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KAISUN ENERGY GROUP LIMITED

凱順能源集團有限公司*

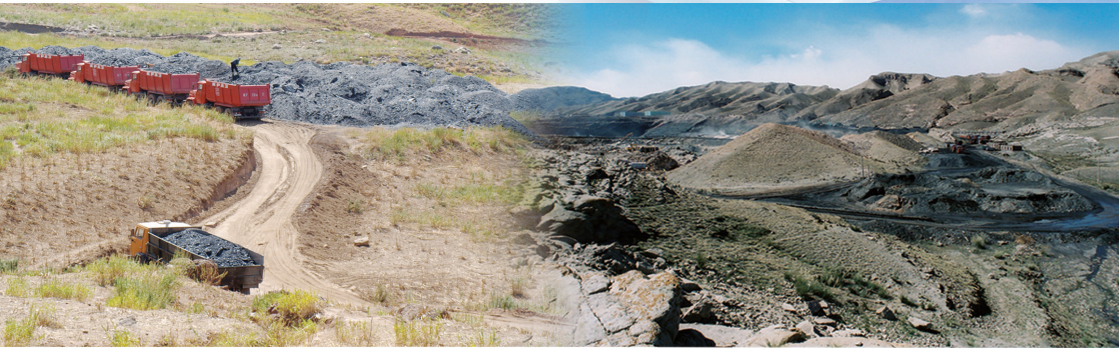
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8203

* For identification purpose only

2011

Interim Report



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

HIGHLIGHTS

- Turnover of the Group for the three months and six months ended 30 June 2011 was approximately HK\$7.0 million and HK\$22.7 million respectively (three months and six months ended 30 September 2010: HK\$16.6 million and HK\$21.4 million).
- The Group recorded total comprehensive income for the three months and six months ended 30 June 2011 of approximately HK\$14.7 million and HK\$47.9 million respectively (three months and six months ended 30 September 2010: HK\$8.0 million and HK\$14.3 million). During the three months and six months ended 30 June 2011, the Group recorded a gain of approximately HK\$33.2 million and HK\$70.0 million respectively from the exchange differences on translating foreign operations, which offset the loss for the three months and six months ended 30 June 2011 of approximately HK\$(18.5) million and HK\$(22.2) million respectively (three months and six months ended 30 September 2010: HK\$(6.2) million and HK\$(15.5) million).
- Total comprehensive income attributable to owners of the Company for the three months and six months ended 30 June 2011 amounted to approximately HK\$5.7 million and HK\$25.9 million respectively (three months and six months ended 30 September 2010: HK\$2.3 million and HK\$4.0 million).
- Basic loss per share of the Group for the three months and six months ended 30 June 2011 amounted to approximately HK cent 0.71 and HK cent 0.99 respectively (three months and six months ended 30 September 2010: HK cent 0.36 and HK cent 0.81).

The board of directors (the “Board” or the “Directors”) of Kaisun Energy Group Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2011, together with the unaudited comparative figures for the corresponding periods in September 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

	Note	Unaudited Three months ended		Unaudited Six months ended	
		30 June 2011 HK\$'000	30 September 2010 HK\$'000	30 June 2011 HK\$'000	30 September 2010 HK\$'000
Turnover	4	7,047	16,590	22,684	21,386
Cost of goods sold		(7,366)	(7,418)	(11,702)	(10,989)
Gross (loss)/profit		(319)	9,172	10,982	10,397
Other income		331	419	438	489
Selling and distribution costs		(122)	(2)	(131)	(12)
Administrative and other operating expenses		(12,436)	(7,764)	(21,189)	(12,151)
Loss from operations		(12,546)	1,825	(9,900)	(1,277)
Finance costs	5	(5,989)	(7,731)	(10,846)	(11,142)
Loss on disposal of available-for-sale financial assets		—	(61)	—	(2,852)
Loss before tax		(18,535)	(5,967)	(20,746)	(15,271)
Income tax expense	6	(10)	(257)	(1,426)	(248)
Loss for the period	7	(18,545)	(6,224)	(22,172)	(15,519)
(Loss)/profit attributable to:					
Owners of the Company		(17,900)	(7,673)	(22,948)	(16,945)
Non-controlling interests		(645)	1,449	776	1,426
		(18,545)	(6,224)	(22,172)	(15,519)
(Loss)/earnings per share (HK cent)	9				
— basic		(0.71)	(0.36)	(0.99)	(0.81)
— diluted		(0.43)	0.002	(0.46)	(0.24)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Unaudited Three months ended		Unaudited Six months ended	
	30 June 2011 HK\$'000	30 September 2010 HK\$'000	30 June 2011 HK\$'000	30 September 2010 HK\$'000
Loss for the period	(18,545)	(6,224)	(22,172)	(15,519)
Other comprehensive income for the period, net of tax Exchange differences on translating foreign operations	33,235	14,179	70,072	29,851
Total comprehensive income for the period	14,690	7,955	47,900	14,332
Total comprehensive income attributable to:				
Owners of the Company	5,749	2,256	25,947	3,958
Non-controlling interests	8,941	5,699	21,953	10,374
	14,690	7,955	47,900	14,332

