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

Interim Report **2014**

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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.

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 2014, together with the unaudited comparative figures for the corresponding periods in 2013 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	Note	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Turnover	5	**9,505**	34,661	**10,362**	76,089
Cost of goods sold		**(9,264)**	(33,293)	**(9,305)**	(72,554)
Gross profit		**241**	1,368	**1,057**	3,535
Other income		**9,389**	7,703	**10,105**	12,259
Mining distribution costs		**(1,389)**	(7,494)	**(7,551)**	(13,957)
Administrative and other operating expenses		**(11,789)**	(15,850)	**(24,755)**	(30,384)
Loss from operations		**(3,548)**	(14,273)	**(21,144)**	(28,547)
Finance costs	6	**—**	—	**—**	(3,886)
Impairment loss on intangible assets	12	**(9,625)**	—	**(9,625)**	—
Loss before tax		**(13,173)**	(14,273)	**(30,769)**	(32,433)
Income tax expense	7	**931**	—	**931**	—
Loss for the period	8	**(12,242)**	(14,273)	**(29,838)**	(32,433)
Attributable to:					
Owners of the Company		**(7,812)**	(12,906)	**(24,996)**	(30,623)
Non-controlling interests		**(4,430)**	(1,367)	**(4,842)**	(1,810)
		(12,242)	(14,273)	**(29,838)**	(32,433)
Loss per share (HK Cents)	10				
— Basic		**(0.30)**	(0.49)	**(0.96)**	(1.17)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited Three months ended 30 June		**Unaudited Six months ended 30 June**	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Loss for the period	**(12,242)**	(14,273)	**(29,838)**	(32,433)
Other comprehensive income for the period, net of tax				
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations	**(3,354)**	344	**(4,042)**	(2,864)
Total comprehensive income for the period	**(15,596)**	(13,929)	**(33,880)**	(35,297)
Attributable to:				
Owners of the Company	**(10,642)**	(12,582)	**(28,503)**	(33,507)
Non-controlling interests	**(4,954)**	(1,347)	**(5,377)**	(1,790)
	(15,596)	(13,929)	**(33,880)**	(35,297)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Note	Unaudited As at 30 June 2014 HK$'000	Audited As at 31 December 2013 HK$'000
Non-current assets			
Fixed assets	11	**31,651**	36,882
Intangible assets	12	**44,108**	59,170
Available-for-sale financial assets		**68**	71
		75,827	96,123
Current assets			
Inventories		**3,965**	2,751
Trade receivables	13	**68,257**	74,894
Deposits, prepayments and other receivables		**363,738**	349,808
Bank and cash balances		**15,424**	74,600
		451,384	502,053
Current liabilities			
Trade payables	14	**13,637**	16,560
Other payables and accruals		**33,368**	67,306
Current tax liabilities		**1,101**	1,144
		48,106	85,010
Net current assets		**403,278**	417,043
Total assets less current liabilities		**479,105**	513,166

	Note	Unaudited As at 30 June 2014 HK$'000	Audited As at 31 December 2013 HK$'000
Non-current liabilities			
Deferred tax liabilities		33,350	34,261
		33,350	34,261
NET ASSETS		445,755	478,905
Capital and reserves			
Share capital	15	26,170	26,170
Reserves		423,856	451,629
Equity attributable to owners of the Company		450,026	477,799
Non-controlling interests		(4,271)	1,106
TOTAL EQUITY		445,755	478,905

