi Minerals Co., Ltd. as at 31 March 2010	2,346,060,935	
– Foreign currency translation reserve of Inner Mongolia Mengxi Minerals Co., Ltd. attributed to the Group since it was acquired by the Group	(3,265,380)	
– Non-controlling interests of Inner Mongolia Mengxi Minerals Co., Ltd.	<u>(730,974,995)</u>	
		<u>1,611,820,560</u>
Loss on disposal of a subsidiary		<u><u>(713,920,560)</u></u>

- The adjustments represent the exclusion of the net assets of Inner Mongolia Mengxi Minerals Co., Ltd. of HK\$2,521,242,551 as at 31 December 2010 as if the Disposal had been completed on 31 December 2010.

The adjustments represent the exclusion of the foreign currency translation reserve of Inner Mongolia Mengxi Minerals Co., Ltd. attributed to the Group of HK\$54,079,316 since Inner Mongolia Mengxi Minerals Co., Ltd. acquired by the Group and the non-controlling interests of Inner Mongolia Mengxi Minerals Co., Ltd. of HK\$756,351,035 as at 31 December 2010 as if the Disposal had been completed on 31 December 2010.

- The adjustment represents the cash consideration of the Disposal of RMB810,000,000 (approximately HK\$972,000,000).
- The adjustment represents the estimated expenses related to the Disposal of approximately HK\$74,100,000.

6. The adjustment represents the loss on disposal of Inner Mongolia Mengxi Minerals Co., Ltd. as if the Disposal been completed on 31 December 2010 and calculated as follows:

	<i>HK\$</i>	<i>HK\$</i>
Cash consideration of RMB810,000,000		972,000,000
Estimated expenses related to the Disposal		<u>(74,100,000)</u>
Net consideration receivable by the Remaining Group		897,900,000
Adjusted net asset value as at 31 December 2010		
– Net asset value of Inner Mongolia Mengxi Minerals Co., Ltd. as at 31 December 2010	2,521,242,551	
– Foreign currency translation reserve of Inner Mongolia Mengxi Minerals Co., Ltd. attributed to the Group since it was acquired by the Group	(54,079,316)	
– Non-controlling interests of Inner Mongolia Mengxi Minerals Co., Ltd.	<u>(756,351,035)</u>	
		<u>1,710,812,200</u>
Loss on disposal of a subsidiary		<u><u>(812,912,200)</u></u>

7. The adjustments represent the exclusion of the cash flows of Inner Mongolia Mengxi Minerals Co., Ltd. for the period from 1 April 2010 to 31 December 2010 as if the Disposal had been completed on 1 April 2010.

As Inner Mongolia Mengxi Minerals Co., Ltd. merged with Ordos Mengxi Chemical GEM Coal Company Limited (“Mengxi Chemical”), a fellow subsidiary with Inner Mongolia Mengxi Minerals Co., Ltd. which has the same shareholding during the nine months period ended 31 December 2010 and the cash flows of Mengxi Chemical since 1 April 2010 up to the date of merger included increased in other payables and accruals of HK\$69,642, effect of foreign exchange rate changes of HK\$69,160 and the balance represented by “Combination of a fellow subsidiary” of HK\$482 as stated in the statement of cash flows on page I-4 of Appendix I.

8. The adjustment represents the difference between the cash consideration of disposal of RMB810,000,000 (approximately HK\$972,000,000) and the bank and cash balances of Inner Mongolia Mengxi Minerals Co., Ltd. of HK\$286,142,113 disposed of as if the Disposal completed on 1 April 2010.

9. Pursuant to the share sale and purchase agreement entered by the Company, West Glory Development Limited (“West Glory”), a wholly-owned subsidiary of the Company and an independent third party dated 15 March 2011, Saddleback Mining Limited and its subsidiaries (“Saddleback Group”) was acquired conditionally by West Glory at a total consideration of US\$22,433,089 (approximately HK\$174,978,000). As at 31 December 2010, the book value of the total assets of Saddleback Gold Corporation LLC and its subsidiaries was GBP4,739,381 (approximately HK\$59,053,000) and completion of acquire the Saddleback Group took place on 25 March 2011. Following the Disposal, the Saddleback Group will be the only remaining operating asset of the Group. The management of the Company indicated that the Group will continue to engage in the energy and resources based business. Saddleback Group operates the coal and anthracite mining and exploration business in Tajikistan through the three mines owned by the Saddleback Group in Tajikistan.

F. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

6 October 2011

The Board of Directors
Kaisun Energy Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Kaisun Energy Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed disposal of the 70% equity interest in Inner Mongolia Mengxi Minerals Co., Ltd. might have affected the financial information of the Group presented, for inclusion in Appendix II to the circular of the Company dated 6 October 2011 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page II-1 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibilities solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2010 or any future date; or
- the results and cash flows of the Group for the period from 1 April 2010 to 31 December 2010 or any future periods.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS

This circular is prepared for the forthcoming proposed disposal of the Group's 70% equity interest in Inner Mongolia Mengxi Minerals Co., Ltd. ("Mengxi Minerals"). Upon completion of the proposed disposal of Mengxi Minerals, the operation of the Remaining Group will principally be contributed by Saddleback Mining Limited and its subsidiaries ("Saddleback Group") and the acquisition of Saddleback Group was completed on 25 March 2011.

A. For the year ended 31 March 2008***Business Review***

The Remaining Group was principally engaged in investment holdings. As Mengxi Minerals is proposed to be disposed and disposal of Global On-Line Distribution Limited ("Global On-Line") has been completed on 30 November 2009, they were not included in the Remaining Group.

Liquidity and financial resources

As at 31 March 2008, the Remaining Group had bank and cash balances of approximately HK\$107.0 million and no borrowing.

Significant investment and material acquisitions and disposals of subsidiary

On 3 July 2007, the Remaining Group acquired 51% of the issued share capital of Global On-Line at a cash consideration of HK\$5,100 and Global On-Line was engaged in trading of printer accessories and batteries during the year.

On 24 July 2007, the Remaining Group subscribed for 51% of the enlarged share capital of Long Capital Development Limited ("Long Capital") at HK\$10 million. Long Capital is an investment holding company and its subsidiary was engaged in provision of repairs and maintenance services to motor vehicles, operating car accessories shop, car washing, cleaning and beauty services.

Pursuant to an agreement dated 20 August 2007 (as supplemented by the amended agreement dated 14 September 2007) entered into between the Company and an independent third party, the Company disposed of 100% interest in a wholly-owned subsidiary, Ultra Group Company Limited.

Ultra Group Company Limited was an investment holding company and its subsidiaries were engaged in the design, manufacture and sale of office furniture during the year. The disposal was completed on 31 October 2007 and the Group discontinued its design, manufacture and sale of office furniture business.

Final Dividend

No final dividend was paid for the year.

Gearing Ratio

The Remaining Group's gearing ratio, which represented the ratio of the Remaining Group's total liabilities over the Remaining Group's total assets, was 0.01 as at 31 March 2008.

Capital Structure and foreign currency exposure

The capital of the Remaining Group comprised of 540,000,000 issued ordinary shares of HK\$0.01 each as at 31 March 2008. During the period, transactions of the Remaining Group were mainly transacted in United States dollars and Hong Kong dollars. As at 31 March 2008, substantial portion of the assets and liabilities of the Remaining Group were current in nature, and the amounts were principally denominated in United States dollars and Hong Kong dollars, foreign exchange risk was considered minimal. As at 31 March 2008, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Income tax

The Remaining Group's income tax expense was nil as the Remaining Group had no assessable profit arising in or derived during the year.

Human Resources

As at 31 March 2008, there was a total of 5 full-time staff (including Directors) employed by the Remaining Group. The staff costs (excluding the equity-settled share-based payments) for the year including Directors' remuneration were approximately HK\$229,000. During the year, 21,600,000 share options were granted and the estimated fair value of the share options on the grant date was approximately HK\$5.9 million.

The Group continued to employ, promote and reward its staff with reference to their performance and experience. In addition to their basic salaries, the Group's employees were also entitled to other fringe benefits such as provident fund. The management continued to closely monitor the human resources requirements of the Group, and also put emphasis on staff quality. During the relevant period, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors considered the Group's relationship with its employees to be good.

Segment Report

No segmental analysis was applicable upon the proposed disposal of Mengxi Minerals completed as the Remaining Group had no sole reportable segment.

Charge, Contingent Liabilities and commitments

As at 31 March 2008, the Remaining Group did not have any contingent liabilities, commitment and there were no charges on any assets of the Remaining Group.

Litigation

As at 31 March 2008, the Remaining Group had no significant pending litigation.

B. For the year ended 31 March 2009***Business Review***

The Remaining Group was principally engaged in investment holdings. As Mengxi Minerals is proposed to be disposed, it was not included in the Remaining Group.

Liquidity and financial resources

As at 31 March 2009, the Remaining Group had bank and cash balances of approximately HK\$27.4 million and had liability component of the convertible bonds issued as partial consideration to acquire the entire issued capital of Imare Company Limited (“Imare”) of approximately HK\$634.5 million which has the maturity date on 10 June 2013. Interest of 1 per cent per annum is payable at the time of conversion and redemption of the convertible bonds.

Significant investment and material acquisitions and disposals of subsidiary

On 10 June 2008, the Group completed the sales and purchase agreement to acquire (the “Acquisition”): (i) a 49% interest in Mengxi Minerals, a Sino-foreign joint venture company set up to own and operate a coking coal mine; and (ii) a 70% stake in Mengxi Chemical, another Sino-foreign joint venture company established to build and operate coal processing plants. Details of the Acquisition are set out in note 36(a)(ii) of Appendix I of the Company’s circular dated 30 April 2008.

The consideration for the Acquisition (which amounted to HK\$900 million) was satisfied by (i) HK\$170 million of consideration convertible bonds; (ii) HK\$546 million of cash; and (iii) HK\$184 million of consideration shares (through the allotment of 230 million shares at HK\$0.80 each). The HK\$546 million cash payment was financed from the proceeds of placing the HK\$600 million convertible bonds completed on 10 June 2008.

Final Dividend

No final dividend was paid for the year.

Gearing Ratio

The Remaining Group’s gearing ratio, which represented the ratio of the Remaining Group’s total liabilities over the Remaining Group’s total assets, was 19.5 as at 31 March 2009.

Capital Structure and foreign currency exposure

On 10 June 2008, the Company issued 230,000,000 new ordinary shares at an issue price of HK\$0.59 per new ordinary share for settlement of part of the consideration of the acquisition of Imare.

The capital of the Remaining Group comprised of 770,000,000 issued ordinary shares of HK\$0.01 each as at 31 March 2009. During the year, most of the trading transactions, assets and liabilities of the Remaining Group were denominated in Hong Kong dollars and RMB. As at 31 March 2009, the Remaining Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Income tax

The Remaining Group's income tax expense was nil as the Remaining Group had no assessable profit arising in or derived during the year.

Human Resources

As at 31 March 2009, there was a total of 14 full-time staff (including Directors) employed by the Remaining Group. The staff costs (excluding the equity-settled share-based payments) for the year including Directors' remuneration were approximately HK\$6.2 million. During the year, 32,400,000 share options were granted and the estimated fair value of the share options on the grant date was approximately HK\$7.4 million.

The Group continued to employ, promote and reward its staff with reference to their performance and experience. In addition to their basic salaries, the Group's employees were also entitled to other fringe benefits such as provident fund. The management continued to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality. During the year, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors considered the Group's relationship with its employees to be good.

Segment Report

No segmental analysis was applicable upon the proposed disposal of Mengxi Minerals completed as the Remaining Group had no sole reportable segment.

Charge, Contingent Liabilities and commitments

As at 31 March 2009, the Remaining Group did not have any contingent liabilities, commitment and there were no charges on any assets of the Remaining Group.

Litigation

As at 31 March 2009, the Remaining Group had no significant pending litigation.

C. For the 9 months ended 31 December 2010*Business Review*

The Remaining Group was principally engaged in investment holdings. As Mengxi Minerals is proposed to be disposed, it was not included in the Remaining Group.

Liquidity and financial resources

As at 31 December 2010, the Remaining Group had bank and cash balances of approximately HK\$986.9 million and had liability component of the replacement convertible bonds (“Replacement Bonds”) of approximately HK\$186.2 million. The bondholders of the Replacement Bonds have the right to convert at any time from issue date up to 10 June 2013 into shares of the Company at a fixed conversion price at HK\$0.70 per share. Interest of 3.75 per cent per annum (compounded annually) is payable (i) in conversion shares on conversion or (ii) in cash at maturity.

*Significant investment and material acquisitions and disposals of subsidiary**Acquisition of 21% equity interest in Mengxi Minerals*

On 7 July 2009, the Group entered into an agreement to acquire further 21% equity interest in Mengxi Minerals for a cash consideration of RMB16.8 million. The acquisition was completed on 10 December 2009. Since then, Mengxi Minerals became a 70% equity interest held subsidiary of the Group.

Completion of disposal of Long Capital

On 30 June 2010, the Group disposed of its remaining 14.57% interest in Long Capital, details of which were discussed in the Company’s announcement dated 30 June 2010. As the Group’s business strategy was to reposition itself as an integrated coke producer in the PRC, after the disposal of its remaining 14.57% interest in Long Capital, the Group was no longer involved in the business of providing beauty and repairs services to motor vehicles. From 1 July 2010 onwards, coal became the sole business operation of the Group.