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		Unaudited	Audited
	Note	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Non-current assets			
Fixed assets		137,129	101,102
Intangible assets	10	3,502,116	3,199,018
Goodwill		57,577	—
Deposits paid for construction in progress		249,101	221,708
		3,945,923	3,521,828
Current assets			
Inventories		6,971	142
Trade and bills receivables	11	40,964	30,571
Deposits, prepayments and other receivables		136,934	75,201
Current tax assets		531	—
Financial assets at fair value through profit or loss		2,077	—
Bank and cash balances		396,332	242,442
		583,809	348,356
Current liabilities			
Other payables, accruals and receipts in advance		405,454	46,471
Bank loan		6,020	5,856
Current tax liabilities		—	2,961
		411,474	55,288
Net current assets		172,335	293,068
Total assets less current liabilities		4,118,258	3,814,896

		Unaudited	Audited
		As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
	<i>Note</i>		
Non-current liabilities			
Deferred tax liabilities		856,663	796,400
Convertible bonds	12	196,249	186,211
Bank loan		355,186	345,519
		1,408,098	1,328,130
NET ASSETS			
		2,710,160	2,486,766
Capital and reserves			
Share capital	13	25,373	21,144
Reserves		1,906,483	1,709,271
Equity attributable to owners of the Company		1,931,856	1,730,415
Non-controlling interests		778,304	756,351
TOTAL EQUITY			
		2,710,160	2,486,766

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2011

	Attributable to owners of the Company								
	Share capital	Share premium	Foreign	Share-	Convertible	Retained	Total	Non-	Total
			currency	based					
HK\$'000	HK\$'000	reserve	reserve	reserve	reserve	HK\$'000	HK\$'000	interests	HK\$'000
At 1 April 2010	20,057	889,427	3,265	22,244	138,553	568,855	1,642,401	730,975	2,373,376
Total comprehensive income for the period	—	—	20,903	—	—	(16,945)	3,958	10,374	14,332
Issue of shares for replacement convertible bonds converted	1,069	91,877	—	—	(34,751)	—	58,195	—	58,195
Issue of shares on exercise of share options	18	1,877	—	(555)	—	—	1,340	—	1,340
Changes in equity for the period	1,087	93,754	20,903	(555)	(34,751)	(16,945)	63,493	10,374	73,867
At 30 September 2010	21,144	983,181	24,168	21,689	103,802	551,910	1,705,894	741,349	2,447,243
At 1 January 2011	21,144	983,181	54,079	28,810	103,801	539,400	1,730,415	756,351	2,486,766
Total comprehensive income for the period	—	—	48,895	—	—	(22,948)	25,947	21,953	47,900
Share options forfeited	—	—	—	(2,545)	—	2,545	—	—	—
Arising on acquisition of subsidiaries	4,229	171,265	—	—	—	—	175,494	—	175,494
At 30 June 2011	25,373	1,154,446	102,974	26,265	103,801	518,997	1,931,856	778,304	2,710,160