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited									
	Attributable to owners of the Company									
	Share capital	Share premium	Shares held for share award scheme	Foreign currency translation reserve	Share-based payment reserve	Convertible bonds reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2013	26,170	1,176,818	—	(1,955)	24,954	101,256	(673,479)	653,764	28,359	682,123
Total comprehensive income for the period	—	—	—	(2,884)	—	—	(30,623)	(33,507)	(1,790)	(35,297)
Purchase of shares held under the share award scheme	—	—	(143)	—	—	—	—	(143)	—	(143)
Share options forfeited and lapsed	—	—	—	—	(11,013)	—	11,013	—	—	—
Transfer	—	—	—	—	—	(100,892)	100,892	—	—	—
Redemption of replacement convertible bonds	—	—	—	—	—	(364)	—	(364)	—	(364)
Changes in equity for the period	—	—	(143)	(2,884)	(11,013)	(101,256)	81,282	(34,014)	(1,790)	(35,804)
At 30 June 2013 (unaudited)	26,170	1,176,818	(143)	(4,839)	13,941	—	(592,197)	619,750	26,569	646,319
At 1 January 2014	**26,170**	**1,176,818**	**(1,204)**	**(8,416)**	**–**	**–**	**(715,569)**	**477,799**	**1,106**	**478,905**
Total comprehensive income for the period	**–**	**–**	**–**	**(3,507)**	**–**	**–**	**(24,996)**	**(28,503)**	**(5,377)**	**(33,880)**
Purchase of shares held under the share award scheme	**–**	**–**	**(368)**	**–**	**–**	**–**	**–**	**(368)**	**–**	**(368)**
Award of shares for the share award scheme	**–**	**–**	**1,098**	**–**	**–**	**–**	**–**	**1,098**	**–**	**1,098**
Changes in equity for the period	**–**	**–**	**730**	**(3,507)**	**–**	**–**	**(24,996)**	**(27,773)**	**(5,377)**	**(33,150)**
At 30 June 2014 (unaudited)	**26,170**	**1,176,818**	**(474)**	**(11,923)**	**–**	**–**	**(740,565)**	**450,026**	**(4,271)**	**445,755**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Net cash (used in)/generated from operating activities	**(58,461)**	37,923
Net cash generated from investing activities	**87**	4,050
Net cash used in financing activities	**(368)**	(116,393)
Net decrease in cash and cash equivalents	**(58,742)**	(74,420)
Effect of foreign exchange rate changes	**(434)**	(3,010)
	(59,176)	(77,430)
Cash and cash equivalents at beginning of period	**74,600**	200,449
Cash and cash equivalents at end of period	**15,424**	123,019

NOTES TO CONDENSED FINANCIAL INFORMATION

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 21/F., Chun Wo Commercial Centre, 23–29 Wing Wo 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").

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's condensed financial information have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by International Accounting Standards Board, 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 information should be read in conjunction with the 2013 annual financial statements. The accounting policies and methods of computation used in preparation of these condensed financial information are consistent with those used in the annual financial statements for the year ended 31 December 2013.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

During the six months ended 30 June 2014, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting periods beginning on 1 January 2014. IFRSs comprise of International Financial Reporting Standards; International Accounting Standards; 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 six months ended 30 June 2014 and the same period in last year.

The Group has not applied 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. FAIR VALUE MEASUREMENTS

Except for available-for-sale financial assets, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

5. TURNOVER

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Turnover				
Sales of goods				
— Production and exploitation of coal in Tajikistan	**–**	1,225	**758**	3,216
— Provision of supply chain management services for mineral business	**9,145**	33,436	**9,145**	72,873
— Shandong mining and metallurgical machineries production	**360**	—	**459**	—
	9,505	34,661	**10,362**	76,089

6. FINANCE COSTS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Interest on convertible bonds	**–**	—	**–**	2,385
Settlement expenses for redemption of replacement convertible bonds	**–**	—	**–**	1,501
	–	—	**–**	3,886

7. INCOME TAX EXPENSE

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current tax	**–**	—	**–**	—
Deferred tax	**(931)**	—	**(931)**	—
	(931)	—	**(931)**	—

No provision for profit tax in the British Virgin Islands, Cayman Islands, United Kingdom, Tajikistan, the People's Republic of China (the "PRC") or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the relevant periods.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Pursuant to relevant laws and regulations in the PRC and Tajikistan, the tax rate applicable to the subsidiary in the PRC and Tajikistan was 25% respectively.

8. LOSS FOR THE PERIOD

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Directors' remuneration	**1,291**	1,281	**2,586**	2,566
Depreciation	**1,826**	2,823	**4,163**	5,859
Operating lease rentals in respect of land and buildings	**293**	902	**565**	1,403
Amortisation of intangible assets	**1,847**	3,358	**3,724**	6,712
Staff costs (including directors' emoluments)				
Basic salaries, bonuses, allowances, and benefits in kind	**5,978**	6,555	**11,822**	12,343
Retirement benefits scheme contributions	**61**	52	**119**	102
Share-based payment	**—**	—	**1,098**	—

9. DIVIDENDS

The Directors do not recommend the payment of dividend for the six months ended 30 June 2014 (Six months ended 30 June 2013: HK$Nil).