Merger of Mengxi Minerals and Mengxi Chemical, Dissolution of Mengxi Chemical

On 10 August 2010, Mengxi Minerals (as purchaser) and Mengxi Chemical (as vendor), each an indirect 70% subsidiary of the Company, entered into the Agreement for a group restructuring exercise involving the merger of Mengxi Minerals and Mengxi Chemical (“**Merger**”) by the transfer of all assets, liabilities, businesses and employees of Mengxi Chemical to Mengxi Minerals at nil consideration (“**Transfer**”). Mengxi Chemical was to be dissolved upon completion of the Merger.

The principal business of Mengxi Chemical was the washing and choosing of mine run coal, the processing of coking coal and coke and their related coal by-products. The principal business of Mengxi Minerals was 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.

Each of Mengxi Minerals and Mengxi Chemical was a joint venture vehicle which is 70% indirectly owned by the Company and 30% by Mengxi HT (note). As Mengxi Minerals and Mengxi Chemical had the same shareholding structure, the Board considered that the Merger would enable the Group to streamline the corporate structure to facilitate integration of resources and unify the platform for sales of coal and washing and choosing of mine run coal by the Group. Cost savings for the Group can be achieved accordingly.

The acquisition and disposal of the assets, liabilities, businesses and employees of Mengxi Chemical under the Transfer were part and parcel of the entire group restructuring exercise. Since all assets, liabilities, businesses and employees of Mengxi Chemical were transferred to Mengxi Minerals at nil consideration, no gain or loss to the Group resulted from the Merger.

The transfer of all assets, liabilities, businesses and employees of Mengxi Chemical to Mengxi Minerals under the Merger was completed on 25 August 2010. Mengxi Chemical was dissolved on 12 September 2010 upon completion of the necessary filings and obtaining of the relevant approvals in the PRC.

Note:

Mengxi HT: 內蒙古蒙西高新技術集團有限公司 (Inner Mongolia Gaoxing High Tech Limited).

Final Dividend

No final dividend was paid for the period.

Gearing Ratio

The Remaining Group's gearing ratio, which represented the ratio of the Remaining Group's total liabilities over the Remaining Group's total assets, was 0.18 as at 31 December 2010. There was no charge on the assets of the Remaining Group as at 31 December 2010.

Capital Structure

As at 31 December 2010, the capital structure of the Remaining Group comprised of 2,114,383,750 issued ordinary shares of HK\$0.01 each and amounted to approximately HK\$21.1 million and Replacement Bonds of approximately HK\$186.2 million. The bondholders of the Replacement Bonds have the right to convert at any time from issue date up to 10 June 2013 into shares of the Company at a fixed conversion price at HK\$0.70 per share. Interest of 3.75 per cent per annum (compounded annually) is payable (i) in conversion shares on conversion or (ii) in cash at maturity.

During the period, the Company had received conversion notices from the bondholders regarding the conversion of the Replacement Bonds with the face value of principal amount of HK\$72,870,000 into 106,900,000 new ordinary shares of the Company. Upon completion of the conversion exercise during the period, the face value of outstanding principal of the Replacement Bonds amounted to HK\$217,660,000 and a maximum of approximately 357,410,000 new ordinary shares of the Company can be converted on the maturity date.

During the period, the Company received exercise notices from the grantees regarding the exercise of share option of conversion into 1,808,750 new ordinary shares of the Company.

Foreign Exchange Exposure

Majority of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and RMB. After completion of the acquisition of Saddleback Mining Limited and its subsidiaries by the Group on 25 March 2011, certain transactions, assets and liabilities of the Remaining Group were denominated in Hong Kong dollars, RMB and TJS. As at 31 December 2010, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Income tax

The Remaining Group's income tax expense was nil after pro-forma adjustment deduction from the Group's income tax expense of HK\$3.4 million as the Remaining Group had no assessable profit arising in or derived during the period.

Human Resources

As at 31 December 2010, the Remaining Group had 14 staff in Hong Kong and the PRC. The Group continued to employ, promote and reward its staff with reference to their performance and experience. In addition to their basic salaries, the Group's employees were also entitled to other fringe benefits such as provident fund. The management continued to closely monitor the human resources requirements of the Group, and also put emphasis on the staff quality. During the period, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors considered the Group's relationship with its employees to be good.

The total staff costs of the Remaining Group, including Directors' emoluments, amounted to approximately HK\$5.7 million for the period.

Segment Report

No segmental analysis was applicable upon the proposed disposal of Mengxi Minerals completed as the Remaining Group had a sole reportable segment which is exploitation of coal in Tajikistan.

Charge, Contingent Liabilities and commitments

As at 31 December 2010, the Remaining Group did not have any contingent liabilities, commitment and there were no charges on any assets of the Remaining Group.

Litigation

As at 31 December 2010, the Remaining Group had no significant pending litigation.

Convertible Bonds

On 10 June 2008, the Group issued convertible bonds (“Bonds”) with a nominal value of HK\$770,000,000 comprising 770 Bonds of HK\$1,000,000 each.

The Bonds mature on the fifth anniversary from the date of issue of the Bonds (the “Maturity Date”). Under the conditions of the Bonds, each Bond may be converted into a maximum of 1,000,000 new shares (each a “New Share”) of the Company (“Conversion Cap”), subject to increase and adjustment in the manner stipulated in the conditions. If upon conversion of the Bond, the number of New Shares required to be issued by the Company would exceed the Conversion Cap, the Bond shall be converted only up to the Conversion Cap, and the unconverted amount of the Bond shall be redeemed by the Company in cash equal to 120% of the unconverted principal amount together with accrued interest (“Conversion Cap Payment”). Subject to the aforesaid, the bondholders have the right to convert the Bonds at any time prior to the Maturity Date into New Shares on and subject to the terms and conditions of the Bonds at the lower of either (a) HK\$1.30 per New Share; or (b) 100% of the average of the three lowest closing prices for a share of the Company on the Stock Exchange, or if trading in the shares of the Company 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 (the “Variable Conversion Price”) save that the lowest Variable Conversion Price shall not be less than the nominal value of the shares of the Company (the “Conversion Price”); provided that no conversion right may be exercised, to the extent that following such exercise, a holder of the 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 Code of Takeovers and Mergers of Hong Kong as in force from time to time (“Takeovers Code”) as being the level for triggering a mandatory general offer). Subject to the Conversion Cap, the aggregate principal amount of the Bonds together with the accrued interest shall be automatically converted to New Shares on the Maturity Date at the then prevailing Conversion Price unless such conversion will result in a holder of the 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). Interest of 1 per cent per annum is payable at the time of conversion and redemption of the Bonds. The Company is entitled to cancel and to redeem all the Bonds in whole at any point in time after the third anniversary of the date of issue of the Bonds prior to the Maturity Date at 135% of their principal amount together with accrued interest. Further details of the Bonds are set out in the circular of the Company dated 30 April 2008.

On 20 July 2009 the Company entered an agreement for variation of the terms and conditions of the Bonds (“Variation Agreement”) with the bondholders. Under the Variation Agreement, the Company and the bondholders agreed that the conditions of the Bonds be amended in the following manner:

- (1) If upon the conversion of the Bonds, Conversion Cap will be exceeded, the Company will be required to issue a convertible bond (“Replacement Bonds”) to the converting bondholder in principal amount equal to the Conversion Cap Payment in satisfaction of its obligation to make the Conversion Cap Payment in cash. The Replacement Bonds shall be convertible into ordinary shares of the Company (“Shares”) at a fixed conversion price on and subject to the terms and conditions agreed by the Company and the bondholders under the Variation Agreement;
- (2) The Company shall have no right to require the early cancellation or redemption of any of the Bonds prior to the Maturity Date;
- (3) The conversion price of the Bonds shall not be less 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.

Further details of the Variation Agreement and Replacement Bonds are set out in the circular of the Company dated 17 August 2009.

During the year ended 31 March 2010, all Bonds were converted to the New Shares by the bondholders and the Replacement Bonds amounting to HK\$516,052,428 with the face value of HK\$426,680,000 were issued to the bondholders to satisfy the Conversion Cap Payment.

	<i>HK\$</i>
Beginning of the year	634,542,149
Interest charged	11,630,895
Bonds converted and repaid during the year	
– by issue of 770,000,000 New Shares	(130,070,216)
– by issue of Replacement Bonds	(516,052,428)
– by cash	(50,400)
	–
Liability component	–
Beginning of the year	73,920,000
Fair value loss for the year	207,015,056
Bonds converted during the year	(280,935,056)
	–
Derivative component	–

The maturity date of the Replacement Bonds is the same as that of the Bonds. 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.

The Replacement Bonds have been split between the liability element and an equity component, as follows:

	Period from 1 April 2010 to Year ended 31 December 2010 HK\$	31 March 2010 HK\$
Beginning of the period/year	228,173,030	–
Nominal value of Replacement Bonds issued	–	516,052,428
Equity component	–	(203,821,441)
Liability component at date of issue	–	312,230,987
Interest charged	16,244,593	18,127,873
Replacement Bonds converted and repaid during the period/year		
– by issue of 106,900,000 Shares (year ended 31 March 2010: 195,920,000)	(58,194,725)	(102,158,133)
– by cash	(11,733)	(27,697)
Liability component at the end of the period/year	<u>186,211,165</u>	<u>228,173,030</u>

The interest charged for the period is calculated by applying an average effective interest rate of 12.69 percent to the liability component for the 9 months period.

The directors estimate the fair value of the liability component of the Replacement Bonds at 31 December 2010 to be approximately HK\$189,023,000 (at 31 March 2010: HK\$212,849,000). This fair value has been calculated by discounting the future cash flows at the market rate.

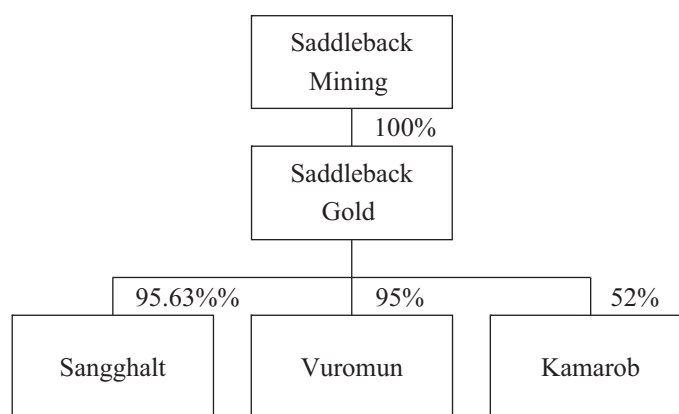
D. For the 6 months ended 30 June 2011*Business Review*

The Remaining Group was principally engaged in coal and anthracite mining and exploration in Tajikistan (after completion of the acquisition of Saddleback Group on 25 March 2011), and owned mining rights and interests in three mines in Tajikistan, including the Kaftar Hona Anthracite Mine, the East Zeddi Coal Mine and the Mienadu Coal Mine.

Significant investment and material acquisitions and disposals of subsidiary

On 25 March 2011, the Company completed the acquisition of Saddleback Mining Limited and its subsidiaries. The Saddleback Group was principally engaged in coal and anthracite mining and exploration in Tajikistan, and owned mining rights and interests in three mines in Takjikistan.

The existing group structure of the Saddleback Group is as follows:

*Liquidity and financial resources*

As at 30 June 2011, the Remaining Group had bank and cash balances of approximately HK\$319.0 million. The bank balances included a deposit received from the Purchaser of Mengxi Minerals amounting RMB220 million.

As at 30 June, 2011 the Remaining Group had outstanding convertible bonds of approximately HK\$196 million and convertible bond reserve was approximately HK\$103.8 million. The maturity date of these convertible bonds is 10 June 2013.

As at 30 June 2011, the Remaining Group had a loan from former owner of Saddleback of US\$8,750,000 (approximately HK\$68,250,000) which is interest bearing at 2 per cent per annum and repayable by 4 instalments of US\$2,187,500 (approximately HK\$17,063,000) each on 31 May 2012, 31 August 2012, 30 November 2012 and 28 February 2013.

Gearing ratio

The Group's gearing ratio, which represented the ratio of the remaining Group's total liabilities over the Group's total assets, was 0.86 as at 30 June 2011.

Final Dividend

No final dividend was paid for the period.

Capital Structure and foreign currency exposure

On 25 March 2011, the Company increased its issued share capital from 2,114,383,750 ordinary shares to 2,537,260,500 ordinary shares as a result of the issuance of 422,876,750 consideration shares pursuant to the share sale and purchase agreement regarding acquisition of Saddleback Mining Limited as disclosed in the Company's announcement dated 15 March 2011.

As at 30 June 2011, the capital structure of the Remaining Group comprised of 2,537,260,500 issued ordinary shares of nominal value of HK\$0.01 each

Up to 30 June 2011, the principal amount of the Replacement Bonds with the face value of HK\$209,020,000 had been redeemed and the outstanding principal as at 30 June 2011 with the face value amounted to HK\$217,660,000.

Employees

As at 30 June 2011, the Remaining Group had approximately 34 employees. The total staff costs, including Directors' emoluments amounted to HK\$4.2 million of the Remaining Group for the six months ended 30 June 2011.

The Group continued to employ, promote and reward its staff with reference to their performance and experience. In addition to their basic salaries, the Group's employees were also entitled to other fringe benefits such as provident fund. The management continued to closely monitor the human resources requirements of the Group, and also put emphasis on the staff quality. During the period, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors considered the Group's relationship with its employees to be good.

Income tax

The Remaining Group's income tax expense was nil as the Remaining Group had no assessable profit arising in or derived during the period.

Segment Report

No segmental analysis was applicable upon the proposed disposal of Mengxi Minerals completed as the Remaining Group had no sole reportable segment.

Charge, Contingent Liabilities and commitments

As at 30 June 2011, the Remaining Group did not have any contingent liabilities, commitment and there were no charges on any assets of the Remaining Group.