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Unaudited	
	Six months ended	
	30 June 2011 HK\$'000	30 September 2010 HK\$'000
Net cash generated from/(used in) from operating activities	312,004	(90,299)
Net cash used in investing activities	(337,450)	(14,959)
Net cash generated from financing activities	175,494	1,328
Net increase/(decrease) in cash and cash equivalents	150,048	(103,930)
Effect of foreign exchange rate changes	3,842	3,588
	153,890	(100,342)
Cash and cash equivalents at beginning of period	242,442	439,739
Cash and cash equivalents at end of period	396,332	339,397

NOTES

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's financial statements for the year ending 31 December 2011 will be the first set annual financial statements that comply with International Financial Reporting Standards ("IFRSs"). The Group has applied International Financial Reporting Standards ("IFRS") 1 in preparing these condensed consolidated financial statements.

These condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by International Accounting Standards Board ("IASB"), and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

These condensed financial statements should be read in conjunction with the 2010 annual financial statements. The accounting policies and methods of computation used in preparation of these condensed financial statements are consistent with those used in the annual financial statements for the nine months period ended 31 December 2010.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

During the six months ended 30 June 2011, the Group has adopted all the new and revised IFRSs issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. IFRSs comprise of IFRS; IAS; and Interpretations. The adoption of these new and revised IFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

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

4. TURNOVER

	Unaudited Three months ended		Unaudited Six months ended	
	30 June 2011 HK\$'000	30 September 2010 HK\$'000	30 June 2011 HK\$'000	30 September 2010 HK\$'000
Turnover				
Sales of goods	7,047	16,590	22,684	21,386

5. FINANCE COSTS

	Unaudited Three months ended		Unaudited Six months ended	
	30 June 2011 HK\$'000	30 September 2010 HK\$'000	30 June 2011 HK\$'000	30 September 2010 HK\$'000
Interest on bank loans and overdrafts	6,633	5,210	13,830	12,912
Amount capitalised	(6,040)	(5,210)	(13,371)	(12,912)
Interest on convertible bonds	593	—	459	—
Interest on loan from a former owner of a subsidiary	5,047	7,731	10,038	11,142
	349	—	349	—
	5,989	7,731	10,846	11,142

6. INCOME TAX EXPENSE

	Unaudited Three months ended		Unaudited Six months ended	
	30 June 2011 HK\$'000	30 September 2010 HK\$'000	30 June 2011 HK\$'000	30 September 2010 HK\$'000
Income tax expense				
Current tax — PRC enterprise income tax	(10)	(257)	(1,426)	(248)

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

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

7. LOSS FOR THE PERIOD

The Group's loss for the period is arrived at after charging the following:

	Unaudited Three months ended		Unaudited Six months ended	
	30 June 2011 HK\$'000	30 September 2010 HK\$'000	30 June 2011 HK\$'000	30 September 2010 HK\$'000
Directors' remuneration	492	1,031	981	1,966
Depreciation	4,738	122	5,152	243
Operating lease rentals in respect of land and buildings	584	69	654	138
Amortisation of intangible assets	4,469	—	4,469	—
Staff costs (including directors' emoluments)				
Basic salaries, bonuses, allowances and benefits in kind	3,991	2,368	5,503	4,889
Retirement benefits scheme contributions	22	29	44	60

8. DIVIDEND

The Directors do not recommend the payment of dividend for the six months ended 30 June 2011 (Six months ended 30 September 2010: HK\$Nil).

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share are based on the following data:

	Unaudited Three months ended		Unaudited Six months ended	
	30 June 2011 HK\$'000	30 September 2010 HK\$'000	30 June 2011 HK\$'000	30 September 2010 HK\$'000
(Loss)/earnings				
Loss for the purpose of calculating basic loss per share	(17,900)	(7,673)	(22,948)	(16,945)
Net finance costs saving on conversion of convertible bonds outstanding	5,047	7,731	10,038	11,142
(Loss)/earnings for the purpose of calculating diluted (loss)/earnings per share	(12,853)	58	(12,910)	(5,803)
Number of shares (in '000)				
Issued ordinary shares at beginning of the period	2,537,261	2,113,115	2,114,384	2,005,675
Acquisition of subsidiaries	—	—	228,961	—
Effect of conversion of convertible bonds and replacement convertible bonds	—	—	—	76,208
Effect of exercise of options	—	1,255	—	967
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	2,537,261	2,114,370	2,343,345	2,082,850
Effect of dilutive potential ordinary shares arising from share options outstanding	84,657	4,313	84,657	8,419
Effect of dilutive potential ordinary shares arising from replacement convertible bonds outstanding	357,416	310,943	357,416	341,382
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	2,979,334	2,429,626	2,785,418	2,432,651