10. LOSS PER SHARE

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

The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period are used in the basic loss per share calculation, and the weighted average number ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Unaudited Three months ended 30 June		**Unaudited Six months ended 30 June**	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Loss for the purpose of calculating basic loss per share	**(7,812)**	(12,906)	**(24,996)**	(30,623)
Number of shares ('000)				
Issued ordinary shares at the beginning of the period	**2,617,006**	2,617,006	**2,617,006**	2,617,006
Effect of shares held for share award scheme	**(1,090)**	—	**(2,324)**	—
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**2,615,916**	2,617,006	**2,614,682**	2,617,006

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary sharing during the period ended 30 June 2014 and 2013.

11. FIXED ASSETS

During the six months ended 30 June 2014, the Group acquired fixed assets of approximately HK$311,000 (Six months ended 30 June 2013: HK$1,290,000).

12. INTANGIBLE ASSETS

	Mining rights HK$'000
Cost	
At 1 January 2014	197,866
Exchange differences	(6,700)
At 30 June 2014 (Unaudited)	191,166
Accumulated amortisation and impairment	
At 1 January 2014	138,696
Charge for the period	3,724
Impairment for the period	9,625
Exchange differences	(4,987)
At 30 June 2014 (Unaudited)	147,058
Carrying amount	
At 30 June 2014 (Unaudited)	44,108
At 31 December 2013	59,170

At 30 June 2014 and 31 December 2013, the Group's mining rights are the rights obtained by the Group for production and exploitation of three coal mines located in Tajikistan. The major content of the coal mine is anthracite and bituminous coal. The terms of the mining rights of these coal mines are from August 1997 to September 2018. The mining rights are stated at cost less accumulated amortisation and impairment losses over the term of the mining rights.

The Group carried out reviews of the recoverable amount of its mining rights in 2014, having regard to the change in market condition. These assets are used in the Group's Exploitation of coal and coal processing segment. The review led to the recognition of an impairment loss of HK$9,624,831 for mining rights that have been recognised in profit or loss. The recoverable amount of the mining rights has been determined on the basis of their value in use using discounted cash flow method. The discount rate used was 21.7% to 23.3%. The discount rate used when the recoverable amount of these assets was previously estimated in 2013 was 21.7% to 23.3%.

13. TRADE RECEIVABLES

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 as at 30 June 2014 HK$'000	Audited as at 31 December 2013 HK$'000
0-30 days	**328**	23,842
31–60 days	**7**	14,241
61–90 days	**6**	6,791
Over 90 days	**67,916**	30,020
	68,257	74,894

14. TRADE PAYABLES

At 30 June 2014, the ageing analysis of trade payables based on the date of receipt of goods, is as follows:

	Unaudited As at 30 June 2014 HK$'000	Audited As at 31 December 2013 HK$'000
0–30 days	**69**	14,613
31–60 days	**24**	1,935
61–90 days	**34**	—
91–180 days	**13,510**	—
181–365 days	**—**	12
	13,637	16,560

The carrying amounts of the Group's trade payables are denominated in RMB and TJS.

15. SHARE CAPITAL

	Unaudited as at 30 June 2014 HK$'000	Audited as at 31 December 2013 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	100,000	100,000
Issued and fully paid:		
2,617,005,700 (31 December 2013: 2,617,005,700) ordinary shares of HK$0.01 each	26,170	26,170

16. CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities (31 December 2013: HK$Nil).

17. LEASE COMMITMENTS

As at 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited as at 30 June 2014 HK$'000	Audited as at 31 December 2013 HK$'000
Within one year	375	817
In the second to fifth years inclusive	187	384
	562	1,201

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of 1 to 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

18. RELATED PARTY TRANSACTIONS

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

	Unaudited Three months ended 30 June		**Unaudited Six months ended 30 June**	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Interest on convertible bonds and settlement expenses for redemption of replacement convertible bonds charged by Pacific Top Holding Limited and Profit Raider Investments Limited	**–**	—	**–**	3,886

Pacific Top Holding Limited and Profit Raider Investments Limited are shareholders of the Company and are beneficially owned by ZHANG Gaobo and ZHANG Zhi Ping.

19. SEGMENT INFORMATION

The Group has three reportable segments which are Shandong mining and metallurgical machineries production, production and exploitation of coal in Tajikistan and provision of supply chain management for mineral business for the period.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 December 2013.