Litigation

As at 30 June 2011, the Remaining Group had no significant pending litigation.

3. Indebtedness Statement***Debt Securities***

During the year ended 31 March 2010, Replacement Bonds amounting to HK\$516,052,428 with the face value of HK\$426,680,000 were issued to the bondholders (“Bondholders”). The maturity date of the Replacement Bonds is 10 June 2013 (“Maturity Date”). 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.

As of the Latest Practicable Date, the face value of the outstanding principal 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.

Borrowings

At the close of business on 31 August 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total borrowings amounted to HK\$639 million comprising Replacement Bonds of approximately HK\$202 million, loan from a former immediate parent of a subsidiary of approximately HK\$70 million (equivalent to approximately US\$8.75 million and guaranteed by a subsidiary of the Company) and secured bank loan of approximately HK\$367 million (equivalent to RMB300 million) (“Secured Bank Loan”). The Secured Bank Loan was secured by the mining licence held by Mengxi Minerals in respect of a coal mine in the district of Ordos Inner Mongolia and 100% equity interest of Mengxi Minerals. This bank loan is used to finance construction of the underground mine and the beneficiation plant.

Saved as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 August 2011, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credit, guarantees or other material contingent liabilities.

Pledges of Assets

As at 31 August 2011, the Remaining Group had no outstanding pledges of assets.

Commitments

As at 31 August 2011, the Group had outstanding commitments in respect of fixed assets of Mengxi Minerals of approximately HK\$48,662,000.

As at 31 August 2011, the Remaining Group had no outstanding commitments.

Mortgages and Charges

As at 31 August 2011, the Remaining Group had no outstanding mortgages and charges.

Litigation

As at the Latest Practicable Date, there was no litigation or claims of material importance pending or threatened against the Group.

4. Working Capital

The Directors, after due and careful consideration and having taken into account the presently available financial resources and the proceeds generated from the Equity Transfer, are of the opinion that the Group has sufficient working capital for its present requirements in the next twelve months from the date of this circular.

5. Material Adverse Changes

The Directors confirm that there was no material adverse change in the financial or trading position or prospects of the Group since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Group have been made up) up to the Latest Practicable Date.

Set out below are the unaudited consolidated statements of financial position of Saddleback Gold Corporation LLC (“Saddleback Gold”) and its subsidiaries (including Saddleback Mining Limited which became the immediate parent of Saddleback Gold subsequent to the restructuring of the SGC Group by share swap with Saddleback Gold’s ultimate parent in January 2011) (the “SGC Group”) as at 31 December 2008, 2009 and 2010 and the unaudited consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the SGC Group (“Unaudited Financial Information of the SGC Group”) for the fifteen months ended 31 December 2008 and each of the two years ended 31 December 2010 (the “Relevant Periods”), which have been reviewed by the reporting accountants, RSM Nelson Wheeler, in accordance with Hong Kong Standard on Review Engagements 2400, “Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants.

Upon the SGC Group acquired the subsidiaries in 2007 and 2008 and a jointly controlled entity in 2007 as follow, the identifiable assets and liabilities of these subsidiaries and jointly controlled entity were measured at their acquisition-date book amounts which is not in accordance with the requirements of Hong Kong Financial Reporting Standards that require these identifiable assets and liabilities be measured at their acquisition-date fair values.

1. Saddleback Gold acquired 95% charter fund of Vuromun LLC on 30 July 2007 by injecting TJS100,000 (approximately HK\$227,000) into the charter fund of Vuromun LLC;
2. Saddleback Gold acquired 50% charter fund of Kamarob LLC on 12 July 2007 by injecting TJS1,000,000 (approximately HK\$2,268,000) into the charter fund of Kamarob LLC;
3. Saddleback Gold acquired 96.3% charter fund of Sangghalt LLC on 30 May 2008 by injecting TJS105,000 (approximately HK\$239,000) into the charter fund of Sangghalt LLC.

As at 31 December 2010, the SGC Group’s current liabilities exceed its current assets by approximately HK\$172 million. This condition indicates the existence of a material uncertainty which may cast significant doubt about the SGC Group’s ability to continue as a going concern.

The review report of the reporting accountants is modified in respect of the above matters.

APPENDIX III

**FINANCIAL INFORMATION OF
SADDLEBACK GOLD AND ITS SUBSIDIARIES**

1. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fifteen months ended 31 December 2008 HK\$	Year ended 31 December 2009 2010 HK\$	
Turnover	7,181,565	4,759,054	6,644,817
Cost of goods sold	<u>(4,716,035)</u>	<u>(3,162,804)</u>	<u>(4,519,572)</u>
Gross profit	2,465,530	1,596,250	2,125,245
Other income	14,109,531	2,328,721	908,094
Administrative and other operating expenses	<u>(28,830,436)</u>	<u>(25,310,696)</u>	<u>(20,239,345)</u>
Loss from operations	(12,255,375)	(21,385,725)	(17,206,006)
Share of (loss)/profit of an associate	(3,685,328)	27,981	(1,236,340)
Share of loss of a jointly controlled entity	<u>(5,342,742)</u>	<u>(2,023,966)</u>	<u>(2,936,145)</u>
Loss before tax	(21,283,445)	(23,381,710)	(21,378,491)
Income tax expense	<u>—</u>	<u>—</u>	<u>—</u>
Loss for the period/year	(21,283,445)	(23,381,710)	(21,378,491)
Other comprehensive income for the period/year, net of tax			
Exchange differences on translation	<u>25,967,488</u>	<u>(8,639,520)</u>	<u>3,556,079</u>
Total comprehensive income for the period/year	<u><u>4,684,043</u></u>	<u><u>(32,021,230)</u></u>	<u><u>(17,822,412)</u></u>
Loss for the period/year attributable to:			
Owners of Saddleback Gold	(21,311,038)	(23,347,882)	(21,267,255)
Non-controlling interests	<u>27,593</u>	<u>(33,828)</u>	<u>(111,236)</u>
	<u><u>(21,283,445)</u></u>	<u><u>(23,381,710)</u></u>	<u><u>(21,378,491)</u></u>
Total comprehensive income for the period/year attributable to:			
Owners of Saddleback Gold	4,656,450	(31,979,968)	(17,715,491)
Non-controlling interests	<u>27,593</u>	<u>(41,262)</u>	<u>(106,921)</u>
	<u><u>4,684,043</u></u>	<u><u>(32,021,230)</u></u>	<u><u>(17,822,412)</u></u>

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2008 HK\$	2009 HK\$	2010 HK\$
Non-current assets			
Fixed assets	33,153,315	31,917,065	21,863,699
Investment in an associate	6,411,453	6,478,554	5,654,693
Investment in a jointly controlled entity	10,068,503	17,710,036	15,634,143
Goodwill	8,077,469	8,992,192	8,662,286
	<u>57,710,740</u>	<u>65,097,847</u>	<u>51,814,821</u>
Current assets			
Inventories	107,422	135,088	290,220
Trade receivables	655,893	450,354	14,944
Deposits, prepayments and other receivables	7,238,510	6,685,728	5,578,090
Bank and cash balances	20,981,675	849,244	146,613
	<u>28,983,500</u>	<u>8,120,414</u>	<u>6,029,867</u>
Current liabilities			
Other payables and accruals	1,912,466	3,902,087	5,606,618
Due to immediate parent	155,486,252	172,041,882	172,786,190
	<u>157,398,718</u>	<u>175,943,969</u>	<u>178,392,808</u>
Net current liabilities	<u>(128,415,218)</u>	<u>(167,823,555)</u>	<u>(172,362,941)</u>
NET LIABILITIES	<u>(70,704,478)</u>	<u>(102,725,708)</u>	<u>(120,548,120)</u>
Capital and reserves			
Share capital	159,638	159,638	159,638
Reserves	<u>(70,905,378)</u>	<u>(102,885,346)</u>	<u>(120,600,837)</u>
Equity attributable to owners of Saddleback Gold	(70,745,740)	(102,725,708)	(120,441,199)
Non-controlling interests	<u>41,262</u>	<u>–</u>	<u>(106,921)</u>
	<u>(70,704,478)</u>	<u>(102,725,708)</u>	<u>(120,548,120)</u>

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owners of Saddleback Gold					
	Share capital HK\$	Accumulated losses HK\$	Foreign currency translation reserve HK\$	Total HK\$	Non-controlling interests HK\$	Total HK\$
At 1 October 2007	159,638	(75,751,513)	189,685	(75,402,190)	13,669	(75,388,521)
Total comprehensive income for the period	–	(21,311,038)	25,967,488	4,656,450	27,593	4,684,043
At 31 December 2008 and 1 January 2009	159,638	(97,062,551)	26,157,173	(70,745,740)	41,262	(70,704,478)
Total comprehensive income for the year	–	(23,347,882)	(8,632,086)	(31,979,968)	(41,262)	(32,021,230)
At 31 December 2009 and 1 January 2010	159,638	(120,410,433)	17,525,087	(102,725,708)	–	(102,725,708)
Total comprehensive income for the year	–	(21,267,255)	3,551,764	(17,715,491)	(106,921)	(17,822,412)
At 31 December 2010	<u>159,638</u>	<u>(141,677,688)</u>	<u>21,076,851</u>	<u>(120,441,199)</u>	<u>(106,921)</u>	<u>(120,548,120)</u>

D. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fifteen months ended 31 December 2008 HK\$	Year ended 31 December 2009 HK\$		2010 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	(21,283,445)	(23,381,710)	(21,378,491)	
Adjustments for:				
Depreciation	11,161,196	8,493,891	8,800,226	
Share of loss/(profit) of an associate	3,685,328	(27,981)	1,236,340	
Share of loss of a jointly controlled entity	5,342,742	2,023,966	2,936,145	
Interest income	(1,212,604)	(57,138)	–	
Operating loss before working capital changes	(2,306,783)	(12,948,972)	(8,405,780)	
Increase in inventories	(66,487)	(27,666)	(155,132)	
(Increase)/decrease in trade receivables	(567,478)	205,539	435,410	
(Increase)/decrease in deposits, prepayments and other receivables	(5,248,375)	552,782	1,107,638	
(Decrease)/increase in other payables and accruals	(2,677,008)	1,989,621	1,704,531	
Net cash used in operating activities	<u>(10,866,131)</u>	<u>(10,228,696)</u>	<u>(5,313,333)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES				
Advance to an associate	(3,398,341)	(460,222)	(273,685)	
(Advance to)/repayment from a jointly controlled entity	(9,372,288)	(8,872,680)	869,281	
Increase in investment in a jointly controlled entity	–	(1,371,700)	(1,493,450)	
Acquisition of subsidiaries	(8,340,106)	–	–	
Purchase of fixed assets	(45,709,487)	(3,634,706)	(5,352)	
Interest received	1,212,604	57,138	–	
Net cash used in investing activities	<u>(65,607,618)</u>	<u>(14,282,170)</u>	<u>(903,206)</u>	
CASH FLOWS FROM FINANCING ACTIVITIES				
Advance from immediate parent	36,439,629	16,555,630	744,308	
Net cash generated from financing activities	<u>36,439,629</u>	<u>16,555,630</u>	<u>744,308</u>	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(40,034,120)	(7,955,236)	(5,472,231)	
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	36,144,504	(12,177,195)	4,769,600	
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	<u>24,871,291</u>	<u>20,981,675</u>	<u>849,244</u>	
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR	<u><u>20,981,675</u></u>	<u><u>849,244</u></u>	<u><u>146,613</u></u>	
ANALYSIS OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	<u>20,981,675</u>	<u>849,244</u>	<u>146,613</u>	

E. NOTES TO THE UNAUDITED FINANCIAL INFORMATION**1. General**

On 25 March 2011, a wholly-owned subsidiary of Kaisun Energy Group Limited (the “Company”) acquired Saddleback Mining Limited and its subsidiaries (“Saddleback Group”) from an independent third party which included all entities of the SGC Group other than those engaged in non-coal business. On 15 June 2011, Joy Harvest Holdings Limited, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement for the disposal of the 70% equity interest in Inner Mongolia Mengxi Minerals Co., Ltd. (the “Disposal Company”) to 鄂托克旗新亞煤焦有限責任公司 (Otog Banner Xin Ya Coking Coal Co. Ltd) at a consideration of RMB810 million (subject to adjustment) (the “Disposal”). Upon completion of the Disposal, the Disposal Company will cease to be a subsidiary of the Company and the SGC Group other than those engaged in non-coal business will become the sole operation entities of the Company.

Saddleback Gold was incorporated in the Republic of Tajikistan with limited liability. The address of its registered office is 26 Shota Rustaveli, Dushanbe, Republic of Tajikistan.

Saddleback Gold is an investment holding company and its subsidiaries are engaged in exploitation of coal and coal processing business.

2. Basis of presentation of the Unaudited Financial Information of the SGC Group

The Unaudited Financial Information of the SGC Group has been prepared in accordance with Rule 19.68(2)(a)(i) of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and is solely for the purpose of inclusion in the circular issued by the Company in connection with the Disposal.

The amounts included in the Unaudited Financial Information of the SGC Group for the fifteen months ended 31 December 2008 and each of the two years ended 31 December 2010 have been recognised and measured in accordance with the relevant accounting policies of the Company and its subsidiaries adopted in the preparation of the Company’s consolidated financial statements, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The Unaudited Financial Information of the SGC Group does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 “Presentation of Financial Statements”.