10. INTANGIBLE ASSETS

	Mining rights HK\$'000
Cost	
At 1 January 2011	3,199,018
Arising on acquisition of subsidiaries	219,217
Exchange differences	89,340
	<hr/>
At 30 June 2011 (Unaudited)	3,507,575
	<hr/>
Accumulated amortisation and impairment	
At 1 January 2011	—
Charge for the period	4,469
Exchange differences	990
	<hr/>
At 30 June 2011	5,459
	<hr/>
Carrying amount	
At 30 June 2011 (Unaudited)	3,502,116
	<hr/>
At 31 December 2010	3,199,018
	<hr/>

11. TRADE AND BILLS RECEIVABLES

	Unaudited	Audited
	as at 30 June 2011 HK\$'000	as at 31 December 2010 HK\$'000
Trade receivables	30,489	23,367
Bills receivables	10,475	7,204
	<hr/>	<hr/>
	40,964	30,571
	<hr/>	<hr/>

The credit terms of trade receivables are in accordance with specific payment schedules agreed with various customers. An ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	Unaudited	Audited
	as at 30 June 2011 HK\$'000	as at 31 December 2010 HK\$'000
0–30 days	4,220	16,177
31–60 days	1,966	5,836
61–90 days	—	1,007
Over 90 days	24,303	347
	30,489	23,367

12. CONVERTIBLE BONDS

During the year ended 31 March 2010, all convertible bonds were converted to ordinary shares of the Company (the “Shares”) by the bondholders and the replacement convertible bonds (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.

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.

At 30 June 2011, the outstanding Replacement Bonds have face value of HK\$217,660,000 and there are maximum of approximately 357,410,000 new Shares that can be converted into Shares.

13. SHARE CAPITAL

	Unaudited	Audited
	as at 30 June 2011 HK\$'000	as at 31 December 2010 HK\$'000
Authorised: 10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid: 2,537,260,500 (31 December 2010: 2,114,383,750) ordinary shares of HK\$0.01 each	25,373	21,144

On 15 March 2011 a wholly owned subsidiary of the Company entered a share sale and purchase agreement with an independent third party to acquire the entire issued share capital in Saddleback Mining Limited ("Acquisition"). Part of the consideration of the Acquisition was satisfied by allotting and issuing of 422,876,750 ordinary shares of the Company to the vendor. On 25 March 2011, the Company issued 422,876,750 ordinary shares of HK\$0.01 each at the then market value of HK\$0.415 each resulting a premium of HK\$0.405 per share.

14. CONTINGENT LIABILITIES

As at 30 June 2011, the Group did not have any significant contingent liabilities. (31 December 2010: HK\$Nil).

15. LEASE COMMITMENTS

As at 30 June 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited	Audited
	as at 30 June 2011 HK\$'000	as at 31 December 2010 HK\$'000
Within one year	840	58
Between two to five years	1,980	—

Operating lease payments represent rentals payable by the Group for its offices. Leases are negotiated for a term of 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

16. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	Unaudited	Audited
	as at 30 June 2011 HK\$'000	as at 31 December 2010 HK\$'000
Fixed assets		
Contracted but not provided for	48,662	35,203

17. BANKING FACILITIES

At 30 June 2011, the Group has been granted banking facilities totaling RMB300 million (approximately HK\$361 million) (31 December 2010: RMB300 million (approximately HK\$351 million)) of which RMB300 million (approximately HK\$361 million) (31 December 2010: RMB300 million (approximately HK\$351 million)) were utilised. The facilities were secured by pledge of the mining rights held by the Group and the entire equity interest of a subsidiary held by the Group and the non-controlling shareholder.