	Shandong mining and metallurgical machineries production	**Provision of supply chain management services for mineral business**	**Production and exploitation of coal in Tajikistan**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
For six months ended 30 June 2014 (unaudited)				
Revenue from external customers	459	9,145	758	10,362
Segment loss	(1,388)	(5,811)	(21,492)	(28,691)
As at 30 June 2014 (unaudited)				
Segment assets	8,607	359,935	103,678	472,220
Segment liabilities	(506)	(15,737)	(7,590)	(23,833)

	Provision of supply chain management services for mineral business HK$'000	Production and exploitation of coal in Tajikistan HK$'000	Total HK$'000
For six months ended 30 June 2013 (unaudited)			
Revenue from external customers	72,873	3,216	76,089
Segment profit/(loss)	4,801	(32,198)	(27,397)
As at 31 December 2013			
Segment assets	374,224	168,148	542,372
Segment liabilities	(14,278)	(11,363)	(25,641)

	Unaudited Six months ended 30 June	
	2014 HK$'000	2013 HK$'000
Reconciliations of segment profit or loss		
Total profit or loss of reportable segments	**(28,691)**	(27,397)
Other profit or loss	**(1,147)**	(5,036)
Consolidated loss for the period	**(29,838)**	(32,433)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half of 2014 (six months ended 30 June 2014) ("Period") has been a challenging learning experience for the Group dealing with obstacles unfamiliar to us in the past caused by economical and political instability in Asia. At the same time, management of the Group has been busy developing our coal mining operation in Tajikistan, progressing with our recently established machineries manufacturing business in Shandong and reviving our supply chain management service. This transitional period has been difficult but based on the efforts and capabilities demonstrated by the Group's staff in the first half of 2014; management of the Group believes we have what it takes to successfully make it through the hard times.

During the Period, our Shandong machineries manufacturing business has made progress towards full production and contracts have been gradually coming in. Furthermore, our supply chain management service has once again started generating income for the Group after a short hiatus. Last but not least, mining already started for our Tajikistan's coal mines and we began preparation work for small scale JORC exploration.

Nonetheless, development of our coal operation in Tajikistan has not been easy due to uncertainties in certain regions of the country. In spite of this, Tajikistan's economic development has been relatively healthy with substantial investments coming from China. Management of the Group has been closely monitoring the situation as well as China's central government's policies and has decided to make only small investments while exploration plans are also being kept at a small scale. This conservative approach makes potential future setbacks much more manageable while being able to give the Group the flexibility to capture opportunities once again when the situation becomes more stable.

With that said, due to the potential uncertainties in those regions along with the associated economic consequences, the proposed transaction between the Group and Up Energy Development Group involving the disposal of interest in the Group's Kaftar Hona deposit ("proposed transaction") has been terminated after due consideration and careful assessment by both parties. A joint announcement dated 18 July 2014 by both companies on termination of proposed transaction was published on both companies' websites and the website of Hong Kong Stock Exchange Limited.

Lastly, continuing with our ongoing effort to reduce administration cost, the Group has seen a substantial reduction in operating loss during the second quarter mainly coming from a significant decrease in administrative and other operating expenses.

TAJIKISTAN COAL EXPLOITATION

Similar to previous years, Tajikistan has been hit with heavy snow during the first half of the year. Preparatory work has been carried out during the latter part of the period with small scale exploration in mind for the reasons previously mentioned such as region instability. Management of the Group has concentrated its efforts into optimizing mining cost efficiency given our resources on hand as it would not be desirable for the Group to make large capital investments before our concerns regarding the region are eradicated.

MINING RIGHT IMPAIRMENT

Ever since the Group entered Tajikistan and cemented itself in the local coal mining business, we were confident that the Group would benefit from the economic growth of the country given continual support from neighbor countries such as China. For the past few years, Tajikistan has been growing economically due to foreign investment. However, residents in remote regions are not yet ready for large scale development, hence we hope to benefit from such growth in future.

These potential problems drive up costs such as insurance premium and wastes valuable time and manpower as management need to make contingency plans to problems that are not directly mining related. These nuisances have been manageable so far but they can certainly be unpredictable in the future both in terms of form and magnitude. Therefore, management of the Group has decided it would be best to take a conservative approach for the time being and wait for the situation to get better. When the situation does indeed improve, the Group will be prepared and will have the infrastructure in place to develop the operation.

Therefore, to accurately reflect the reduced capital investments in the future which leads to decrease in future production, an impairment of HK$9.6 million is made on the mining right in Tajikistan. The overall effect for the loss of the Period compared to same period last year, even with such a substantial impairment, is lessened given the substantial reduction in the operating loss. Management of the Group will continue to closely monitor the situation at hand and will decide if further actions are needed.

SHANDONG MINING AND METALLURGICAL MACHINERIES PRODUCTION

Tengzhou Kaiyuan Industrial Co. Ltd ("Tengzhou Kaiyuan") is a joint venture of the Company's subsidiary (70% shareholder) and the local Government Owned Enterprise Tengzhou Liyuan Mining Company ("Tengzhou Liyuan") (30% shareholder). Tengzhou Kaiyuan has been a valuable addition and has started contributing to the Group since this quarter.

Tengzhou Kaiyuan business includes design and production of mining and metallurgical machineries, as well as the equipment installation. The leading products can be generally classified into four categories: overhead man-riding devices, hydraulic and pneumatic lever devices, valve devices and belt transmission devices.

Operation since the establishment have been very smooth due to the collective effort from the local government owned Tengzhou Liyuan and the management of the Group. During this quarter, Tengzhou Kaiyuan has gained substantial forward momentum towards the full-production stage taking and fulfilling orders from regular clients contributing around HK$360,000 revenue to the Group. Clients are satisfied with the top quality products and exceptional service and the Group expects continual contribution and growth from Tengzhou Kaiyuan for the second half of the fiscal year.

SUPPLY CHAIN MANAGEMENT BUSINESS

Supply chain management business has been the main revenue source for the Group and due to the economic environment, this segment of our business was put on a temporary break for a while. Nonetheless, opportunities do arise and the Group management are always on watch for any business that matches the Group current business attitude, which is an optimal return driven by minimal and manageable risks.

Extra cautiousness has been applied and extensive research has been carried out on all potential candidates by the Group management and team. Management of the Group is thrilled that supply chain management business is back playing a role once again in our revenue stream adding just over HK$9 million for this quarter alone. Upon a positive change in economic climate, the Group expects supply chain management business to pick up its pace in the second half of the year.

BUSINESS OUTLOOK

In order to steer the business towards the better path, the Group and its management will concentrate its efforts into four areas of operations for the rest of the year and they are:

1) Tajikistan coal mining operation — without spending a great deal of capital, the Group will focus its effort to gain cash flow for the future from current scale mining. Mining will be done with utmost efficiency given our experience in Tajikistan. Costs will be kept at minimum owing to the effort to limit administration costs from earlier this year. Only small scale exploration will be conducted until the regions become more stable.

2) Tengzhou Kaiyuan will continue to ride its forward momentum from the previous quarter. Moving from trial towards full-production, Tengzhou Kaiyuan will shift from preparation stage into securing more clients and contracts while maintaining production quality and efficiency. This will not be a problem given the local government connections and the Group is confident that management will be able to keep production process in line with the growth.

3) Starting with the new supply chain management contract from the previous quarter, management hopes to build on this and carry it into the second half of the year. Given the right considerations and after thorough analysis, the Group will not hesitate to capture the opportunity when one that fits the Group value comes along.

4) Last but not least, management is still looking for business opportunities to further strengthen the foundation and the income stream makeup of the Group. Management would like the Group to have more operations that can generate income all year around without heavily affected by the economic climate. When evaluating different projects, amongst all things that need to be considered, management hopes to find the ones that can strike the right balance between profit margin and risks.

FINANCIAL REVIEW

The Group continues to follow its strategy set from the beginning of the year in cutting cost, developing and generating cash flow from current business, while searching for opportunities and it is being reflected in the financial performance.

Turnover of the Group for the six months ended 30 June 2014 was approximately HK$10.4 million (same period 2013: HK$76.1 million). This drop in turnover was anticipated as the Group took a more conservative approach in its supply chain management business. Nonetheless, there is a big improvement this year from the first quarter to the second quarter as the Group once again revives the supply chain management business portion of our operation.

To continue the theme of reducing unnecessary costs in order to make the Group more efficient, administrative and other operating expense (Period: HK$24.8 million) remains to be an improvement over the same period last year (HK$30.4 million). Management of the Group is extra pleased to see this as we have been able to incorporate an entire new business in Tengzhou, Shandong into our operations while reducing costs in the process. The direct result of this is the Group's loss from operation during the Period is HK$(21.1) million which is an improvement over the loss of HK$(28.5) million from the same period last year.

With reduced costs, the Group was also able to reduce the loss of the total comprehensive income attributable to owners of the Company to HK$(28.5) million for the six months ended 30 June 2014 from the previous same period of HK$(33.5) million.

LIQUIDITY AND FINANCIAL RESOURCE

As at 30 June 2014, the Group has a bank and cash balances of approximately HK$15.4 million (as at 31 December 2013: HK$74.6 million).

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total asset, was 0.15 as at 30 June 2014 (as at 31 December 2013: 0.20).

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi ("RMB"), Sterling Pound, United States dollars and Tajik Somoni. As at 30 June 2014, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

HUMAN RESOURCES

As at 30 June 2014, the Group had 73 (as at 31 December 2013: 157) staff in Hong Kong, the PRC and Tajikistan. The Group continues to employ, promote and reward its staff with reference to their performance and experience. 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. During the period, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors consider the Group's relationship with its employees to be good.

The total staff costs, including Directors' emoluments, amounted to approximately HK$13.0 million for the six months ended 30 June 2014 (Six months ended 30 June 2013: HK$12.4 million).

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 2014, 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 Underlying Shares	Approximate percentage of the total issued Shares as at 30 June 2014 *(Note)*
Chan Nap Kee, Joseph	Beneficial owner	66,941,760	—	2.56%
Yang Yongcheng	Beneficial owner	100,000	—	0.00%
Liew Swee Yean	Beneficial owner	540,000	—	0.02%
Siu Siu Ling, Robert	Beneficial owner	540,000	—	0.02%
Wong Yun Kuen	Beneficial owner	2,000,000	—	0.08%

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 2014, 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 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and underlying Shares:

Long positions in Shares and underlying Shares

Name of Shareholders	Capacity and nature of interest	Number of shares	Number underlying Shares	Total Interest *(Note 3)*	Approximate percentage of the total issued Shares as of at 30 June 2014
Substantial shareholders					
Zhang Zhi Ping	Interest of a controlled corporation	218,490,000	—	218,490,000 *(Note 1)*	8.35%
Zhang Gaobo	Interest of a controlled corporation	218,490,000	—	218,490,000 *(Note 1)*	8.35%
Oriental Patron Financial Group Limited ("OPFGL")	Interest of a controlled corporation	218,490,000	—	218,490,000 *(Note 1)*	8.35%
Ottness Investments Limited ("OIL")	Interest of a controlled corporation	132,110,000	—	132,110,000 *(Note 1)*	5.05%
OP Financial Investments Limited ("OPFIL")	Interest of a controlled corporation	132,110,000	—	132,110,000 *(Note 1)*	5.05%
Profit Raider Investments Limited ("PRIL")	Beneficial owner	132,110,000	—	132,110,000 *(Note 1)*	5.05%

Notes:

1. OPFGL holds 218,490,000 Shares. OPFGL is 51% owned by Zhang Zhi Ping and is 49% owned by Zhang Gaobo.

   Of these 218,490,000 Shares, 86,380,000 Shares are held by Pacific Top Holding Limited ("PTHL"). PTHL is wholly owned by Oriental Patron Financial Services Group Limited ("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 218,490,000 Shares, 132,110,000 Shares are held by PRIL. PRIL is wholly owned by OPFIL, OPFIL is 35.05% held by OIL. Zhang Zhi Ping, Zhang Gaobo, OPFGL, OIL and OPFIL are deemed to be interested in the interests held by PRIL under the SFO.

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 2014, 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 provisions of Divisions 2 & 3 of Part XV of the SFO.

3. SHARE AWARD SCHEME

The Company adopted the Share Award Scheme on 10 May 2013 (the "Adoption Date"). The purpose of the Scheme is to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. Unless terminated earlier by the Board, the Share Award Scheme operates for three years commencing on the Adoption Date. The Committee shall not make any further award of Awarded Shares which will result in the aggregate nominal value of the Shares awarded under the Scheme exceeding ten per cent of the issued share capital of the Company at the time of such Award.

Please refer to the announcement of the Company dated 10 May 2013 for details of the Share Award Scheme.

During the six months ended 30 June 2014, based on the Company's instructions, the trustee of the Share Award Scheme had purchased a total of 3,400,000 shares of the Company on the Stock Exchange at a total consideration of about HK$368,700.

On 22 January 2014, 9,000,000 shares were awarded to three employees of the Company under the Share Award Scheme.

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 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 primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide 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 and conducts risk evaluation.

In order to comply with amendments to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, on 30 March 2012, new terms of reference that supersedes previous terms of reference of the Audit Committee were adopted. The new written terms of reference which describes its authorities and duties is available on the Company's website www.kaisunenergy.com under "Investor Relations" section with heading of "Corporate Governance".

The unaudited interim results for the six months ended 30 June 2014 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. REMUNERATION COMMITTEE

The Company established the Remuneration Committee ("RC") in March 2006. On 30 March 2012, for more effective functioning of the board, there was a redesignation of Director's role and function in order to comply with the amendments to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited effective on 1 April 2012.

The current RC comprised one executive director and two independent non-executive directors, namely Mr. Chan Nap Kee Joseph, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph. Dr. Wong Yun Kuen is the chairman of the RC.

The primary duties of the RC are to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management.

In order to comply with amendments to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, on 30 March 2012, new terms of reference that supersedes previous terms of reference of the RC were adopted. The new written terms of reference which describes its authorities and duties is available on the Company's website www.kaisunenergy.com under "Investor Relations" section with heading of "Corporate Governance".

7. NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

On 30 March 2012, the Company established a Nomination and Corporate Governance Committee ("NC") with written terms of reference which deals clearly with its authorities and duties. The NC comprises three members, namely Mr. Siu Siu Ling Robert (chairman of NC), Mr. Liew Swee Yean and Mr. Chan Nap Kee Joseph.

The primary duties of the NC is to make recommendations to the Board on appointment or reappointment of Directors, and to develop and review Group's policies and practices on corporate governance and to make recommendations to the Board.

Written terms of reference were adopted in compliance with the GEM Listing Rules, and is available on the Company's website www.kaisunenergy.com under "Investor Relations" section with heading of "Corporate Governance".

8. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased or sold any of its listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 3,400,000 shares of the Company at a total consideration of about HK$368,700 and 9,000,000 shares were awarded to three employees of the Company under the Share Award Scheme in January 2014.

9. 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 2014. The Company has also made specific enquiry to all Directors and the Company was not aware of any noncompliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by Directors.

10. CODE ON CORPORATE GOVERNANCE PRACTICE

The Board is committed to maintaining a high standard of corporate governance. The Board believes that sound and reasonable corporate practices are essential for the growth of the Group and for safeguarding and maximizing Shareholders interest.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG code") contained in Appendix 14 to the Listing Rules. The Company has complied with all applicable code provisions in the CG code throughout the period ended 30 June 2014, except for the following deviations:

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. Since 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 energy and 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 carry out the strategic plans and policies as established by the board of directors. In the meantime, Mr. Chan Nap Kee Joseph, our Chairman, took up the role of Acting Chief Executive Officer until the suitable person is selected. The Company will publish announcement on appointment of Chief Executive Officer when appropriate.

The CG Code provision A.5.6 stipulates that the nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report. The Nomination and Corporate Governance Committee of the Company (the "Nomination Committee") would review the board composition from time to time and it considered that the board diversity is in place and therefore written policy is not required. Due to the amendment of the Listing Rules effective 1 September 2013, a board diversity policy (the "Board Diversity Policy") has been adopted in December 2013. The Board Diversity would be considered from a number of aspects, including but not limited to skills, experience, knowledge, expertise, culture, independence, age and gender.

Under Code Provision A6.7, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Anderson Brian Ralph was unable to attend the annual general meeting of the Company held on 19 May 2014.

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

Hong Kong, 8 August 2014

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 three executive directors of the Company are Mr. CHAN Nap Kee Joseph, Dr. CHOW Pok Yu Augustine and Mr. YANG Yongcheng and four independent non-executive directors of the Company are Mr. LIEW Swee Yean, Mr. SIU Siu Ling Robert, Dr. WONG Yun Kuen and Mr. ANDERSON Brian Ralph.