3. Basis of preparation of the Unaudited Financial Information of the SGC Group

In preparing the Unaudited Financial Information of the SGC Group, the directors of the Company have given due and careful consideration to the SGC Group’s future liquidity in light of the net current liabilities position of approximately HK\$172 million as at 31 December 2010. The Company has agreed to provide adequate funds to enable the Saddleback Group to meet in full its financial obligation as they fall due for the foreseeable future, and accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the financial information on a going concern basis.

F. REVIEW REPORT ON THE FINANCIAL INFORMATION OF SADDLEBACK GOLD AND ITS SUBSIDIARIES

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM! Nelson Wheeler
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Hong Kong

**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
KAISUN ENERGY GROUP LIMITED**
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the financial information of Saddleback Gold Corporation LLC and its subsidiaries (the “SGC Group”) set out on pages III-1 to III-6 which comprises the consolidated statements of financial position as at 31 December 2008, 2009 and 2010 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the fifteen months ended 31 December 2008 and each of the two years ended 31 December 2010 (the “Relevant Periods”). The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the accounting policies used in the preparation of the financial information of the SGC Group for the Relevant Periods are those of Kaisun Energy Group Limited (the “Group’s Accounting Policies”). The directors of Kaisun Energy Group Limited are responsible for the preparation of this financial information for the Relevant Periods in accordance with the Group’s Accounting Policies. Our responsibility is to express a conclusion on this financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 “Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial information are free of material misstatement. A review is limited primarily to inquiries of the SGC Group’s personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

Management of the SGC Group has informed us that upon the SGC Group acquired the subsidiaries in 2007 and 2008 and a jointly controlled entity in 2007, the identifiable assets and liabilities of these subsidiaries and jointly controlled entity were measured at their acquisition-date book amounts which is not in accordance with the requirements of the Hong Kong Financial Reporting Standards that require

these identifiable assets and liabilities be measured at their acquisition-date fair values. As we have not been given sufficient information regarding the acquisition-date fair values of these identifiable assets and liabilities upon acquisitions by the SGC Group, we are unable to quantify the effect of not measuring these identifiable assets and liabilities at their acquisition-date fair value to account for the goodwill and investment in a jointly controlled entity in the Relevant Periods. Any adjustments to the goodwill and investment in a jointly controlled entity might have a consequential effect on the results for the fifteen months ended 31 December 2008 and net liabilities as at 31 December 2008, 2009 and 2010.

Qualified Conclusion

Based on our review, exception for the matter described in the Basis of Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial information of the SGC Group for the Relevant Periods is not prepared, in all material respects, in accordance with the Group's Accounting Policies.

Material uncertainty relating to the going concern basis

Without further qualifying our opinion, we draw attention to note 3 to the financial information which mentions that as at 31 December 2010 the SGC Group had net current liabilities of HK\$172 million. This condition indicates the existence of a material uncertainty which may cast significant doubt about the SGC Group's ability to continue as a going concern.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

6 October 2011

2. REASONS FOR INCLUSION OF FINANCIAL INFORMATION OF SADDLEBACK GOLD AND ITS SUBSIDIARIES IN THIS CIRCULAR

Since the Group acquired the Saddleback Group in March 2011, and the Saddleback Group would constitute the only business operation of the Remaining Group after Completion, financial information of Saddleback Gold and its subsidiaries is therefore included in this circular in order to facilitate the Independent Shareholders' consideration of the commercial and financial environment pertaining the Remaining Group.

3. DIRECTORS' VIEW ABOUT THE QUALIFIED CONCLUSION AND MATERIAL UNCERTAINTY MADE BY RSM NELSON WHEELER, THE INDEPENDENT REPORTING ACCOUNTANTS, ABOUT THE FINANCIAL INFORMATION OF THE SGC GROUP

The qualified conclusion made by the reporting accountant refers to SGC Group measuring identifiable assets and liabilities of their subsidiaries at their historical costs at the acquisition-date instead of the acquisition-date fair values as required by Hong Kong Financial Reporting Standards, while the material uncertainty refers to "as at 31 December 2010, the SGC Group had net current liabilities of HK\$172 million". This condition indicates the existence of a material uncertainty which may cast significant doubt about the SGC Group's ability to continue as a going concern.

The net current liabilities of HK\$172 million of the SGC Group as at 31 December 2010 mainly arose from the amount due to the then immediate parent of Saddleback Gold, Saddleback Corporation Limited amounted to HK\$173 million. According to the share sales and purchase agreement of Saddleback Mining Limited in March 2011 entered between West Glory, the Company and Saddleback Corporation Limited, the amount due to Saddleback Corporation Limited has been partly transferred to Saddleback Mining Limited of US\$6.6 million (approximately HK\$51 million) (which would be eliminated in the Group's consolidated financial statements) and led to the net current liabilities of Saddleback Mining Limited and its subsidiaries decreased by US\$6.6 million (approximately HK\$51 million). In addition, based on the unaudited pro forma financial information of the Remaining Group and the financial information of Saddleback Gold and its subsidiaries, the net current assets of the Remaining Group is HK\$1,050 million and the net current liabilities of the SGC Group is HK\$172 million respectively. In view of these, as if Saddleback Mining acquired by the Remaining Group as at 31 December 2010, the net current assets of the Remaining Group would be approximately of HK\$878 million and the going concern of the SGC Group has no effect on the Group after the disposal of Mengxi Minerals.

As the review report of the SGC Group was based on the financial information of the SGC Group as at 31 December 2010, the effect of acquisition of Saddleback Mining Limited by the Group in March 2011 was not considered. In addition, the Remaining Group has engaged an independent valuer to perform the valuation of the identifiable assets and liabilities of Saddleback Group at the acquisition-date fair values at the acquisition date by the Group.

Hence, based on the above, the Directors concluded that the qualified conclusion and material uncertainty made by the reporting accountant about the financial information of the SGC Group will have no negative impacts to the financial position and operation of the Group. The Directors also confirm that the Remaining Group has sufficient resources to meet the financial obligations of the Saddleback Group.

4. FAIR VALUE OF SADDLEBACK GROUP AT THE DATE OF ACQUISITION AND BASIS

According to the valuation done by an independent valuer, as at date of acquisition, the total identifiable assets and liabilities at fair value of Saddleback Group is approximately HK\$179 million and the difference between the fair value and book value of Saddleback Group as at the acquisition date is HK\$188 million.

Valuation was carried out on a fair value basis and an income approach. Fair value is defined as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Methodology adopted in valuing assets and liabilities

At the time of taking over the assets, valuation was conducted by analyzing the market cap value of other British coal companies and what their coal values per tonne in the ground were. In every asset acquisition Saddleback Gold paid a relatively low price per tonne of coal resource in the ground in comparison to its competitors. Calculations/valuations were also carried out by Saddleback Gold financial advisors prior to the acquisition to sure the actual asset value was considerably higher than the price Saddleback Gold was paying. To make sure there were no material liabilities Saddleback Gold insisted that the target companies supplied confirmation from the State tax department there were no tax debts and the accounts of each company were studied and all their past bank transactions were checked. Also for Kamarob a letter was taken from the existing partners stating that the companies did not have any debts.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF SADDLEBACK GOLD AND ITS SUBSIDIARIES

The Remaining Group will principally be contributed by Saddleback Mining Limited and its subsidiaries (collectively “Saddleback Group”) with operating results from three mines namely the Kaftar Hona Anthracite Mine, East Zeddi Coal Mine and Mienadu Coal Mine.

Upon the SGC Group acquired the subsidiaries in 2007 and 2008 and a jointly controlled entity in 2007, the identifiable assets and liabilities of these subsidiaries and jointly controlled entity were measured at their acquisition-date book amounts which is not in accordance with the requirements of Hong Kong Financial Reporting Standards that require these identifiable assets and liabilities be measured at their acquisition-date fair values.

Before 2008, SGC Group had adopted a year end date of 30 September each year. In 2008, in order to align with the year end date of all companies within the SGC Group with the year end date of Saddleback Corporation Limited, a company incorporated in the United Kingdom and the then parent company of the companies of the SGC Group, the SGC Group changed the year end date to 31 December of each year commencing the financial year 2008, and hence the 15-month financial period ended 31 December 2008.

Accordingly, the management discussion and analysis in this section on results of the SGC Group is based on the above.

For the fifteen months ended 31 December 2008

Business Review

The SGC Group was principally engaged in coal and anthracite mining and exploration in Tajikistan, and owned mining rights and interests in three mines in Tajikistan, including the Kaftar Hona Anthracite Mine, the East Zeddi Coal Mine and the Mienadu Coal Mine.

Liquidity and financial resources

As at 31 December 2008, the SGC Group had bank and cash balances of approximately HK\$21.0 million and amount due to its immediate parent of approximately HK\$155.5 million which was unsecured, interest free and have no fixed terms of repayment.

Significant investment and material acquisitions and disposals of subsidiary

In 2008, 96.63% of the charter fund of Sangghalt was contributed by Saddleback Gold. The existing charter fund of Sangghalt was increased from TJS4,800 (approximately HK\$11,000), no part of which was owned by Saddleback, to TJS109,800 (approximately HK\$250,000) by an injection of TJS105,000 (approximately HK\$239,000) by way of capital from Saddleback Gold. This was done on 30 April 2008 and thereafter Sangghalt became a subsidiary of the SGC Group.

Final Dividend

No final dividend was paid for the fifteen months period ended 31 December 2008.

Gearing Ratio

The SGC Group's gearing ratio, which represented the ratio of the SGC Group's total liabilities over the SGC Group's total assets, was 1.82 as at 31 December 2008.

Capital Structure

As at 31 December 2008, the capital structure of the SGC Group comprised the charter fund of TJS70,000 (approximately HK\$160,000).

Foreign Exchange Exposure

Majority of the trading transactions, assets and liabilities of the SGC Group were denominated in GBP, US\$ and TJS. As at 31 December 2008, the SGC Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Income tax

The SGC Group's income tax expense was nil as the SGC Group had no assessable profit arising in or derived during the fifteen months period ended 31 December 2008.

Human Resources

As at 31 December 2008, the SGC Group had 73 staff in United Kingdom and Tajikistan. During the fifteen months period ended 31 December 2008, the SGC Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors consider the SGC Group's relationship with its employees to be good.

Employees, such as local mining workers, were employed when required and laid off when not required. Tajik local employees' salaries, which were generally less than US\$7,230 (approximately HK\$56,400) per month, were decided by the Chief Operating Officer of Saddleback Gold, William Ralston Saul and were set depending on the position and experience of the employee.

The total staff costs of the SGC Group, including Directors' emoluments, amounted to approximately HK\$6.0 million for the fifteen months period ended 31 December 2008.

Segment Report

No segmental analysis was applicable as the SGC Group had a sole reportable segment which was exploitation of coal in Tajikistan.

Contingent Liabilities

The SGC Group did not have any significant contingent liabilities as at 31 December 2008.

Pledges of Assets

As at 31 December, 2008, the SGC Group had not pledged any asset.

Commitments

As at 31 December 2008, the SGC Group had no outstanding commitments.

Mortgages and Charges

As at 31 December 2008, the SGC Group had no outstanding mortgages and charges.

Litigation

As at 31 December 2008, the SGC Group had no significant pending litigation.

For the year ended 31 December 2009

Business Review

The SGC Group was principally engaged in coal and anthracite mining and exploration in Tajikistan, and owned mining rights and interests in three mines in Tajikistan, including the Kaftar Hona Anthracite Mine, the East Zeddi Coal Mine and the Mienadu Coal Mine.

Liquidity and financial resources

As at 31 December 2009, the SGC Group had bank and cash balances of approximately HK\$850,000 and amount due to its immediate parent of approximately HK\$172.0 million which was unsecured, interest free and have no fixed terms of repayment.

Significant investment and material acquisitions and disposals of subsidiary

There was no significant investment or material acquisition or disposal of subsidiary.

Final Dividend

No final dividend was paid for the year ended 31 December 2009.

Gearing Ratio

The SGC Group's gearing ratio, which represented the ratio of the SGC Group's total liabilities over the SGC Group's total assets, was 2.40 as at 31 December 2009.

Capital Structure

As at 31 December 2009, the capital structure of the SGC Group comprised the charter fund of TJS70,000 (approximately HK\$160,000).

Foreign Exchange Exposure

Majority of the trading transactions, assets and liabilities of the SGC Group were denominated in GBP, US\$ and TJS. As at 31 December 2009, the SGC Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Income tax

The SGC Group's income tax expense was nil as the SGC Group had no assessable profit arising in or derived during the year ended 31 December 2009.

Human Resources

As at 31 December 2009, the SGC Group had 61 staff in the United Kingdom and Tajikistan. During the year ended 31 December 2009, the SGC Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors considered the SGC Group's relationship with its employees to be good.

Employees, such as local mining workers, were employed when required and laid off when not required. Tajik local employees' salaries, which were generally less than US\$7,230 (approximately HK\$56,400) per month, were decided by the Chief Operating Officer of Saddleback Gold, William Ralston Saul and were set depending on the position and experience of the employee.

The total staff costs of the SGC Group, including Directors' emoluments, amounted to approximately HK\$9.5 million for the year ended 31 December 2009.

Segment Report

No segmental analysis was applicable as the SGC Group had a sole reportable segment which was exploitation of coal in Tajikistan.

Contingent Liabilities

The SGC Group did not have any significant contingent liabilities as at 31 December 2009.

Pledges of Assets

As at 31 December, 2009, the SGC Group had not pledged any asset.

Commitments

As at 31 December 2009, the SGC Group had no outstanding commitments.

Mortgages and Charges

As at 31 December 2009, the SGC Group had no outstanding mortgages and charges.

Litigation

As at 31 December 2009, the SGC Group had no significant pending litigation.