18. ACQUISITION OF SUBSIDIARIES

On 25 March 2011, the Group acquired the entire issued share capital in Saddleback Mining Limited for a consideration of US\$22,433,089 (approximately HK\$205,517,000). Saddleback Mining Limited is an investment holding company and its subsidiaries are engaged in investment holding and exploitation of coal and coal processing during the period.

The fair value of the identifiable assets and liabilities of Saddleback Mining Limited acquired as at its date of acquisition is as follows:

	Carrying amount	Fair value adjustment	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Fixed assets	22,708	9,079	31,787
Intangible assets	11,643	207,574	219,217
Goodwill	20,524	(20,524)	0
Inventories	6,678	—	6,678
Deposit and other receivables	504	—	504
Trade receivables	41	—	41
Cash at banks	69	—	69
Current tax liabilities	(470)	—	(470)
Deferred taxation	—	(39,226)	(39,226)
Other payables and accruals	(2,215)	—	(2,215)
Amount due to former owner	(68,445)	—	(68,445)
			147,940
Goodwill			57,577
			205,517
Satisfied by:			
Share capital issued as partial consideration			175,494
Cash consideration paid			19,500
Contingency consideration payable			10,523
			205,517
Net cash outflow arising on acquisition:			
Cash consideration paid			19,500
Cash and cash equivalents acquired			(69)
			19,431

The goodwill arising on the acquisition of Saddleback Mining Limited is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Saddleback Mining Limited contributed approximately HK\$8.5 million to the Group's loss for the period for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2011, total Group turnover for the period would have been HK\$22.9 million, and loss for the period would have been HK\$13.0 million. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

19. SEGMENT INFORMATION

	(Tajikistan operation) Exploitation of coal HK\$'000	(Inner Mongolia operation) Exploitation of coal HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2011			
(unaudited)			
Sales to external customers	145	22,539	22,684
Results			
Segment (loss)/profit	(8,543)	4,158	(4,385)
As at 30 June 2011 (unaudited)			
Segment assets	250,947	3,836,656	4,087,603

During the period ended 30 September 2010, the Group has a sole reportable segment which is exploitation of coal in PRC.

	Unaudited
	Six months ended
	30 June
	2011
	HK\$'000
Reconciliations of segment profit or loss:	
Total profit or loss of reportable segments	(4,385)
Other profit or loss	(17,787)
Consolidated loss for the period	(22,172)

20. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period:

	Unaudited	
	Six months ended	
	30 June	30 September
	2011	2010
	HK\$'000	HK\$'000
Interest on convertible bonds charged by the related companies (<i>note</i>)	10,038	11,142

Note: The related companies are companies that are beneficial owned by Mr. ZHANG Gaobo and Mr. ZHANG Zhi Ping.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group generated its turnover of approximately HK\$22.7 million mainly from Mengxi Minerals for the six months ended 30 June 2011. This was of similar level to the turnover of approximately HK\$21.4 million for the corresponding period last year.

Turnover for the three months ended 30 June 2011 from Mengxi Minerals was approximately HK\$6.9 million, which was significantly lower than the turnover of approximately HK\$16.6 million for the three months ended 30 September 2010. Production was suspended for one month because of the blue sky project organized by the local government this year, resulting in decline in production of coal that led to decline in turnover.

The Group generated its turnover of approximately HK\$145,000 from the sale of coal from the Tajikistan operation for the three months ended 30 June 2011. As Tajikistan's mining activities mainly begins in the second half of the year, it is expected that turnover will improve in the second half of the year.

VERY SUBSTANTIAL DISPOSAL – SALE OF EQUITY INTEREST IN MENGXI MINERALS

On 15 June 2011, Joy Harvest Holdings Limited ("Vendor"), the wholly owned subsidiary of the Company and Otog Banner Xin Ya Coking Coal Co. Ltd. ("Purchaser") entered into the Equity Transfer Agreement pursuant to which the Vendor had conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase 70% of the registered capital in Mengxi Minerals (being the Equity Interest) at a cash Consideration of RMB810 million (equivalent to approximately HK\$976 million), details of which were disclosed in the Company's announcement dated 18 July 2011.