For the year ended 31 December 2010***Business Review***

The SGC Group was principally engaged in coal and anthracite mining and exploration in Tajikistan, and owned mining rights and interests in three mines in Tajikistan, including the Kaftar Hona Anthracite Mine, the East Zeddi Coal Mine and the Mienadu Coal Mine.

Liquidity and financial resources

As at 31 December 2010, the SGC Group had bank and cash balances of approximately HK\$147,000 and amount due to its immediate parent of approximately HK\$172.8 million which was unsecured, interest free and have no fixed terms of repayment. Upon the Group acquired Saddleback Group, the amount due to the immediate parent of the SGC Group amounted US\$8,750,000 (approximately HK\$68,250,000).

Significant investment and material acquisitions and disposals of subsidiary

There was no significant investment or material acquisition or disposal of subsidiary.

Final Dividend

No final dividend was paid for the year ended 31 December 2010.

Gearing Ratio

The SGC Group's gearing ratio, which represented the ratio of the SGC Group's total liabilities over the SGC Group's total assets, was 3.08 as at 31 December 2010.

Capital Structure

As at 31 December 2010, the capital structure of the SGC Group comprised the charter fund of TJS70,000 (approximately HK\$160,000).

Foreign Exchange Exposure

Majority of the trading transactions, assets and liabilities of the SGC Group were denominated in GBP, US\$ and TJS. As at 31 December 2010, the SGC Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Income tax

The SGC Group's income tax expense was nil as the SGC Group had no assessable profit arising in or derived during the year ended 31 December 2010.

Human Resources

As at 31 December 2010, the SGC Group had 24 staff in the United Kingdom and Tajikistan. During the year ended 31 December 2010, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors considered the Group's relationship with its employees to be good.

Employees, such as local mining workers, were employed when required and laid off when not required. Tajik local employees' salaries, which were generally less than US\$7,230 (approximately HK\$56,400) per month, were decided by the Chief Operating Officer of Saddleback Gold, William Ralston Saul and were set depending on the position and experience of the employee.

The total staff costs of the SGC Group, including Directors' emoluments, amounted to approximately HK\$7.7 million for the year ended 31 December 2010.

Segment Report

No segmental analysis was applicable as the SGC Group had a sole reportable segment which is exploitation of coal in Tajikistan.

Contingent Liabilities

The SGC Group did not have any significant contingent liabilities as at 31 December 2010.

Pledges of Assets

As at 31 December, 2010, the SGC Group had not pledged any asset.

Commitments

As at 31 December 2010, the SGC Group had no outstanding commitments.

Mortgages and Charges

As at 31 December 2010, the SGC Group had no outstanding mortgages and charges.

Litigation

As at 31 December 2010, the SGC Group had no significant pending litigation.

Disposal of non-coal related business

In January 2011, the SGC Group disposed its associate, the sole non-coal related business of the SGC Group, to a related company of the SGC Group. The proceeds on the disposal of this associate was TJS3,600 (approximately HK\$6,300) and the loss on disposal of this associate is approximately HK\$5.6 million.

Saddleback Gold held 45% of the said associate before disposal of the same. No income was received from the gold project as it was purely an exploration project that required injection of funds.

6. PRODUCTION CAPACITY, PRODUCTION VOLUME (IN TONNAGE), SALE VOLUME AND AVERAGE SALE PRICE OF THE MINES FOR THE THREE YEARS ENDED 31 DECEMBER 2010

A. Kamarob/Kaftar Hona

Kamarob had been a 50% held joint controlled entity of Saddleback Gold until the transfer of 2% of its charter fund to Saddleback Gold on 16 February 2011 (and the registration completed on 21 July 2011). Saddleback Gold presently holds 52% charter fund of Kamarob, whose financial results are now consolidated in the Saddleback Group's consolidated financial statements. The investment into Kamarob was made to develop the Kaftar Hona Anthracite mine and build the access road and supporting infrastructure.

Year ended	Production Capacity (in tonnage)	Actual production Volume (in tonnage)	Sales Volume (In tonnage)	Average price (price/ton) TJS (incl VAT)	Average Price (price/ton) in HK\$ (incl VAT)
31 Dec 2008	–	–	–	–	–
31 Dec 2009	8,512	8,512	6,262	167 (197)	291 (343)
31 Dec 2010	20,000	0**	278	127 (149)*	223 (262)

* Sale of low grade fines from stock pile hence low price

** In 2010 a decision was made by Saddleback Gold to halt production until the other local partner allowed Saddleback Gold to increase its shareholding to over 50%.

B. Sanghalt/East Zeddi

Year ended	Production Capacity (in tonnage)	Actual production Volume (in tonnage)	Sales Volume (In tonnage)	Average price (price/ton) TJS (incl VAT)	Average Price (price/ton) in HK\$ (incl VAT)
31 Dec 2008	50,000	46,764	43,904	65 (78)	148 (178)
31 Dec 2009	50,000	40,510	38,476	61 (72)	106 (126)
31 Dec 2010	65,000	54,510	52,799	66 (78)	116 (137)

C. Vuromun/Mienadu

Year ended	Production Capacity (in tonnage)	Actual production Volume (in tonnage)	Sales Volume (In tonnage)	Average price (price/ton) TJS (incl VAT)	Average Price (price/ton) in HK\$ (incl VAT)
31 Dec.2008	5,420	5,420	5,420	94 (113)	214 (258)
31 Dec.2009	2,120	2,120	2,120	70 (83)	122 (145)
31 Dec.2010	2,120	2,150	2,150	92 (109)	162 (191)

7. DISCUSSION ON FLUCTUATION OF THE SGC GROUP'S REVENUE, GROSS PROFIT MARGIN, INCOME STATEMENTS

It should be noted that all the Mines are at high altitudes (2300m -4200m) and therefore affected by the winter season. Every winter snow blocks the access roads to the mines and causes production to cease. In an average year production starts in June or July and stops from between mid-October to December. Snow depths and snow melt rates vary each year depending on the weather and are not predictable. The SGC Group has started improving its access infrastructure to the sites which will in future allow longer mining seasons. For example, in 2011 a new haulage road has been built at East Zeddi which should allow a longer mining season.

In addition the SGC Group had a gold exploration project through its sole 45% equity interest held associate on which the SGC Group expended material finance in both 2008 and 2010 but not in 2009. In 2011 the gold project was sold prior to the sale of Saddleback to the Group. The SGC Group shared the associate's loss of approximately HK\$3.7 million, profit of approximately HK\$28,000 and loss of approximately HK\$1.2 million for the fifteen months ended 31 December 2008 and two years ended 31 December 2010. As at 31 December 2008, 2009 and 2010, the SGC Group shared of net assets of that associate of approximately HK\$6.4 million, HK\$6.5 million and HK\$5.7 million respectively.

A major part of the Saddleback Group's administrative expenses throughout the 3 years ended 31 December 2010 consisted of expenses incurred for salary of local staffs and expats both, rent for apartments, rental allowances and travelling expenses and increase in depreciation. Salary expenses had been the largest part of such administrative expenses by far for the fifteen months ended 31 December 2008 and two years ended 31 December 2010 amounted to HK\$6.0 million, HK\$9.5 million and HK\$7.7 million respectively. The salary increased from HK\$6.0 million in 2008 to HK\$9.5 million in 2009 as due to increase in number of expatriate and local employees in 2009 while the salary decreased from HK\$9.5 million in 2009 to HK\$7.7 million in 2010 as decreased in number of expatriate and local employees in the London office and the Dushanbe as well the financial crisis outbreak which led to the economic environment downturn and salary cut imposed on all employees.

Travelling expenses for the fifteen months ended 31 December 2008 and two years ended 31 December 2010 amounted to approximately HK\$2.0 million, HK\$1.1 million and HK\$0.1 million respectively. Reason for the decrease for the year 2010 was that most of the travelling expenses were booked in Saddleback Corporation Limited, the then ultimate parent of the SGC Group, rather than the SGC Group, in 2010. Rental allowances for the fifteen months ended 31 December 2008 and two years ended 31 December 2010 amounted to approximately HK\$0.4 million, HK\$1.1 million and HK\$1.1 million respectively. The increase in the years 2009 and 2010 were due to rental of an extra piece of land to store the SGC Group's mining equipment and vehicles.

For the 15 months ended 31 December 2008

Only one of the three Mines, namely East Zeddi, contributed to gross profit because one which had been recently acquired was being accessed and the third was an early stage mining project. Other income mainly included gain on foreign exchange amounted to HK\$8.0 million (approximately GBP558,000) arose from the appreciation of USD to GBP during the year which led to the gain on exchange difference of bank and cash balances denominated in USD by approximately GBP332,000 (approximately HK\$4,793,000) and loan receivables from an owner of the ultimate parent of the SGC Group denominated in USD by approximately GBP197,000 (approximately HK\$2,844,000). Beside for this, the other income included interest income of loan from an owner of the ultimate parent of the SGC Group amounted to HK\$958,000 (approximately GBP66,000) and bank interest income amounted to HK\$254,000 (approximately GBP18,000). In addition, the SGC Group received equipment rental from a jointly controlled entity amounted to HK\$3.0 million (approximately GBP205,000) and management fee received from an owner of the ultimate parent of the SGC Group of HK\$1.88 million (approximately GBP130,000). Depreciation on plant and equipment amounted to approximately HK\$11,000,000 being the largest administrative expenses for the period. Beside for depreciation and salary as stated above, the SGC Group has a one-off written off of investment in oil and gas exploration project amounted to HK\$2.4 million, sundry expenses of HK\$2.7 million and travelling expenses of HK\$2.0 million.

For the year ended 31 December 2009

The winter of 2008/2009 was mild with the result that there was a reduced requirement for coal. This was an unusual situation and resulted in lower turnover and lower gross profit. Furthermore extremely bad weather at high altitude resulted in a delay in being able to commence production. Depreciation rates for larger longer life equipment was reduced to over 4 years from over 8 years to make the depreciation rate fall more in line with the actual life of the equipment and the depreciation charged for the year amounted to HK\$8.5 million. Besides depreciation and salary, other major administrative expenses included exchange loss of HK\$1.4 million, travelling of HK\$1.1 million and rent of HK\$1.1 million. Other income for the year ended 31 December 2009, comprising of rental income for equipment rented to Kamarob amounted to HK\$2.3 million, due to the appreciation of GBP to USD during the year, exchange loss amounted HK\$1.4 million arose for the year instead of gain. In addition, no interest income and management fee received from an owner of the ultimate parent of the SGC Group in this year as the loan advanced repaid and no management services provided in this year.

For the year ended 31 December 2010

Again only one of the Mines, namely East Zeddi, contributed to gross profit. Provision for depreciation increased due to the acquisition of more plant during the year to HK\$8.8 million. Besides depreciation and salary, another major administrative expense being the rent amounted to HK\$1.1 million. Compared with the year ended 31 December 2009, travelling decreased to HK\$0.1 million from HK\$1.1 million as most of the travelling expenses were booked in Saddleback Corporation Limited, rather than in the SGC Group in 2010. Other income solely being the gain of foreign exchange amounted to HK\$908,000 (approximately GBP76,000) due to the appreciation of USD to GBP during the year.

Kaftar Hona has recently resumed production. Overburden has been removed and the anthracite is ready to sell from the site.

8. SEASONAL EFFECTS ON THE SGC GROUP'S REVENUE DURING THE 3 YEARS
ENDED 31 DECEMBER 2010

(a) Financial year 2008

	Saddleback Gold TJS/(HK\$)	Sangghalt TJS/(HK\$)	Vuromun TJS/(HK\$)	Total TJS/(HK\$)
October 2007 to June 2008	Nil	Nil	Nil	Nil
July to December 2008	Nil	2,858,120	509,147	3,367,267
	<u>Nil</u>	<u>(5,879,400)</u>	<u>(1,302,165)</u>	<u>(7,181,565)</u>
Total	<u>Nil</u>	<u>2,858,120</u>	<u>509,147</u>	<u>3,367,267</u>
	<u>Nil</u>	<u>(5,879,400)</u>	<u>(1,302,165)</u>	<u>(7,181,565)</u>

(b) Financial year 2009

	Saddleback Gold TJS/(HK\$)	Sangghalt TJS/(HK\$)	Vuromun TJS/(HK\$)	Total TJS/(HK\$)
1st half year	Nil	Nil	Nil	Nil
2nd half year	217,039	2,316,567	148,794	2,682,400
	<u>(378,498)</u>	<u>(4,121,761)</u>	<u>(258,795)</u>	<u>(4,759,054)</u>
Total	<u>217,039</u>	<u>2,316,567</u>	<u>148,794</u>	<u>2,682,400</u>
	<u>(378,498)</u>	<u>(4,121,761)</u>	<u>(258,795)</u>	<u>(4,759,054)</u>

(c) Financial year 2010

	Saddleback Gold TJS/(HK\$)	Sangghalt TJS/(HK\$)	Vuromun TJS/(HK\$)	Elimination TJS/(HK\$)	Total TJS/(HK\$)
1st half year	Nil	Nil	Nil	Nil	Nil
2nd half year	87,550	3,541,912	197,218	109,081	3,717,599
	<u>(153,780)</u>	<u>(6,206,734)</u>	<u>(346,406)</u>	<u>(62,103)</u>	<u>(6,644,817)</u>
Total	<u>87,550</u>	<u>2,316,567</u>	<u>197,218</u>	<u>109,081</u>	<u>3,717,599</u>
	<u>(153,780)</u>	<u>(6,206,734)</u>	<u>(346,406)</u>	<u>(62,103)</u>	<u>(6,644,817)</u>

9. DISCUSSION ON FLUCTUATION OF CONSOLIDATE STATEMENT OF FINANCIAL POSITION ITEMS OF THE SGC GROUP

In 2007 Saddleback Gold started investing into Kamarob in the form of cash and equipment. Such investment continued through to the end of 2009 as the road was constructed to access the mine and the camp supporting infrastructure was built. In 2010 it was decided that no further material investment would be made into Kamarob until the local partners agreed to sell some of their shares to Saddleback Gold, hence the significant fluctuation in the investment in Kamarob and amount due from Kamarob to Saddleback Gold for the 3 years ended 31 December 2010.

At the end of 2008, following a fund raising, there was GBP1.9 million (equivalent to approximately HK\$21,299,000) in cash which reduced to GBP640,000 (equivalent to approximately HK\$8,000,000) by the end of 2009 due to operating costs. In 2009 and 2010 the increase in creditors was due to the fact that management took a 50% deferral in salaries. Due to the world financial crisis, it was difficult for the SGC Group to raise any money through means of equity financing, and the SGC Group's management therefore decided to defer 50% the salaries of its the expatriate staff in order to conserve the remaining cash in the SGC Group. Such deferral has since been paid.

It should be noted that although the SGC Group is engaged in mining it is also engaged in developing mining projects. The SGC Group owns all its equipment and its own staff carry out all its own civil engineering work. For instance in one case this involved building a 64 km road, which required substantial capital input of about GBP1.5 million.

As at 31 December 2008 and 2009, the deposits, prepayments and other receivables mainly represented prepayment for acquisition of consumables to be used for the coming production season in 2009 and 2010 amounted to HK\$3.9 million and HK\$4.1 million respectively and the interest bearing loan advanced to an owner of the ultimate parent of the SGC Group amounted to HK\$3.1 million and HK\$Nil respectively. As at 31 December 2010, the deposits, prepayments and other receivables mainly represented prepayment for acquisition of consumables to be used for the coming production season in 2011 amounted to HK\$5.2 million.

In 2008, Saddleback Gold acquired 96.7% of Sangghalt, which was the sole license holder of East Zeddi. In 2011 Saddleback Gold disposed of its non-coal operations for an amount of TJS3,600 (approximately HK\$6,300).

10. DETAILED PLAN TO INCREASE PRODUCTION CAPACITY**Kaftar Hona**

Production of 35,000 tonnes of anthracite is planned for 2011, and that production will be increased each year. A new road and construction of an underground mine are the two factors that will have the largest effect on increasing production.

A survey is being carried out to construct a second road to the deposit approaching from another valley to the north of the existing route. This road would reduce the trucking distance by 15-20 kilometres and enable SGC to exploit the deposit, through a horizontal underground adit, 700 metres lower. No mountain passes will have to be crossed. The road would start at the base of the valley (approx 1,700 metres) and lead directly to the deposit (approx 3,200 metres) up a steady incline. In contrast the current road crosses three passes at approximately 3,800 metres, where heavy snow fall can be experienced. By avoiding high passes snow clearance at the start of the season will be quicker and the first snows of winter will occur later in the year. As this road approaches from the northern side of the deposit rather than the south, as is currently the case, it will allow for an underground mining programme which could result in 8 months of the year production without an overhead ropeway. The construction of this new road is scheduled to start in spring 2012.

Extensive exploration now needs to be carried out to better understand the structure and reserves of the deposit. It is intended that the diamond drilling programme will start with several deep holes totalling over 5000 metres of drilling. Results from this exploration may facilitate compilation of a JORC compliant report regarding Kaftar Hona's resources, at the same time allowing Saddleback to plan the future underground mine.

Underground mining is intended to begin in 2013 with intended production that year at 56,000 tonnes.

East Zeddi

Current production at East Zeddi mainly supplies the domestic market, with the intention to produce approximately 80,000 to 90,000 tonnes of coal in 2011. As Tajikistan continues to industrialize we estimate that domestic coal requirements will increase considerably over the coming years. Various industrial projects including a 200 Megawatts power station and cement plant are planned to be constructed in the next few years. Any one of these projects being realized will have an impact on the coal demand and price in Tajikistan. In accordance with estimated future demands SGC intends to build up the production level by the 2013 season to 227,000 tonnes a year.

Construction of a 4 kilometre haulage road has recently in about July or August 2011 been completed with the intention to extend the mining season as the road will be serviced in the early winter by snow removal equipment already held in the Company's inventory.

During the 2011 season a limited exploration drilling programme will be carried out using a diamond drill.

Mienadu

Future plans are presently to continue small scale production while in parallel exploring for further reserves and continuing to develop plans as to the best way to market and use the future coal production from Vuromun.

11. EXPECTED PRODUCTION FOR THE THREE YEARS ENDED 31 DECEMBER 2013

Mine	For the year ended (tonnes)		
	31 December 2011	31 December 2012	31 December 2013
Kaftar Hona	35,000	51,000	56,000
East Zeddi	122,000	177,000	227,000
Mienadu	3,000	3,000	3,000

12. DETAILED ESTIMATED CAPITAL EXPENDITURE OF SADDLEBACK FOR THE THREE YEARS ENDED 31 DECEMBER 2013

Description	Budget for 2011 to 2013 (US\$)	Budget for 2011 to 2013 (HK\$)
Kamarob Stage 1 – Working Capital & Exploration		
2011 & 2012 Exploration Program	600,000	4,680,000
– Exploration drilling and sampling to provide data for the competent person to compile the JORC report.		
JORC Report – competent person’s fees	50,000	390,000
– Tetra Tech Inc. has been engaged to prepare the JORC report; US\$50,000 was their advance engagement fee		
Replacement Mining Equipment for Komarob (completed in 2011)	410,000	3,198,000
– An excavator delivered to Kamarob in July 2011		
Operating Capital	200,000	1,560,000
– Working capital for staff salaries, spare parts, diesel and lubricants.		
Sub-total:	1,260,000	9,828,000
Kamarob Stage 2 – New Valley		
Camp Setup – Bottom of Valley	150,000	1,170,000
– New camp and infrastructure set up at start of new road for initially the staff responsible for building the new road, and after completion of the road by staff of the planned washplant		
Research & Road Design	50,000	390,000
– Before start of road construction it is needed to do a survey and plan the route – this will include satellite topography, road design etc		
Road Building Equipment	1,100,000	8,580,000
– A number of road building equipment items to be purchased include an excavator, a Bulldozer and a loader		
Bailey Bridge Construction	290,000	2,262,000
– Construction of two Bailey bridges for connecting the haulage road through the Kaftar Hona river		
Dump Trucks	180,000	1,404,000
– A total of 4 dump trucks to be purchased for coal transportation and gravel for road building transport		
Sub-total:	1,770,000	13,806,000

Description	Budget for 2011 to 2013 (US\$)	Budget for 2011 to 2013 (HK\$)
Kamarob Stage 3 – Anthracite Wash Plant & SGC Stores		
Coal Wash plant & Screening Plant – stackers etc	1,000,000	7,800,000
– Construction of anthracite washing facilities		
SGC Anthracite Stores Area – Complex	200,000	1,560,000
– Purchase and preparation of a land for anthracite storage with the addition of Security fencing		
Sub-total:	1,200,000	9,360,000
East Zeddi		
Mining Equipment E. Zeddi Increase	380,000	2,964,000
– Additional excavator for increase of production volume		
Transport of Excavator from Kamarob	15,000	117,000
– Moving one excavator from Kamarob which no longer required the excavator to East Zeddi		
Camp Infrastructure & Road (completed in 2011)	110,000	858,000
– This new road, which is less steep than the old road, has been completed in about July or August 2011		
Pit Dump Truck 30T x2	150,000	1,170,000
– Two 40-tonne capacity heavy duty dump trucks are required to move overburden to the waste dump.		
Setting up Exploration Drill Program	50,000	390,000
– An exploration drilling program will continue to confirm resources. Drill and supplies already on site and hence lower capital expenditure		
Sub-total:	705,000	5,499,000
Saddleback		
Contingency 4%	241,400	1,882,920
– A 4% contingency has been added to allow for extras and cost changes.		
Survey Equipment	85,000	663,000
– Saddleback needs to create a survey department to monitor its own mining activities. This department will need equipment such as GPS support		
Sub-total:	326,400	2,545,920
Total:	<u>5,261,400</u>	<u>41,038,920</u>

13. CAPITAL EXPENDITURE FOR EACH OF THE 3 YEARS ENDED 31 DECEMBER 2013

Year	<i>HK\$ million</i> (Approximate)
Year ending 31 December 2011	10.92
Year ending 31 December 2012	28.36
Year ending 31 December 2013	<u>1.76</u>
Total	<u><u>41.04</u></u>

14. CAPITAL COMMITMENT FOR THE YEAR ENDED 31 DECEMBER 2010

As the Saddleback Group has no capital commitment as at 31 December 2010, consequently there was no need for capital funding in this regard.



The Shareholders,
Kaisun Energy Group Limited
5/F., 31C-D
Wyndham Street,
Central, Hong Kong

6 October 2011

**RECONCILIATION OF RESOURCES CLASSIFICATION
FROM RUSSIAN SYSTEM TO COMMITTEE FOR MINERAL RESERVES
INTERNATIONAL REPORTING STANDARDS (CRIRSCO) SYSTEM**

Dear Shareholders,

In view of the time required for the preparation of a JORC compliant competent person's report on the resources/reserves level of the Mines, and in order to provide more information in connection with the Remaining Group for Shareholders consideration, the following outlines the reconciliation of coal resources classification in the Mines of Kaisun Energy Group Limited (hereafter Kaisun) in Tajikistan from Russian System to International (CRIRSCO) System carried out by AsiaMin Consulting Limited.

GIVEN THE LIMITED WORK PERFORMED BY ASIAMIN CONSULTING LIMITED, THE RESOURCES PRESENTED IN THIS RECONCILIATION REPORT ARE NOT JORC CODE COMPLIANT AT LEAST UNTIL FURTHER DOCUMENTATION AND WORKS TO BE PERFORMED ON THE MINES AND THEY HAVE BEEN FORMALLY ENDORSED BY A COMPETENT PERSON IN ACCORDANCE WITH THE JORC CODE.

RUSSIAN VS JORC RESOURCE CLASSIFICATION SYSTEM

The Russian and CRIRSCO (e.g. JORC, NI-43-101) resource classification systems contain many significant similarities. The official reference on that issue is the CONSULTATION DRAFT of the "Guidelines on Alignment of Russian minerals reporting standards and the CRIRSCO Template" dated March 2010. It is a preliminary conversion template with general agreed principles between State Commission on Mineral Reserves of Russia (GKZ) and CRIRSCO. That reference can provide confidence and uniformity of the conversion. There are several other key references that can be used as references for the conversion of Russian resources to CRIRSCO equivalents such as Henley 2004.

In GKZ system, resource classification system relies on detailed guidelines, which include the consideration of geological/structural complexity. There are four complexity group, namely I, II, III and IV.

- I: e.g. evaporates, coal, bedded iron,
- II: e.g. porphyry copper, stratiform lead-zinc/nickel/tin,
- III: e.g. tin veins, possible low-grade fine-grained bulk gold
- IV: e.g. mineralized vein system (gold/copper/lead/zinc), diamond

Highest categories of resources/reserves normally achievable

- I: A
- II: A, B
- III: C1
- IV: C2

Under JORC, the resource classification relies solely on the experience of the Competent Person.

Measured	Indicated	Inferred	Unclassified
A + B			
	C1		
		C2	
			P1
			P2 + P3
Feasibility Studies	Pre-Feasibility Studies	Scoping Studies	
Proven Reserve	Probable Reserve		

A, B, C1, C2 may also be classified as reserve

RUSSIAN RESOURCES CATEGORIES A AND B

In the Russian system, for categories A and B, the resources are identified as areas of detailed knowledge of explored and exploited deposits. Closely spaced drillholes and mine workings (e.g. adit channel sampling, pilot-scale pits) with detailed sampling are required.

Both categories can generally be reconciled to the **Measured resource** in JORC which refers to part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes. The location of data is spaced closely enough to confirm geological and grade continuity (JORC, 2004).

RUSSIAN RESOURCES CATEGORY C1

In the Russian system, category C1 refers to the explored and mined deposits of geological structural complexity groups I, II and III and can also be identified in areas of detailed study of deposit of complexity group IV.

Category C1 generally refers to **Indicated resources** in JORC; however, maybe refer to measured and indicated resources in some cases depending on the level of confidence. Indicated resources are part of a mineral resource for which characteristics can be estimated with a reasonable level of confidence, with sampling spacing closed enough for continuity to be assumed.

RUSSIAN RESOURCES CATEGORY C2

In Russian system category C2, it is identified from exploration of deposits of all complexity groups (I to IV) with limited number of drillholes, trenches, natural outcrops etc. Complex mineralized vein deposit or diamond deposit may mostly be classified into C2 category at most, even with very detailed drilling due to the complex mineral system.

Category C2 generally refers to **Inferred resources**, and in some cases indicated resources under JORC. The mineral resource for which tonnage, grade and mineral content can only be estimated in a low level of confidence without verified geological and/or grade continuity. Geological works, outcrops are limited or of uncertain quality and reliability.

RUSSIAN RESOURCES CATEGORIES P1, P2 AND P3

In Russian system category P1 provides for the possible extension of mineralization beyond the boundary of C2 or for the possibility of new deposits in the area being explored. Resource estimation is only based on limited direct geological evidence. It maybe reconciled into inferred resources in JORC in some cases.

P2 and P3 are resource estimates based merely on geophysical and geochemical anomalies. Therefore, both categories **cannot** be classified into inferred resources.