Rationale behind the Very Substantial Disposal

Following the mining industry consolidation of the major coal producing provinces such as Shanxi, Henan and Guizhou, Inner Mongolia will also take part in the mining industry restructuring through a series of coal mine merging and consolidating process.


A proposal issued by the Inner Mongolian Autonomous Region Government named “內蒙古自治區煤炭企業兼併重組工作方案” (“working proposal on merger and reorganization of Inner Mongolian Autonomous Region coal enterprises”) emphasizes on the following aspects:

- i) By the end of 2013, Coal producers within the region will be reduced to 80-100 larger-scale coal mining companies
- ii) The minimum annual production capacity of these companies is 1.2 million tonnes (or at least 3.0 million tonnes for areas with potential) with all other producers eliminated from the industry
- iii) The restructuring process will effectively be carried out by mergers and acquisitions
- iv) Implementation will start off with a list of companies selected as the main platform for the restructuring (yet to be fully determined)
- v) The mergers and acquisitions are projected to commence by the second half of 2011

Mengxi Mineral’s coal mine is located in Ordos, an area within Inner Mongolia which is conventionally regarded as an area with good quality coal. This suggests the minimum production capacity requirement is most likely to be substantially above 1.2 million tonnes (Mengxi Mineral’s current mining license is 1.2 million tonnes per annum). In order to meet the minimum production requirement imposed by the above proposal, only two options are available to the Company, either acquire other coal mines so that the Company can continue operating coal business in Inner Mongolia, or being acquired by other coal operators.

Due to the current unfavorable sentiment in the capital market, raising capital needed to acquire other coal mines would be difficult, hence acquisition of other coal mines is unlikely to be a feasible option. Therefore, the Board considers disposing the Company’s equity interest in Mengxi Minerals to be necessary for the Company.

The Purchaser is a coal producer in Otog, Ordos, holding production license of up to 1.8 million tonnes in total per annum. After acquiring Mengxi Minerals, the Purchaser’s production capacity can reach 3 million tonnes per annum, which is likely to fulfil the expected annual production requirement by the Inner Mongolian Government.



As this proposed disposal constitute a very substantial disposal of the Company under the GEM Listing Rules, a circular containing further information on the Equity Transfer, Equity Transfer Agreement, the Group's Tajikistan coal and anthracite mining projects and a notice convening the extraordinary general meeting is expected to be dispatched to the shareholders on or before 31 August 2011.

OUTLOOK AND PROSPECTS

Based on the nature of the proposal issued by the Inner Mongolia Autonomous Region Government and the current business standing of the Company, the Board does not wish to make a haste decision that could effectively constrain our operation, capital wise and business wise in the next few years. Therefore, the Board has recommended the disposal of the Company's equity interest in Inner Mongolia at a reasonable price. The proceeds may be used on our mining project in Tajikistan to accelerate its development and production progress or any other investment opportunities that matches the scale of our company and will give us more business flexibility.


The Group's strategy continues to be looking for other appropriate investment opportunities in the energy and resources sector. Announcement(s) will be published when appropriate.

(Note: For further details on Very Substantial Disposal — sale of equity interest in Mengxi Minerals, please read the article titled "Rationale behind the Very Substantial Disposal" posted on the Company's website "www.kaisunenergy.com" under "What's new".)

FINANCIAL REVIEW

Turnover of the Group for the three months and six months ended 30 June 2011 was approximately HK\$7.0 million and HK\$22.7 million respectively (three months and six months ended 30 September 2010: HK\$16.6 million and HK\$21.4 million).

Correspondingly, gross (loss)/profit of the Group for the three months and six months ended 30 June 2011 was approximately HK\$(0.3) million and HK\$11.0 million respectively (three months and six months ended 30 September 2010: HK\$9.2 million and HK\$10.4 million).



For the three months and six months ended 30 June 2011, administrative and other operating expenses of the Group amounted to HK\$12.4 million and HK\$21.2 million respectively (three months and six months ended 30 September 2010: HK\$7.8 million and HK\$12.2 million).

For the three months and six months ended 30 June 2011, finance costs of the Group amounted to HK\$6.0 million and HK\$10.8 million respectively (three months and six months ended 30 September 2010: HK\$7.7 million and HK\$11.1 million).

The Group recorded total comprehensive income for the three months and six months ended 30 June 2011 was approximately HK\$14.7 million and HK\$47.9 million respectively (three months and six months ended 30 September 2010: HK\$8.0 million and HK\$14.3 million).

Total comprehensive income attributable to owners of the Company for the three months and six months ended 30 June 2011 amounted to approximately HK\$5.7 million and HK\$25.9 million respectively (three months and six months ended 30 September 2010: HK\$2.3 million and HK\$4.0 million).

LIQUIDITY AND FINANCIAL RESOURCE

As at 30 June 2011, the Group has bank and cash balance of approximately HK\$396 million (as at 31 December 2010: HK\$242 million). This balance include a deposit received from the Purchaser of Mengxi Minerals amounting RMB220 million.

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

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total assets, was 0.40 as at 30 June 2011 (as at 31 December 2010: 0.36).

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi ("RMB"), Sterling Pound and Tajik Somoni. As at 30 June 2011, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

CAPITAL STRUCTURE

On 25 March 2011, the Company increased its issued share capital from 2,114,383,750 shares to 2,537,260,500 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.

HUMAN RESOURCES

As at 30 June 2011, the Group had approximately 94 (as at 31 December 2010: 67) employees. The Group continues to employ, promote and reward its staff with reference to their performance and experience. The Group also consistently adopt a policy of human resources enrichment, and provides training programme to its employees. In addition to their basic salaries, the Group's employees are also entitled to other fringe benefits such as provident fund. The management will continue to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality.

The total staff costs, including Directors' emoluments and equity settled share-based payment, amounted to approximately HK\$5.5 million (six months ended 30 September 2010: HK\$4.9 million) for the six months ended 30 June 2011.

OTHER INFORMATION

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

As at 30 June 2011, the interests and short positions of the directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the directors are as follows:

Long position in Shares and underlying Shares

Name of Directors	Capacity	Number of Shares	Number of	Approximate
			underlying Shares	percentage of the total issued Shares as at 30 June 2011
Chan Nap Kee, Joseph	Beneficial owner	20,420,000	24,981,750	1.79%
Chow Pok Yu, Augustine	Beneficial owner	990,000	4,925,000	0.23%
Yang Yongcheng	Beneficial owner	100,000	4,925,000	0.20%
Li Hong	Beneficial owner	—	3,000,000	0.12%
Liew Swee Yean	Beneficial owner	540,000	—	0.02%
Siu Siu Ling, Robert	Beneficial owner	540,000	—	0.02%
Wong Yun Kuen	Beneficial owner	1,000,000	—	0.04%
Anderson Brian Ralph	Beneficial owner	—	1,200,000	0.05%

Note: The long position in the underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the options granted by the Company to the above mentioned directors pursuant to the share option scheme.

Save as disclosed above, as at 30 June 2011, none of the directors or chief executive of the Company had any interest or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Ordinance) which is required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or any interests required to be entered in the register maintained in accordance with Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors.

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

- (a) As at the 30 June 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and underlying Shares:

Long positions in Shares and underlying Shares

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number underlying Shares <i>(Note 3)</i>	Total Interest	Approximate percentage of the total issued Shares as of at 30 June 2011
<i>Substantial shareholders</i>					
Zhang Zhi Ping	Interest of controlled corporations	215,640,000	357,410,000	573,050,000 <i>(Note 1)</i>	22.59%
Zhang Gaobo	Interest of controlled corporations	215,640,000	357,410,000	573,050,000 <i>(Note 1)</i>	22.59%

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number underlying Shares <i>(Note 3)</i>	Total Interest	Approximate percentage of the total issued Shares as of at 30 June 2011
Oriental Patron Financial Group Limited ("OPFGL")	Interest of controlled corporations	215,640,000	357,410,000	573,050,000 <i>(Note 1)</i>	22.59%
OP Financial Investments Limited ("OPFIL")	Interest of a controlled corporation	129,260,000	234,190,000	363,450,000 <i>(Note 1)</i>	14.32%
Profit Raider Investments Limited ("PRIL")	Beneficial owner	129,260,000	234,190,000	363,450,000 <i>(Note 1)</i>	14.32%
Saddleback Corporation Limited	Beneficial owner	422,876,750	—	422,876,750	16.67%
<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 <i>(Note 1)</i>	8.26%
Pacific Top Holding Limited ("PTHL")	Beneficial owner	86,380,000	123,220,000	209,600,000 <i>(Note 1)</i>	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 <i>(Note 2)</i>	40.24%

Notes:

1. 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.

2. 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 the Latest Practicable Date, and confirm whether the interests of GEM Global as at the Latest Practicable Date, have been accurately shown. The interest of GEM Global as shown was disclosed in the corporate substantial notice of GEM Global filed on 3 April 2008 and recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO. As set out in the Company's announcement dated 3 June 2008, the Company received default notification from GEM Global in relation to HK\$540 million Placing Convertible Bonds (as defined in such announcement). Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of such default. In addition to the default of the Placing Convertible Bonds mentioned above, as set out in the Company's announcements dated 3 June 2008 and 11 June 2008, on 10 June 2008, 230 million Consideration Shares (as defined in such announcements) were allotted and issued to Grand Pacific, the entire equity interests of which were acquired by Glimmer 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 30 June 2011 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 30 June 2011, 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.

3. SHARE OPTIONS

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

As at 30 June 2011, a total of 84,656,924 Shares, representing 3.32% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Details of the Options granted under the Scheme during the period ended 30 June 2011 are as follows:

	Date of Grant	Exercise Period	No. of Options				Outstanding as at 30/6/2011
			Outstanding as at 31/12/2010	Grant during the Period	Exercise during the Period	Lapsed during the Period	
Directors							
Chan Nap Kee, Joseph	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	4,925,000
	9/2/2010	9/2/2010–8/2/2013	20,056,750	—	—	—	20,056,750
Chow Pok Yu, Augustine	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	4,925,000
Yang Yongcheng	11/8/2009	11/8/2009–10/8/2012	4,925,000	—	—	—	4,925,000
Anderson Brian Ralph	11/8/2009	11/8/2009–10/8/2012	1,200,000	—	—	—	1,200,000
Li Hong	18/11/2009	18/11/2009–17/11/2012	3,000,000	—	—	—	3,000,000
		Sub-total	39,031,750	—	—	—	39,031,750
Employees in aggregate	11/8/2009	11/8/2009–10/8/2012	3,337,500	—	—	—	3,337,500
Other participants	19/2/2008	19/2/2008–18/2/2011	500,000	—	—	(500,000)	—
in aggregate	24/6/2008	24/6/2008–23/6/2011	7,700,000	—	—	(7,700,000)	—
	18/10/2010	18/10/2010–17/10/2013	42,287,674	—	—	—	42,287,674
			92,856,924	—	—	(8,200,000)	84,656,924

(Note 2)

Note:

- (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.

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

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

5. AUDIT COMMITTEE

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

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

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

The unaudited interim results for the six months ended 30 June 2011 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

6. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2011. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the six months ended 30 June 2011.

7. CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2011. The Company has also made specific enquiry to all directors and the Company was not aware of any non-compliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by directors.

8. CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2011.

The Code Provision A2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

During the period from 2 November 2010 to the date of this report, Mr. Chan Nap Kee Joseph, chairman, took up the role of acting chief executive officer as well, which deviates from Code Provision A2.1.

As the Company is developing its business in resources sector and has recently acquired coal mining assets outside China, the remuneration committee is searching for the right person to take up the role of chief executive officer to handle its latest development. In the meantime, Mr. Chan Nap Kee Joseph, our chairman, took up the role of acting chief executive officer until the suitable person who will handle our latest development is selected. The Company will publish announcement on appointment of chief executive officer when appropriate.

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

Hong Kong, 11 August 2011

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

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