RESERVE VS RESOURCE

In Russian system, Reserves and Resources are not distinguished clearly. Generally speaking, resources maybe either uneconomic or economic in situ geological estimates based on preliminary geological assessment and not yet submitted for Former Soviet Union (FSU) FGU State Commission on Mineral Reserves of Russia (GKZ) approval.

In JORC, reserves are clearly distinguished from resources by the completion of technical (mainly referring to the detailed mine plan) and economic studies in addition to exploration/geological studies and acceptance by GKZ.

Conversion from resource to reserve is required to be completed by a Competent Person by taking the mine planning, processing, financial, operational, economic, social and environment factors into account.

SADDLEBACK COAL RESOURCES IN TAJIKISTAN

Kaisun Energy's Tajikistan coal assets include the East Zeddi, Mienadu and Kaftar Hona mines. In Russian GKZ classification system, the coal resources in these mines are classified as P1, C2 and C1 categories (refer Table 1). Based on the currently accepted conversion from Russian GKZ to JORC standard, P1 category is generally equivalent to inferred or unclassified, C2 category to indicated or inferred, and C1 category to measured or indicated.

Table 1. Kaisun Coal Mines in Tajikistan, Russian Categories of Ore and JORC Category Broad Equivalents

MINE	COAL TYPE	COAL TONNAGE (t)	Russian GKZ Resource Category	Broad Equivalent JORC Resource Category
East Zeddi	Bituminous coal	6,558,000	C2	Indicated/Inferred
	Bituminous coal	11,140,000	P1	Inferred/Unclassified
Mienadu	Bituminous coal	2,252,000	C1	Measured/Indicated
	Bituminous coal	2,549,000	C2	Indicated/Inferred
Kaftar Hona	Anthracite	158,000,000	P1	Inferred/Unclassified

AsiaMin Consulting Limited completed the Russian GKZ to JORC equivalents assessment and review of the Kaisun Tajikistan coal mines based on documents provided by Kaisun. The documents provided to AsiaMin from Kaisun included copies of exploration and mining licenses, geological maps, geological cross-sections, the RWS Consultant 2009 independent technical report and the 1973 Russian geological report on Nazar Aylok deposit.

Based on this information, it is clearly evident that the coal seams are geologically and structurally simple. It is shown that the portion of the coal seams involved in the calculation is only slightly- offset and folded. They are all relatively homogenous and continuous. Most of the coal seams crop out at valleys in the 3 deposits.

KAFTAR HONA

The resource estimation of Kaftar Hona listed in the table is mainly based on the 2009 RWS consultant report. AsiaMin has reviewed the basis of the report, as well as the associated diagrams, and think that the resource estimation indicated in the report is conservative enough. Firstly, there are 10 seams reported in that deposit and only 4 seams are included in the calculation. Secondly, it is reported that the resources in Kaftar Hona are mostly classified as C2 and some P1 in the old report. All of them are classified as P1 in the table due to outdated historical data. In view of that, AsiaMin recommends that it is reasonable to classify the resources of Kaftar Hona deposit as inferred resources.

EAST ZEDDI

For East Zeddi deposit, the coal seams (2 seams) are geologically-simple. They are reported to be sub-horizontal (5-7 deg dipping), and close to surface (deepest: 20.2m). The 1960s report stated that the resource was up to 89.7Mt with 85% of which being recoverable. The 6.6Mt C2 and 11.1Mt P1 approved by the Department Commission for Reserves of USSR are believed to be reasonable and can be classified into a higher level of confidence.

MIENADU

For Mienadu deposit, it is shown from Saddleback's report and photos that the coal seams are extensively cropping out. With addition to proven historical small-scale mining between 2002-2007, the C1 and C2 resources reported are believed to have good supporting grounds and can all be classified as indicated resources with good confidence.

Given that the information provided to AsiaMin Consulting Limited from Kaisun is current and accurate, AsiaMin Consulting Limited has a relatively high level of confidence to conclude that the Kaisun coal mines the Russian P1 category can be generally reconciled to inferred resources, C2 to indicated and C1 to indicated under JORC classification. The tonnages of coal in each JORC category can be finalized upon issuance by a Competent Person of a JORC-compliant technical report.

Table 2. Kaisun Coal Mines in Tajikistan, AsiaMin Consulting Limited Proposed JORC Category for the Russian GKZ Categories of Ore

MINE	COAL TYPE	COAL TONNAGE (t)	Russian GKZ Resource Category	AsiaMin Proposed JORC Resource Category*
East Zeddi	Bituminous coal	6,558,000	C2	Indicated
	Bituminous coal	11,140,000	P1	Inferred
Mienadu	Bituminous coal	2,252,000	C1	Indicated
	Bituminous coal	2,549,000	C2	Indicated
Kaftar Hona	Anthracite	158,000,000	P1	Inferred

* *The coal tonnages and assigned categories indicated in Table 2 may increase significantly (i.e. resource category can be revised to higher category, e.g. B or A in GKZ or measured in JORC) with further drilling that confirms the coal seams are continuous and internal coal seam structures are simple (i.e. undeformed seams) as indicated in current information.*

Compiled by



Grant Thomas
Principal Consultant, AsiaMin Consulting Limited

Qualification: B.Sc (Hon); MAusIMM; CP Geology

Experience:

Grant has over 28 years experience in the mineral exploration and mining industry working on gold, coal, copper, lead, zinc, nickel, uranium, phosphate and diamond commodities. He also has extensive experience in mineral asset evaluation and valuation. He has previously explored and evaluated/valued mineral projects in Australia, Brazil, China, Laos and Cambodia. He has been associated with several major base and precious metal and iron ore discoveries. He has held senior and executive positions in several exploration and mining companies and has consulted on mineral asset evaluation and valuation and corporate management. He is the member of the Australasian Institute of Mining and Metallurgy (MAusIMM)..

Employment Summary:

- AsiaMin Consulting Limited, Hong Kong – 2010. Principal Consultant/Gold, coal projects reviews
- Jones Lang LaSalle Sallmanns, MINE – 2009 to 2010 Principal Consultant/Coal projects evaluation
- Tianshan Goldfields Limited (ASX – TGF), P R China and Perth Australia – 2004 to 2009. Managing Director/Exploration Manager/Gold and copper exploration and exploration management/Coal and gold evaluation
- Mojo Minerals Limited, Perth Australia – 2007 to 2009. Exploration Manager/Director/Copper, zinc, lead uranium and phosphates exploration
- Rio Tinto Desenvolimentos Ltda. (Brazil), Brasilia DF Brazil – 2000 to 2003. Principal Geologist/Nickel, copper, gold, zinc, coal and platinum group elements exploration and projects generation
- Rio Tinto Mining and Exploration (China), Beijing P R China – 1997 to 2000. Country Manager/Chief Representative – P. R. China/Gold, copper, coal and base metals exploration management/Coal exploration and projects review/Coal and gold projects evaluation
- Hamersley Iron – Resources Task Force, Karratha – 1994 to 1997. Manager Exploration – Detrital Iron Ore/Iron ore exploration
- Rio Tinto Exploration/CRA Exploration – Mount Isa – 1992 to 1994. Principal Geologist/Uranium project management and evaluation
- Rio Tinto Exploration/CRA Exploration – Mount Isa – 1991 to 1992. Project Geophysicist/Lead, zinc, copper, uranium and coal evaluation
- Rio Tinto Exploration/CRA Exploration, Brisbane – 1988 to 1992. Project Geophysicist/Copper, gold and coal projects generation

- Rio Tinto Exploration/CRA Exploration, Remote Sensing and Image Processing Group, Canberra – 1986 to 1988. Project Geophysicist/Gold, base metals, diamond, coal and uranium exploration
- Rio Tinto Exploration/CRA Exploration, Ashton Exploration Joint Venture, Kunanurra – 1983 to 1986. Project Geophysicist/Kimberlite study
- Rio Tinto Exploration/CRA Exploration, Melbourne – 1982. Geophysicist/Coal exploration

Disclosure of Competence and Independence of the Reconciliation

Grant Thomas meets the requirements of a Competent Person, as defined by Chapter 18A of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. These requirements include:

- Has a minimum of five years' experience relevant to the style of mineralization and type of deposit under consideration, and the type of activity that Kaisun is undertaking;
- Member of Australasian Institute of Mining and Metallurgy;
- Be independent of Kaisun, its directors, senior management and advisers;
- Does not have economic or beneficial interest (present or contingent) in any of the reported assets;
- Has not received a fee dependent on the findings outlined in this reconciliation;
- Is not an officer, employee of proposed officer for the issuer or any group, holding or associated company of Kaisun; and
- Assumes overall responsibility for this reconciliation

Previous Projects

Grant Thomas has been engaged in the following projects, which were all JORC related:

- (1) Rio Tinto/CRA Exploration, Melbourne, 1982, as geophysicist.

Geophysics related to coal exploration within the Murray Basin such as interpretation of airborne magnetic data and downhole logging (natural gamma and density).

- (2) Rio Tinto/CRA Exploration, Remote Sensing and Image Processing Group, Canberra, 1986-1988, as Project Geophysicist.

Supported gold, base metal, diamond, coal and uranium exploration in Australian CRAE Districts.

- (3) Rio Tinto/CRA Exploration, Brisbane, 1988 to 1992, as Project Geophysicist. Regional project generation for coal in Bowen Basin Queensland and Sydney Basin in NSW.

Coal was ultimately discovered in Queensland (adjacent to Blair Athol) and NSW (Sydney Basin) as a result of these Target Selection studies and evaluations.

- (4) Rio Tinto Mining and Exploration (China), 1997-2000, as Country Manager/Chief Representatives.

Coal exploration and project reviews and evaluations (target 100Mt coal) within Jiang Xi province and the Anti Bao deposit in Inner Mongolia (plus 1Bt coal). To that date the largest exploration and evaluation projects for Rio Tinto in China.

- (5) Tianshan Goldfields Limited (ASX-TGF), 2004-2009, as Managing Director/Exploration Manager.

Evaluation of prospects/deposits in several provinces (Xinjiang, Qinghai, Gansu, Inner Mongolia, Heilongjiang and Yunnan) and geological terrains in China, including gold, copper and coal (Tulasi Basin).

- (6) Jones Lang LaSalle Sallmanns, 2009-2010, as Principal Consultant.

Providing in-house technical advice to make sure everything is JORC/VALMIN standard, including site visit (dated Dec 2009), relevant valuation report writing and compilation on Tidetime's (SEHK:307) Coal project in Xinjiang– Xiaohuangshan, Shizhunggou, Quanshuigou.

- (7) AsiaMin Consulting, 2009-present,

(a) as Competent Person writing and compiling a JORC report on the Kulihoushanhu coal project in Inner Mongolia 2010-2011. The report was for in-house use for Kaisun Energy (SEHK:8203).

(b) Evaluation on coal project in Khonkhor Zag, Mongolia for AsiaMin in-house usage

(c) La Estralia coal project, Colombia Evaluation for AsiaMin in-house usage

(d) EPCA 2303 and EPCA 2304 Evaluation for AsiaMin in-house usage

References:

Henley. 2004. *Russian mineral*. Mining Journal, London. August 20: 18-21.

Henley & Young. 2004. *Alignment of Resource and Reserve Classification Systems. Russian Federation and CRIRSCO*. PERC. <CRIRSCO meeting presentation>

The Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC). 2004 ed. *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves*.

The RWS Consultant 2009 independent technical report

The 1973 Russian geological report on Nazar Aylok deposit

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 Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company 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 (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by directors are as follows:

Long position in Shares and underlying Shares

Name of Director	Capacity	Interest in Shares	Interest in underlying Shares of share options (Note)	Approximate percentage of the total issued Shares as at Latest Practicable Date
Chan Nap Kee, Joseph	Beneficial owner	45,401,750 Shares	50,354,350 Shares	2.79%
Chow Pok Yu, Augustine	Beneficial owner	990,000 Shares	30,297,600 Shares	1.23%
Yang Yongcheng	Beneficial owner	100,000 Shares	14,925,000 Shares	0.59%
Li Hong	Beneficial Owner	–	28,372,600 Shares	1.12%
Liew Swee Yean	Beneficial owner	540,000 Shares	2,537,260 Shares	0.12%
Siu Siu Ling, Robert	Beneficial owner	540,000 Shares	2,537,260 Shares	0.12%
Wong Yun Kuen	Beneficial owner	2,000,000 Shares	2,537,260 Shares	0.18%
Anderson Brian Ralph	Beneficial owner	–	3,737,260 Shares	0.15%

Notes:

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 be above mentioned Directors pursuant to the share option scheme.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) 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 the interests and short positions in 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 the securities transactions by directors.

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

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 have 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 3)	Total Interest	Approximate Percentage of the total issued Shares as at Latest Practicable Date
<i>Substantial Shareholders</i>					
Zhang Zhi Ping	Interest of controlled Corporations	215,640,000	357,410,000	573,050,000 (Note 1)	22.59%
Zhang Gaobo	Interest of controlled Corporations	215,640,000	357,410,000	530,130,000 (Note 1)	22.59%
Oriental Patron Financial Group Limited ("OPFGL")	Interest of controlled Corporations	215,640,000	357,410,000	573,050,000 (Note 1)	22.59%
OP Financial Investments Limited ("OPFIL")	Interest of a controlled Corporation	129,260,000	234,190,000	363,450,000 (Note 1)	14.32%
Profit Raider Investments Limited ("PRIL")	Beneficial owner	129,260,000	234,190,000	363,450,000 (Note 1)	14.32%
Saddleback Corporation Limited	Beneficial owner	422,876,750	-	422,876,750	16.67%

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number of underlying Shares (Note 3)	Total Interest	Approximate Percentage of the total issued Shares as at Latest Practicable Date
<i>Other persons who had interests in the Shares and underlying Shares</i>					
Oriental Patron Financial Services Group Limited (“OPFSGL”)	Interest of a controlled Corporation	86,380,000	123,220,000	209,600,000 (Note 1)	8.26%
Pacific Top Holding Limited (“PTHL”)	Beneficial owner	86,380,000	123,220,000	209,600,000 (Note 1)	8.26%
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 2)	40.24%

Notes:

- OPFGL holds 215,640,000 Shares and 357,410,000 underlying Shares. OPFGL is 51% owned by Zhang Zhi Ping and is 49% owned by Zhang Gaobo.

Of these 215,640,000 Shares and 357,410,000 underlying Shares of the Company, 86,380,000 Shares and 123,220,000 underlying Shares are held by PTHL. PTHL is wholly owned by OPFSGL, OPFSGL is 95% held by OPFGL. 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 357,410,000 underlying Shares, 129,260,000 Shares and 234,190,000 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.
- 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 Latest Practicable Date, and confirm whether the interests of GEM Global as at 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 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).

3. The long positions in underlying Shares mentioned above represent the interests held by such Bondholders as at the Latest Practicable Date in the convertible bonds in the principal amount of HK\$217,660,000 convertible into 329,660,000 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 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.

4. SHARE OPTIONS

A share option scheme ("**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 the Latest Practicable Date, a total of 219,923,764 Shares, representing 8.67% 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 as at the Latest Practicable Date are as follows:

	Date of Grant	Exercise Period	No. of Options				Outstanding as at the Latest Practicable Date
			Outstanding as at 31 December 2010	Grant during the period	Exercise during the period	Lapsed during the period (Note 2)	
<i>Directors</i>							
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
	12/8/2011	12/8/2011-9/12/2013	-	25,372,600	-	-	25,372,600
Chow Pok Yu, Augustine	8/1/2009	8/1/2009-7/1/2012	4,925,000	-	-	-	4,925,000
	12/8/2011	12/8/2011-9/12/2013	-	25,372,600	-	-	25,372,600
Yang Yongcheng	11/8/2009	11/8/2009-10/8/2012	4,925,000	-	-	-	4,925,000
	12/8/2011	12/8/2011-9/12/2013	-	10,000,000	-	-	10,000,000
Li Hong	18/11/2009	18/11/2009-17/11/2012	3,000,000	-	-	-	3,000,000
	12/8/2011	12/8/2011-9/12/2013	-	25,372,600	-	-	2,537,260
Liew Swee Yean	12/8/2011	12/8/2011-9/12/2013	-	2,537,260	-	-	2,537,260
Siu Siu Ling, Robert	12/8/2011	12/8/2011-9/12/2013	-	2,537,260	-	-	2,537,260
Wong Yun Kuen	12/8/2011	12/8/2011-9/12/2013	-	2,537,260	-	-	2,537,260
Anderson Brian Ralph	11/8/2009	11/8/2009-10/8/2012	1,200,000	-	-	-	1,200,000
	12/8/2011	12/8/2011-9/12/2013	-	2,537,260	-	-	2,537,260
		Sub-total	39,031,750	96,266,840	-	-	135,298,590
Employees in aggregate	11/8/2009	11/8/2009-10/8/2012	3,337,500	-	-	-	3,337,500
	12/8/2011	12/8/2011-9/12/2013	-	23,500,000	-	-	23,500,000
Other participants in aggregate	19/2/2008	19/2/2008-18/2/2011	500,000	-	-	(500,000)	-
	24/6/2008	24/6/2008-23/6/2011	7,700,000	-	-	(7,700,000)	-
	18/10/2010 12/8/2011	18/10/2010-17/10/2013 12/8/2011-9/12/2013	42,287,674 -	- 15,500,000	- -	- -	42,287,674 15,500,000
			<u>92,856,924</u>	<u>135,266,840</u>	<u>-</u>	<u>(8,200,000)</u>	<u>219,923,764</u>

Notes:

1. These Options represent personal interest held by the relevant directors as beneficial owners.
2. 8,200,000 Options lapsed during the period under review.

5. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors has entered into or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Group were made up.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, controlling Shareholders or their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group, or any other conflict of interest with the Group.

8. INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date, and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been since 31 December 2010, the date to which the latest published audited financial statements of the Company 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.

9. QUALIFICATION AND CONSENT OF EXPERT

The following are the respective qualifications of the experts who have given opinion or advice, which is contained in this circular:

Name	Qualification
RSM Nelson Wheeler (“ RSM ”)	Certified Public Accountants
AsiaMin Consulting Limited (“ AsiaMin ”)	Competent Person
Ample Capital Limited (“ Ample Capital ”)	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

Since 31 December 2010 and as at the Latest Practicable Date, each of RSM, AsiaMin and Ample Capital did not have any direct or indirect shareholdings in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group, or any interests, directly or indirectly, in any assets which have been acquired by, disposed of by or leased to or which are proposed to be acquired by, disposed of by or leased to any member of the Group.

Each of RSM, AsiaMin and Ample Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its statements and reference to its name in the form and context in which they are respectively included.

10. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (being contracts entered into outside the ordinary course of business carried on or intended to be carried on by the Group) having been entered into by any member of the Group within the two years preceding the Latest Practicable Date:

- (a) the agreement dated 27 November 2009 and entered into between Time Creation Group Limited (a wholly owned subsidiary of the Company) as vendor and Mr. Wong Kwan Sham as purchaser for the sale and purchase of the 5,100 shares of nominal value HK\$1 each in the issued capital of Global On-Line Distribution Limited, being 51% of the entire issued capital of Global On-Line Distribution Limited, at a consideration of HK\$250,000. Details of the agreement are set out in the Company's announcement dated 30 November 2009;
- (b) the conditional subscription agreement dated 8 February 2010 entered into between Long Capital Development Limited ("**Long Capital**") and Dayrich Group Limited ("**Dayrich**") in relation to the subscription of 25,000 new shares of US\$1.00 each in the capital of Long Capital by Dayrich at a consideration of HK\$4,500,000. Details of the agreement are set out in the Company's announcement dated 12 March 2010;
- (c) the agreement dated 30 June 2010 and entered into between High Focus Group Limited ("**High Focus**"), a wholly owned subsidiary of the Company, and Asset Profits Limited in relation to the disposal of 5,100 shares in Long Capital, being all the shares in Long Capital owned by High Focus prior to completion of the agreement and comprised 14.57% of the entire issued capital of Long Capital at a consideration of HK\$800,000. Details of the agreement are set out in the Company's announcement dated 30 June 2010;
- (d) the agreement dated 15 March 2011 and entered into between West Glory Development Limited, a wholly owned subsidiary of the Company, and Saddleback Corporation Limited in relation to the purchase of 10,000 ordinary share of £0.01 each representing 100% of the issued share capital in Saddleback Mining Limited at an aggregate consideration of US\$22,433,089 (equivalent to HK\$174,978,095). Details of the agreement are set out in the Company's announcements dated 15 March 2011 and 18 March 2011 respectively; and
- (e) the Equity Transfer Agreement

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the head office and principal place of business of the Company in Hong Kong 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 memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two financial years ended 31 December 2010 and 31 March 2010 respectively;
- (c) the financial information of Mengxi Minerals, the text of which is set out in Appendix I to this circular,
- (d) the review report from RSM on the financial information of Mengxi Minerals, the text of which is set out in Appendix I to this circular;
- (e) the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix II to this circular;
- (f) the report from RSM setting out their opinion on the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix II to this circular;
- (g) the financial information of Saddleback Gold and its subsidiaries, the text of which is set out in Appendix III to this circular,
- (h) the review report from RSM on the financial information of Saddleback Gold and its subsidiaries, the text of which is set out in Appendix III to this circular;
- (i) the Reconciliation Report prepared by AsiaMin;
- (j) the consent letters referred to in the section headed “Expert and Consent” in this appendix;
- (k) the material contracts referred to in the section headed “Material Contacts” in this appendix;
and
- (l) this circular.

12. GENERAL

- (1) The Company's joint company secretaries are Mr. Leung Lit For and Ms. Helen Young.

Mr. Leung Lit For is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Ms. Helen Young holds a Master of Business Administration Degree from the University of Hong Kong, and is an associate member of the Hong Kong Institute of Certified Public Accountants, fellow member of the Association of Chartered Certified Accountants, associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

- (2) 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 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. Mr. Liew Swee Yean is the chairman of the audit committee.

Mr. Liew was appointed as an independent non-executive director of Siberian Mining Group Company Limited (Stock Code: 1142) from December 2008. Mr. Liew is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Liew holds a Master of Business Administration (Executive) Degree from the City University of Hong Kong.

Mr. Siu Siu Ling, Robert is a partner of the firm Messrs. Robert Siu & Co., Solicitors. Mr. Siu is an independent non-executive director of both Incutech Investments Limited (stock code: 356) and Finet Group Limited (stock code: 8317). Mr. Siu holds a bachelor's degree in laws from the University of London and a postgraduate certificate in laws from the University of Hong Kong. He has been admitted as a solicitor in Hong Kong since 1992 and has been admitted as a solicitor in England and Wales since 1993. His main legal practice is in the field of commercial and corporate finance.

Dr. Wong Yun Kuen received two B.S. degrees in Geology and Mathematics from University of Wyoming, and Master and Ph.D. degree in Geophysics from Harvard University, and was “Distinguished Visiting Scholar” in finance at Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for many years, and has considerable experience in corporate finance, investment and derivative products. He is an Adjunct Professor of Syracuse University, USA, and a member of Hong Kong Securities Institute and a life member of American Geophysical Union. He is an executive director of UBA Investments Limited (stock code: 768), and the independent non-executive director of Bauhaus International (Holdings) Limited (stock code: 483), China Grand Forestry Green Resources Group Limited (stock code: 910), Climax International Company Limited (stock code: 439), Kingston Financial Group Limited (formerly known as Golden Resorts Group Limited) (stock code: 1031), Harmony Asset Limited (stock code: 428), Hua Yi Copper Holdings Limited (stock code: 559), Kong Sun Holdings Limited (stock code: 295), China Yunnan Tin Minerals Group Company Limited (stock code: 263), New Island Printing Holdings Limited (stock code: 377) and ZMAY Holdings Limited (stock code: 8085).

Mr. Anderson Brian Ralph holds a Bachelor of Science Degree in Metaliferous Mining Engineering from the Camborne School of Mines, the University of Exeter and a Master of Science Degree in Petroleum Reservoir Engineering from the University of London.

- (3) The Company’s share registrar and transfer office is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (4) The compliance officer to the Company appointed pursuant to Rule 5.19 of the GEM Listing Rules is Dr. Chow Pok Yu, Augustine (“**Dr. Chow**”), an executive Director. Dr. Chow holds professional memberships in the Institute of Marketing (HK), Institute of Financial Accountants (UK), and Hong Kong Securities Institute. He also holds an Honorary Fellowship from Bolton University. In addition, he serves on the Global Advisory Council of London Business School. Dr. Chow holds a MSc from London Business School and PhD from University of South Australia. He also holds MPhil and Engineering Doctorate from City University of Hong Kong.
- (5) The English text of this circular shall prevail over its Chinese text.

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 Monday, 24 October 2011 at 10:30 a.m. for the purpose of considering and, if thought fit, with or without amendments, passing the following resolution which will be proposed as ordinary resolutions:

ORDINARY RESOLUTION

“**THAT:**

- (a) the transaction contemplated under the equity transfer agreement dated 15 June 2011 (the “**Equity Transfer Agreement**”) entered into between Joy Harvest Holdings Limited (“**Vendor**”) and (Otog Banner Xin Ya Coking Coal Co., Ltd*) 鄂托克旗新亞煤焦有限責任公司 (“**Purchaser**”) in relation to the 70% of the registered capital in (Inner Mongolia Mengxi Minerals Co., Ltd*) 內蒙古蒙西礦業有限公司 at a cash consideration of RMB810 million (equivalent to approximately HK\$976 million) as shown in the Company’s circular dated 6 October 2011 be and the same is hereby approved, confirmed and ratified;
- (b) the board of directors (“**Board**”) of Kaisun Energy Group Limited (“**Company**”) be and is hereby authorised to take any step and execute whether under Common Seal of the Company or otherwise all such acts, matters, deeds, documents and to do all such acts or things as the Board consider necessary, appropriate, desirable or expedient in connection with:
 - (i) the Equity Transfer, the Equity Transfer Agreement and all other transactions contemplated thereunder, and the closing and implementation thereof;
 - (ii) securing the fulfilment of the conditions precedent of completion of the Equity Transfer Agreement; and

NOTICE OF EGM

- (iii) the approval of any amendments or variations to any of the documents tabled or the granting of waivers of any matters contemplated thereby that are, in the Board's opinion, not fundamental to the transactions contemplated thereby and are in the best interests of the Company, including without limitation the signing (under the Common Seal of the Company where required or expedient) of any supplemental or ancillary agreements and instruments and the giving of any undertakings and confirmations for any such purposes."

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

Hong Kong, 6 October 2011

* *For identification purpose only*

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

*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 than one proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy and/or a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 48 hours before the time of the meeting or any adjourned meeting.
3. Delivery of an instrument appointing a proxy should not preclude member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a 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 to. 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.

As at the date of this notice, the board of directors of the Company comprises four executive directors, Mr. Chan Nap Kee, Joseph (Chairman and acting Chief Executive Officer), Dr. Chow Pok Yu, Augustine, Mr. Yang Yongchen and, Mr. Li Hong, and four independent non-executive directors, Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph.