KEG

KAISUN ENERGY GROUP LIMITED
凱順能源集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8203

Interim Report 2017

* For identification purpose only

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

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

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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 2017, together with the unaudited comparative figures for the corresponding periods in 2016 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	Note	**2017 HK$'000**	2016 HK$'000 (Restated)	**2017 HK$'000**	2016 HK$'000 (Restated)
Revenue	6	**6,304**	16,342	**56,533**	18,873
Cost of goods sold		**(5,232)**	(15,421)	**(52,975)**	(17,923)
Gross profit		**1,072**	921	**3,558**	950
Gain on disposal of financial assets at fair value through profit or loss		**104**	113	**468**	113
Fair value gain/(loss) on financial assets at fair value through profit or loss		**(14,394)**	(2,196)	**9,624**	1,813
Other income		**585**	3,345	**911**	4,271
Administrative and other operating expenses		**(15,613)**	(7,490)	**(26,099)**	(17,962)
Loss from operations		**(28,246)**	(5,307)	**(11,538)**	(10,815)
Excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of a subsidiary	20	**143,198**	—	**143,198**	—
Fair value gain on derivative financial instrument		**4,290**	—	**4,290**	—
Profit/(loss) before tax		**119,242**	(5,307)	**135,950**	(10,815)
Income tax expenses	7	**(38,210)**	(141)	**(42,809)**	(567)
Profit/(loss) for the period	8	**81,032**	(5,448)	**93,141**	(11,382)
Attributable to:					
Owners of the Company		**51,012**	(5,402)	**63,315**	(10,870)
Non-controlling interests		**30,020**	(46)	**29,826**	(512)
		81,032	(5,448)	**93,141**	(11,382)
Earnings/(loss) per share (HK Cents)	10				
— Basic		**9.09**	(1.43)	**11.58**	(2.90)

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

For the six months ended 30 June 2017

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Profit/(loss) for the period	**81,032**	(5,448)	**93,141**	(11,382)
Other comprehensive income for the period, net of tax:				
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations	**4,126**	(1,067)	**4,746**	(276)
Total comprehensive income for the period	**85,158**	(6,515)	**97,887**	(11,658)
Attributable to:				
Owners of the Company	**54,614**	(6,461)	**67,177**	(12,238)
Non-controlling interests	**30,544**	(54)	**30,710**	580
	85,158	(6,515)	**97,887**	(11,658)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Non-current assets			
Fixed assets	11	**18,828**	1,975
Intangible assets	12	**171,213**	—
Available-for-sale financial assets	19	**18,500**	2,317
Long-term deposits		**—**	4,467
Long-term other receivables		**2,170**	577
		210,711	9,336
Current assets			
Inventories		**4,947**	3,638
Trade and bills receivables	13	**32,401**	32,238
Deposits, prepayments and other receivables		**144,623**	122,276
Bank and cash balances		**51,155**	36,333
Derivative financial instruments		**4,290**	—
Financial assets at fair value through profit or loss	18	**113,976**	102,723
		351,392	297,208
Current liabilities			
Trade payables	14	**2,964**	3,047
Other payables and accruals		**24,372**	11,376
Short term loan		**1,151**	—
Current tax liabilities		**2,596**	7,500
		31,083	21,923
Net current assets		**320,309**	275,285
Total assets less current liabilities		**531,020**	284,621
Non-current liabilities			
Deferred tax liabilities		**48,422**	4,926
		48,422	4,926
NET ASSETS		**482,598**	279,695
Capital and reserves			
Share capital	15	**57,657**	37,684
Reserves		**386,308**	249,522
Equity attributable to owners of the Company		**443,965**	287,206
Non-controlling interests		**38,633**	(7,511)
TOTAL EQUITY		**482,598**	279,695

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Unaudited							
	Attributable to owners of the Company							
	Share capital	Share premium	Shares held for share award scheme	Foreign currency translation 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
At 1 January 2016	37,684	1,293,081	—	(18,417)	(1,008,095)	304,253	(8,251)	296,002
Total comprehensive income for the period	—	—	—	(1,368)	(10,870)	(12,238)	580	(11,658)
Purchase of shares held under the share award scheme	—	—	(1,057)	—	—	(1,057)	—	(1,057)
Changes in equity for the period	—	—	(1,057)	(1,368)	(10,870)	(13,295)	580	(12,715)
At 30 June 2016	37,684	1,293,081	(1,057)	(19,785)	(1,018,965)	290,958	(7,671)	283,287
At 1 January 2017	**37,684**	**1,293,081**	**(1,190)**	**(20,858)**	**(1,021,511)**	**287,206**	**(7,511)**	**279,695**
Total comprehensive income for the period	**–**	**–**	**–**	**3,862**	**63,315**	**67,177**	**30,710**	**97,887**
Issue of shares under rights issue *(Note 15)*	**18,842**	**71,600**	**–**	**–**	**–**	**90,442**	**–**	**90,442**
Transaction costs attributable to issue of shares	**–**	**(5,017)**	**–**	**–**	**–**	**(5,017)**	**–**	**(5,017)**
Capital injection in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**15,434**	**15,434**
Award of shares held under share award scheme *(Note 15)*	**1,131**	**3,392**	**–**	**–**	**–**	**4,523**	**–**	**4,523**
Purchase of shares held under the share award scheme	**–**	**–**	**(366)**	**–**	**–**	**(366)**	**–**	**(366)**
Changes in equity for the period	**19,973**	**69,975**	**(366)**	**3,862**	**63,315**	**156,759**	**46,144**	**202,903**
At 30 June 2017	**57,657**	**1,363,056**	**(1,556)**	**(16,996)**	**(958,196)**	**443,965**	**38,633**	**482,598**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Net cash (used in) operating activities	**(52,690)**	(53,061)
Net cash (used in)/generated from investing activities	**(22,265)**	222
Net cash generated from/(used in) financing activities	**87,713**	(1,057)
Net increase/(decrease) in cash and cash equivalents	**12,758**	(53,896)
Effect of foreign exchange rate changes	**2,064**	(1,404)
	14,822	(55,300)
Cash and cash equivalents at beginning of period	**36,333**	103,616
Cash and cash equivalents at end of period	**51,155**	48,316

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 Unit B, 17/F., E Tat Factory Building, 4 Heung Yip Road, Wong Chuk Hang, 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 Company is an investment holding company. 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 consolidated financial statements have been prepared in accordance with all applicable International Financial Report Standards ("IFRSs") issued by the International Accounting Standards Board. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The condensed consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

The condensed consolidated financial statements should be read in conjunction with the 2016 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 statement for the year ended 31 December 2016.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

During the six months ended 30 June 2017, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") that are relevant to its operations and effective for its accounting periods beginning on 1 January 2017. IFRSs comprise of International Financial Reporting Standards ("IFRS"); 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 2017 and the same period in last year.

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. The directors anticipate that the new and revised IFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group has assessed, where applicable, the potential effect of all new and revised IFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

4. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 30 June 2017:

Description	Unaudited As at 30 June 2017 HK'000	Audited As at 31 December 2016 HK$'000
Recurring fair value measurements:		
Financial assets		
Using Level 1		
Financial assets at fair value through profit or loss		
Listed securities	**113,976**	102,723
Using Level 3		
Derivative financial instruments	**4,290**	—
	118,266	102,723

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2017:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

5. SEGMENT INFORMATION

The Group has four reportable segments which are mining and metallurgical machineries production in Shandong, provision of supply chain management for mineral business, production and exploitation of coal and trading of securities 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 2016. Segment profits or losses do not include dividend income. Segment assets do not include amounts due from related parties. Segment non-current assets do not include financial instruments.

	Mining and metallurgical machineries production in Shandong HK$'000	Provision of supply chain management services for mineral business HK$'000	Production and exploitation of coal HK$'000	Trading of Securities HK$'000	Total HK$'000
For six months ended 30 June 2017 (unaudited)					
Revenue from external customers	6,006	50,527	–	–	56,533
Segment profit	140	32	93,606	12,142	105,920
As at 30 June 2017 (unaudited)					
Segment assets	23,593	148,047	182,452	139,937	494,029
Segment liabilities	(4,345)	(1,540)	(60,966)	(8,882)	(75,733)

	Mining and metallurgical machineries production in Shandong	Provision of supply chain management services for mineral business	Production and exploitation of coal	Trading of Securities	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For six months ended 30 June 2016 (unaudited)					
Revenue from external customers	2,943	15,930	—	—	18,873
Segment (loss)/profit	(1,412)	2,272	(2,588)	1,397	(331)
As at 31 December 2016					
Segment assets	18,554	152,019	418	102,723	273,714
Segment liabilities	(3,580)	(7,186)	(368)	(5,194)	(16,328)

	Unaudited Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Reconciliations of segment profit or loss		
Total profit or loss of reportable segments	**105,920**	(331)
Other profit or loss	**(12,779)**	(11,051)
Consolidated profit/(loss) for the period	**93,141**	(11,382)

6. REVENUE

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Sales of goods				
— Provision of supply chain management services for mineral business	**2,797**	14,526	**50,527**	15,930
— Mining and metallurgical machineries production	**3,507**	1,816	**6,006**	2,943
	6,304	16,342	**56,533**	18,873

7. INCOME TAX EXPENSES

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Current tax — Overseas	**–**	88	**–**	88
Deferred tax — Hong Kong	**(2,375)**	53	**2,224**	479
— PRC	**40,585**	—	**40,585**	—
	38,210	141	**42,809**	567

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit arising in or derived from these jurisdictions for the relevant periods.

PRC Enterprise Income tax has been provided at a rate of 25% (2016: 25%).

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.

8. PROFIT/(LOSS) FOR THE PERIOD

The Group's profit/(loss) for the period is arrived at after charging/(crediting) the following:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Directors' remuneration	**929**	1,269	**1,856**	2,538
Cost of inventories sold of supply chain management services for mineral business	**2,723**	14,319	**49,782**	15,708
Cost of mining and metallurgical machineries production	**2,509**	1,102	**3,193**	2,215
Depreciation	**95**	373	**171**	762
Write off of fixed assets	**1,730**	—	**1,730**	411
Operating lease rentals in respect of land and buildings	**507**	228	**890**	632
Gain on disposal of financial assets at fair value through profit or loss (held for trading)	**(104)**	(113)	**(468)**	(113)
Fair value loss/(gain) on financial assets at fair value through profit or loss	**14,394**	2,196	**(9,624)**	(1,813)
Staff costs (including directors' emoluments)				
Basic salaries, bonuses, allowances, and benefits in kind	**8,781**	4,022	**13,878**	9,404
Retirement benefits scheme contributions	**107**	106	**230**	181

9. DIVIDENDS

No dividend has been paid or declared by the Company for the six months ended 30 June 2017 (Six months ended 30 June 2016: HK$Nil).

10. EARNINGS/(LOSS) PER SHARE

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Profit/(Loss) for the purpose of calculating basic earnings/(loss) per share	**51,012**	(5,402)	**63,315**	(10,870)
Number of shares *('000)*				
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	**561,165**	376,825	**546,585**	375,279

No diluted earnings/(loss) per share are presented as the Company did not have any dilutive potential ordinary sharing during the period ended 30 June 2017 and 2016.

11. FIXED ASSETS

During the six months ended 30 June 2017, the Group acquired fixed assets of approximately HK$15,664,000 (Six months ended 30 June 2016: HK$112,000).

12. INTANGIBLE ASSETS

	Mining rights HK$'000
Cost	
At 1 January 2016, 31 December 2016 and 1 January 2017	87,199
Acquisition of subsidiary *(Note 20)*	171,213
At 30 June 2017	258,412
Accumulated amortization and impairment losses	
At 1 January 2016, 31 December 2016 and 1 January 2017	87,199
Amortisation for the period	—
At 30 June 2017	87,199
Carrying amount	
At 30 June 2017	171,213
At 31 December 2016	—

At 30 June 2017, the Group's two mining rights are the rights obtained by the Group for production and exploitation of two 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.

During the period, the additional mining right is the right obtained by the Group for exploitation of a coal mine located in Turpan, Xinjiang Province, the PRC. On 8 February 2017, the Company's 70% indirect subsidiary completed acquisition of Xinjiang Turpan Xingliang Mining Limited which held a mining license of the coal mine with long flame coal. The term of the mining right of this coal mine is from March 2016 to March 2018, and can be renewed on application. The mining right is stated at cost less accumulated amortization over the estimated life of mine and impairment loss.

13. TRADE AND BILLS RECEIVABLES

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

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
0–30 days	**5,215**	2,931
31–60 days	**5,952**	724
61–90 days	**76**	1,111
Over 90 days	**21,158**	27,472
	32,401	32,238

The carrying amounts of the Group's trade and bills receivables are denominated in Renminbi and Hong Kong dollars.

14. TRADE PAYABLES

At 30 June 2017, the ageing analysis of trade payables based on the date of receipt of goods, is as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
0–30 days	**1,011**	256
31–60 days	**351**	138
91–180 days	**969**	1,201
Over 365 days	**633**	1,452
	2,964	3,047

The carrying amounts of the Group's trade payables are denominated in Renminbi.

15. SHARE CAPITAL

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each *(Note (ii))*	**500,000**	500,000
Issued and fully paid:		
376,840,570 (31 December 2016: 3,768,405,700) ordinary shares of HK$0.10 each *(Note (ii))*	**37,684**	37,684
Issue of shares under Rights Issue *(Note (i) & (ii))*	**18,842**	—
Issue of shares under Specific Mandate *(Note (iii))*	**1,131**	—
	57,657	37,684

Notes:

i On 16 January 2017, the Company allotted and issued 1,884,202,850 ordinary shares of HK$0.01 each in the capital of the Company by implementing the Rights Issue on the basis of one Rights Share for every two Shares at the subscription price of HK$0.048 per Rights Share. The Company raised approximately HK$85,425,000 (net of expenses).

ii On 16 February 2017, the Share Consolidation became effective for every ten (10) existing issued and unissued Shares of HK$0.01 each in the share capital of the Company being consolidated into one (1) Consolidated Share of HK$0.10 each.

iii On 2 June 2017, the board of directors of the Company has resolved to grant an award of 11,305,200 ordinary shares of HK$0.10 each in the share capital of the Company (the "Award Shares") to the selected employees of the Group under the 2016 Share Award Scheme, which are satisfied by way of issue and allotment of new Shares to the trustee appointed by the Company for the purpose of the trust in connection with the 2016 Share Award Scheme pursuant to the Specific Mandate.

16. CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities (31 December 2016: HK$Nil).

17. COMMITMENTS

(a) Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Capital contribution to a subsidiary	**25,000**	5,583

(b) **Lease commitments**

As at 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Within one year	**336**	436
In the second to fifth years inclusive	**403**	478
	739	914

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for an average term of 1 to 4 years and rentals are fixed over the lease terms and do not include contingent rentals.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Equity securities, at fair value		
— Listed in Hong Kong	**113,976**	102,723
Analysed as:		
Current assets	**113,976**	102,723

The carrying amounts of the above financial assets are classified as follows:

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Held for trading	**113,976**	102,723

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

The fair values of listed securities are based on current bid prices.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited As at 30 June 2017 HK$'000	Audited As at 31 December 2016 HK$'000
Unlisted equity securities, at cost		
— In the PRC	–	1,117
— In British Virgin Islands	10,700	1,200
— In United Kingdom	7,800	—
	18,500	2,317

Unlisted equity securities were classified as available-for-sale financial assets and were stated at cost as they do not have a quoted market price in active market and whose fair value cannot be reliably measured was at the end of each reporting period.

The unlisted equity securities in the PRC, British Virgin Islands and United Kingdom were denominated in RMB, HK$ and USD respectively.

20. ACQUISITION OF SUBSIDIARIES

On 10 October 2016, Shandong Kailai Energy Logistic Company Limited (an indirect 70% owned subsidiary of Kaisun Energy Group Limited) ("Kailai"), entered into two share transfer agreements with Mr. Zhou Xingliang and Ms. Yan Weihua to acquire 90% and 10% shares of Xinjiang Turpan Xingliang Mining Limited ("Xingliang") each owned respectively for total cash consideration of RMB10 million. The transaction was completed on 8 February 2017.

Xingliang is a Xinjiang mining company incorporated on 4 May 2011. It holds a mining license with coal output up to 900,000 tonne per year. Kailai (the Company's 70% subsidiary) obtained ownership of Xingliang on 8 February 2017 with government approval on the transfer of the valid mining license from the sellers.

The fair value of the identifiable assets and liabilities of Xingliang acquired as at its date of acquisition is as follow:

	Carrying amount HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Fixed assets	3,076	—	3,076
Intangible assets	6,122	165,091	171,213
Cash at banks	2,310	—	2,310
Other payables and accruals	(19,463)	—	(19,463)
			157,136
Excess of Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of a subsidiary			(143,198)
Exchange difference			(2,426)
			11,512
Satisfied by:			
Cash consideration paid			11,512
Net cash outflow arising on acquisition:			
Cash consideration paid			11,512
Cash and cash equivalents acquired			(2,310)
			9,202

As Xingliang is still in the pre-mining preparation phase, there is no contribution to the Group's revenue during the period. The Company has engaged Access Partner Professional Services Limited to prepare valuation and technical assessment for the Xingliang Coal Mine located in Xinjiang Province, PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Kaisun Energy Group Limited is an active participant in the Belt and Road initiative since early in the decade. For a deeper understanding of the Group's transformation from an energy and mining focused Belt and Road player to now having a much more diverse operations and investment portfolio please refer back to previous years' reports and pay extra attention to annual report 2016's chairman statement and management discussion and analysis. From there readers will have a better grasp of why the Group is now an expert in the Belt and Road space and why it was natural for the Group to go into this direction. While those details are important because it explains how long and how much effort it took the Group to lay the foundation and establish our connections to put the Group into a position to succeed, it is now more important to discuss the Group's actual business development and future direction given the Belt and Road initiative is currently at the implementation stage. Below is an article taken from Hong Kong Trade Development Council ("HKTDC") talking about the recent Belt and Road Forum in Beijing:

16 MAY 2017

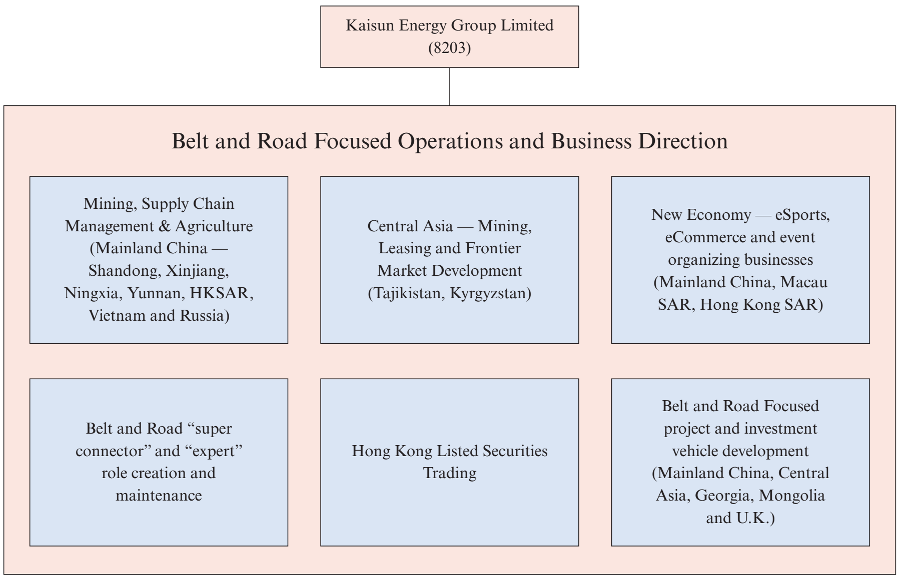
THE BELT AND ROAD FORUM FOR INTERNATIONAL CO-OPERATION: SUMMARY OF ACHIEVEMENTS TO DATE

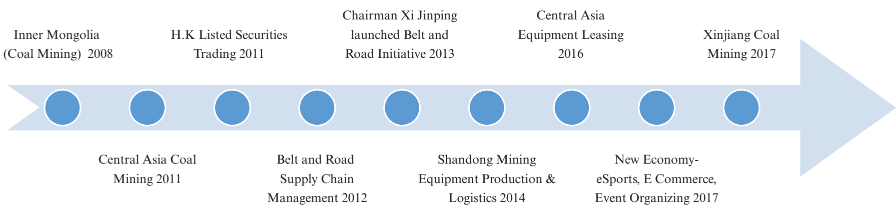
Chinese President Xi Jinping first proposed the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road in 2013. Since then, considerable progress has been made in advancing the Belt and Road Initiative (BRI), achieving fruitful results and gaining extensive global interest.

In the spirit of "wide consultation, joint construction and shared benefits", China hosted the first Belt and Road Forum for International Co-operation in Beijing on 14–15 May 2017. During and prior to the Forum, a host of achievements in the form of co-operation intent, key measures and practical solutions were reached among governments, localities and businesses concerned. After the conclusion of the Forum, China announced a list of 76 key BRI achievements (with more than 270 specific results) under the five categories of policy co-ordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds.

http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Forum-for-International-Co-operation-Summary-of-Achievements-to-Date/obor/en/1/1X3CGF6L/1X0AA3ED.htm

With that said, management of the Group hopes to use this interim report to turn our discussion from goal and aims to more concrete and measurable accomplishments. To start, below are two simple diagrams laying out the Group's core Belt and Road businesses and development timeline:





At first glance, the three items on the top row from the first diagram seem more intuitive in their contribution to the Group and these will be explained in further details in the later sections of this MD&A. Though less apparent in their functions and actual contributions, the three items on the bottom row are still valuable to the Group's whole Belt and Road business. A brief explanation on why these are also fundamental to our success are stated below:

A) Belt and Road "super connector" and "expert" role status is extremely important to the Group as it breeds potential business without requiring us to actively reach out to all potential business partners but instead, SOEs, reputable companies, and aspiring Belt and Road participants recognize and acknowledge our expertise, reputation, and Belt and Road network and will come to us for consultancy or with new business opportunities. This status was created through years of hands on experience working in Belt and Road countries and countless participation and organization of Belt and Road related business, academic, and social events. Over the years, we have made great connections with different countries' government officials, SOEs, reputable and influential private enterprises, international organization, embassies, consulates, diplomats as well as academics. All of the above is vital for the Group to maintain our Belt and Road status so please expect the Group to continue to be represented in the traditional media, conferences, various belt and road related activities and even social media. For more details, please refer to social responsibility and Belt and Road events participation last section in the MD&A.

B) Two major extensions that stems from the above are the potential projects and investment vehicles development with our Belt and Road partners. For example, we are working with strategic partners such as China Energy Engineering Group Northwest Power Construction Engineering Co. Ltd (a member of China Energy Engineering Group Corporation Limited — a fortune 500 company) and China National Technical Import & Export Corporation (a member of China General Technology (Group) Holding Ltd. — a fortune 500 company) in looking for business opportunities in the Belt and Road. Meanwhile, the Group is also looking to partnering up with Belt and Road countries' government in order to establish investment vehicles that not only matches the Belt and Road implementation, but also benefitting all parties that our Group brings into the mix and thus realizing our "super connector" role to the fullest.

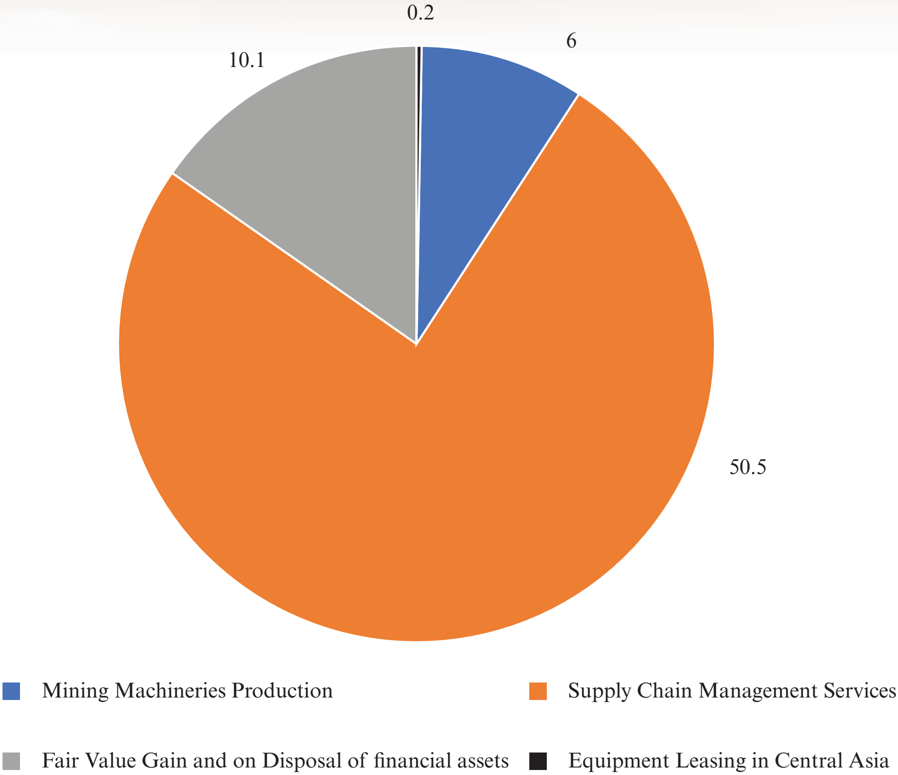
Hong Kong Listed Securities Trading

C) Most of our existing Belt and Road business divisions are progressing on schedule but new Belt and Road developments such as the ones mentioned in part B require some upfront capital backing (administrative and legal fees etc.). Therefore, the Group's Hong Kong listed securities trading income provides us with some of the cash needed in order to fund these activities. This core business of the Group is monitored by an investment committee with dedicated personnel to monitor the performance of the securities as well as to produce analytical reports and performance reports regularly. So far, the performance of this business division has been satisfactory and the Group hopes that the dividend income and capital gain captured can be used on the development of our new projects.

To conclude, all 6 major items in the diagram are vital to the Group's Belt and Road business, whether they directly affect the financials of the Group or help uphold the Group's status as the market's main Belt and Road participant. The cumulative outcome of this effort for the six months ended 30 June 2017 ("Period") is a profit of approximately HKD93 million. Below are some highlights of this Period and our Belt and Road business progress:

1) Operations and development on existing business, such as our mining related equipment production business, supply chain management business, and equipment leasing in Central Asia are progressing on schedule. New business units mentioned in annual report 2016 (such as eCommerce, eSports and event organizing) have been established. Under tighter cost control, improved internal control process and hard work by colleagues, new business units will contribute in the second half of 2017.

Revenue Distribution of the Group for the Period — million HKD



2) Following International Financial Reporting Standards 3 — Business Combinations, the Group has engaged professional valuation service to assess the fair value of our mining right in Xinjiang, PRC (Xingliang coal mine). After technical assessment, the fair value of the Group's Xingliang coal mine mining right is HKD171.2 million and this value is reflected in this Period's financials.

3) From the Group's new economy team, we are proud to announce our first eSports event to be held in Macau SAR from September 1 to 3, with the support from Tourism office as well as Trade and Investment Promotion Institute of the Macau SAR government, Studio City Macau, Red Bull, Zowie (a brand by BenQ) and Alibaba Cloud.

The Board and management of the Group would also like to thank all investors that remained loyal with us and have trust in us through the tough times and growing pains of Belt and Road development. Since the beginning, the Group understood the process would be long and full of obstacles, but after years of development many of the Group's business units, some of them are beginning to break even and some even start to make a small profit. Sustainable Belt and Road businesses are what the Group is looking for and we believe some of our business units have accomplished that. Therefore, our effort and investors' times and money were not wasted as we begin to start seeing actual results. We would like to see existing investors, returning investors and new investors alike to join us on this journey as we sail out of the stormy waters.

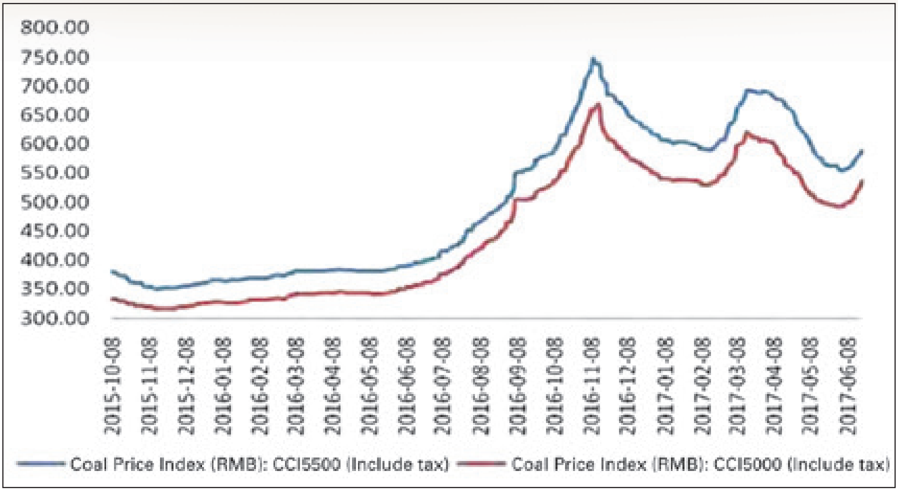
BELT AND ROAD OPERATIONS AND DEVELOPMENT

Mining, Supply Chain Management & Agriculture

Mining — Machineries Production, Exploitation, Logistics

Mining operations has been with the Group since 2008 and it has been the backbone of our Belt and Road development. Currently the Group has mining related exploitation, equipment manufacturing and logistic businesses in Eastern and Western mainland China as well as Central Asia. Mining was a critical factor in terms of opening the door for the Group in the development of our Belt and Road operations. Yet, over the years, the Group has experienced both positive and negative outcomes from our mining operations. Like many of our peers who were heavily invested in mining years back, we were also affected by the coal price slump. Many of our peers overleveraged and were not able to survive the harsh times. Fortunately, under the guidance of the Board the Group was able to control ourselves during the borrowing craze. Not only that, the Group was also able to implement stricter cost control and kept ourselves prepared for coal prices to rebound. From the following graph, we can see that coal prices have rebounded since June of 2016 and is now stabilizing at a level where it would be profitable for coal mining operators to start producing again.

Thermal coal price index



This is good news for the Group but since we have experienced and have survived the cyclical nature of the mining industry so we understand that we cannot let our guards down and will always be cautious moving forward under the guidance of the Board as well as the leadership of our seasoned management.

Shandong Mining and Metallurgical Machineries Production

Tengzhou Kaiyuan Industrial Co. Ltd ("Tengzhou Kaiyuan") is a joint venture that specializes in mining and metallurgical production, and has been with the Group since 2014. Currently, 80% of Tengzhou Kaiyuan is owned by the Group through two indirect subsidiaries, while the remaining 14% and 6% are owned by Shandong Bayi and local government owned enterprise respectively.

China's "Thirteen-five year plan for National Economic and Social Development" puts central and western region of Shandong province as an area of strategic importance to the Belt development as it is a vital hub that brings together resources development, infrastructures, value-added manufacturing as well as industrial upgrading. Also, according to China Coal organization, there will be a demand for renewing and upgrading of current coal mining related machineries in 2017 to 2019 driven by four major factors and they are i) demand from old machineries upgrades ii) renewal of existing machineries iii) increase in mechanization rate for existing coal mining operators & iv) overseas Belt and Road demand.

And as such, the Group's Tengzhou Kaiyuan will put an emphasis on developing our core business to match the coal industry development portion of the "Thirteen-five year plan". This effort has turned into a profit making second quarter and we foresee steady growth for the rest of the fiscal year.

Kaiyuan's is one of the top "Overhead Manned Cableway Device" manufacturer in China in terms of volume.

Tengzhou Kaiyuan highlights for the Period:

- There is a positive outlook for the mining and metallurgical machinery industry driven by the demand from renewing and upgrading of current coal mining related machineries and also from the Belt and Road initiative.

- Revenue of approximately HKD6.0 million, a 100% YoY growth (2016: HKD2.94 million).

- Plan to increase production line by investing in equipment and recruiting professionals in order to meet new orders and demand from potential customers. Resources will also be put in to business development in order to gain more potential customers.

Shandong Supply Chain Management Business

Shandong Kailai Energy Industrial Co., Limited ("Shandong Kailai") is a joint venture of the Group's subsidiary (70% shareholder) and Shandong Bayi Coal and Electricity Company Limited (30% shareholder) that specializes in minerals supply chain management business. One of Shandong Kailai's main business is a logistic center (recently completed phase 1 construction with total handling capacity of one million tons per annum) that provides loading and storage services using a special section of a railway line permitted by Jinan Railway Bureau back in February 2017. One of the major advantage of the logistic center is its location being very close to our high-volume users such as South Shandong High Technology Chemical Industry Zone as depicted in the map below:


Lunan Gao Technology Chemical Industrial...
Mushi Post Sub-bureau
木石邮电支局
903 Sheng Dao
Yonghe
永和饭店
South Shandong High Technology Chemical Industry Zone
14 min
9.8 km
Dabu Yiyang Fast Food
大不一样快餐店
Kangzhong Steamed Bread House
康众馒头房
Honglin Traditional Yesheng Fish
洪林正宗野生鱼馆
Guanqiaozhen, Tengzhou, Zaozhuang...
Logistic Centre
S83
S344
S345
S347
G3

Shandong Kailai highlights for the Period:

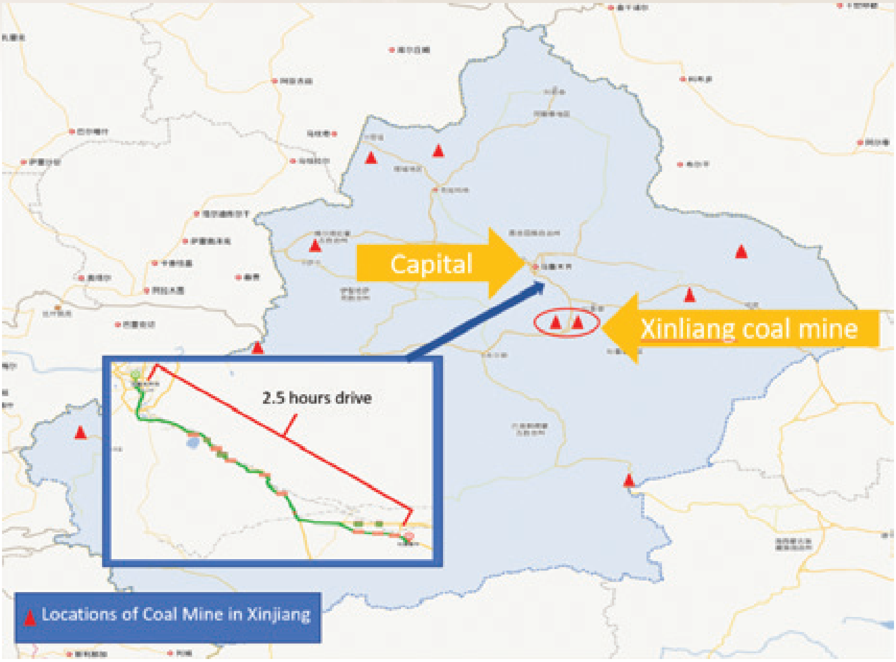
- As of June 2017, construction work under phase 1 is fully completed which includes an expansion of an existing platform to 5,600 square meters, and the construction of a new platform measuring at 6,800 square meters. Full handling capacity under phase 1 is one million tons per annum. Phase 2 of construction is expected to start after the Chinese Lunar New Year and when Phase 2 is completed, the logistic center will be able to handle 3 million tons of goods every year.

- Business performance wise, Shandong Kailai has actually began providing services since May 2017 and have entered into logistic contracts with many reputable customers such as SOE 淄博淄礦煤炭運銷有限公司、徐州瑞茂創恒能源科技有限公司、徐州榮昌能源科技有限公司 and so on. The accumulated goods handled by Shandong Kailai's logistic center since May 2017 was closed to 100,000 tons.

Xinjiang Coal Exploitation (Wholly-owned by Shandong Kailai, see above for Shandong Kailai information)

Another business under Shandong Kailai is Xinjiang Turpan Xingliang Mining Co., Limited ("Xingliang Mining")'s coal exploitation business in Turpan of Xinjiang.

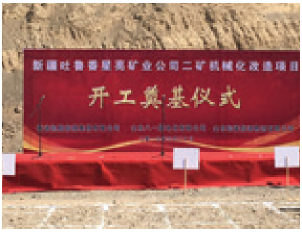
After completion of acquisition of Xingliang Mining on 8 February 2017, Xingliang Mining became a wholly owned subsidiary of Shangdong Kailai. Xingliang Mining is one of the more recent investments of the Group that is very important to our Belt and Road development for Xingliang Mining is Turpan Gaochang district's only coal mine in construction. From the map below, we can see that Xingliang mine is only 2.5 hours drive from Xinjiang's capital Urumqi.



This mine will be able to meet the demands from nearby power plants, cement plants, chemical industry and civilians. Due to the importance of this coal mine, local government has given it extra attention since the inception of this project. For details of this coal mine, please refer to the Company's announcement dated 11 April 2017.

Xingliang Mining highlights during the Period:

- The foundation laying ceremony of Xingliang coal mine on its mechanized transformation project



Mr. Joseph Chan, Chairman of KEG, delivered speech at the foundation laying ceremony of Xingliang mine.

Mr. Joseph Chan interviewed by Turpan (吐魯番) media.

- Following International Financial Reporting Standards 3 — Business Combinations, the group has engaged Access Partner Professional Services Limited ("Access Partner") to prepare valuation and technical assessment of the mining right of Xingliang Mining. Taking into consideration factors such as the coal energy industrial trends at present, coal prices, construction standard of Xingliang coal mine and its reserves, Access Partner has given fair value of intangible assets (mining right) at approximately HKD171 million. Details of the valuation of coal mine is stated in Note 20 of P.20–21 of this interim report.

Xingliang Mine in aerial view

Project construction 1

Project construction 2

Winch system installment

- The preliminary works, including mine construction, infrastructure construction, installment and maintenance of machineries and electricity circuit, as well as accommodation facilities, are all proceeding progressively.

Supply Chain Management Services

Supply chain management is now a staple in the Group's Belt and Road investment portfolio. Although the frequency of conducting business depends on the current commodities market, but management of the Group is always looking closely at the market and try to link up potential partners. In other words, the Group tries to leverage on our Belt and Road and energy and resources reputation and experience to act as the "super connector" in potential deals. This is the perfect timing as the Group now has a steadier client base in the supply chain management industry, we are able to command better terms than before which also means the potential business pool in which we can act as the "super connector" has increased along with it. One of our best recent success is our cooperation with Daiichi Kigenso Kagaku Kogyo Co., Ltd ("DKKK"), the world's top-ranking zirconium compound producer. This cooperation gives the Group much greater credibility and has solidify our role as a veteran in the supply chain management industry.

Supply Chain Management highlights during the Period:

- After signing with DKKK and Vietnam manufacturer the Memorandum of Understanding ("MOU") in 19 April 2017 in relation to the supply and procurement of zircon sand, zircon flour and other derivative goods, the group has strengthened its monitoring on the products quality, assisting manufacturer to upgrade equipment in order to meet client's requirements.

- Also, based on the first offtake agreement entered with DKKK, we are progressively making deliveries according to the terms on the contract.

- Given the reasons that quantity and quality of goods in the upcoming second offtake agreement will be substantially greater than the first offtake agreement and the new equipment needed to make such quality improvement is in testing stage, the second offtake agreement is expected to be entered by all parties within fiscal year 2017.

Introduce advanced magnetic separation equipment from Hu'an Changsha Design Institute

Engineer from London trained workers to use new equipment

New model of shaking bed imported from England

- Organized product sampling with DKKK staff together several times and every time the result of sampling is in compliance with delivery standard.

- Supply chain management contract with China Energy delivering coal from Russia to China.

Agriculture Investment & Development

The Group has been working with Cheung Lee Agriculture Limited ("Cheung Lee") on potential Belt and Road agriculture development for a few years. Cheung Lee is a major player and a long-time veteran in the production and supply of fresh vegetables in mainland China and in Hong Kong. They own 6 sizeable and modern farming bases along the Belt and Road namely 2 in Ningxia, 2 in Yunnan as well as 2 in Guangdong of the PRC with total farming base sized at approximately 10,000 acres. Cheung Lee is currently streamlining their farming process and upgrading the current technology to ensure safe farming practice. The Group has been assisting Cheung Lee in the Belt and Road development as well as helping Cheung Lee in their corporate governance, internal control, financial reporting while also bringing in other investors into the operation. The Group's effort has turned into an investment into Cheung Lee in which the Group has the option to obtain under 20% shareholding on Cheung Lee operations (current shareholding of the Group amounts to 2.7%) at a price below the market. The Group hopes that this partnership and Cheung Lee's agriculture expertise will bring the Group great success in the future.

Central Asia — Mining and Leasing

According to IMF Middle East and Central Asia Department, overall economic outlook for Central Asia is optimistic with economic growth to pick up in 2017 (from 2016) and accelerates into 2018 given external factors such as "firmer growth in Russia, an upgraded outlook for China, and a partial recovery in commodity prices". Below is a chart from the IMF article showing growth in Central Asia for 2017 and 2018:

https://www.imf.org/en/News/Articles/2017/05/03/NA050417-Six-Things-to-Know-About-the-Economic-Outlook-for-CCA

Latest growth projections

Growth is expected to pick up for the Caucasus and Central Asia region in 2017 and further accelerate in 2018.

(real GDP growth, percent change)

		Projections	
	2016	2017	2018
Caucasus and Central Asia	**2.4**	**3.1**	**4.1**
Oil and gas exporters	2.2	3.1	4.1
Azerbaijan	-3.8	-1.0	2.0
Kazakhstan	1.1	2.5	3.4
Turkmenistan	6.2	6.5	6.3
Uzbekistan	7.8	6.0	6.0
Oil and gas importers	3.3	3.6	3.9
Armenia	0.2	2.9	2.9
Georgia	2.7	3.5	4.0
Kyrgyz Republic	3.8	3.4	3.8
Tajikistan	6.9	4.5	5.0
Commonwealth of Independent States[1]	0.3	1.7	2.1
Russia	-0.2	1.4	1.4
China	6.7	6.6	6.2

Sources: National authorities; and IMF staff estimates and projections.

1-Armenia, Azerbaijan, Belarus, Kazakhstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia and Mongolia, which are not members of the Commonwealth of Independent States, are also included in this group for reasons of geography and similarities in economic structure.

INTERNATIONAL MONETARY FUND

The article also outlines six factors in regards to Central Asia economic outlook:

1 Growth is set up pick up in 2017 as external factors improve

2 Fiscal support and currency adjustment helped mitigate some of the impact of external shocks

- Increased in public expenditure supported domestic demand
- Exchange rate depreciations — partly compensated for the fiscal and external losses arising from the decline in commodity prices and the slowdown in remittances

3 But these actions have left the region more vulnerable — with higher deficits and debt

- Point 2 led to a wider fiscal deficit, and public debt increased in many countries
- Currency depreciation also played an important role as almost half of the increase in public debt since 2014 resulted from valuation changes as a large share of public debt is denominated in foreign currency

4 Fiscal consolidation is needed, and should include both spending and revenue measures

- Countries have taken steps to cut public investment and needs to strengthen the efficiency of public spending
- Countries should also identify new sources of revenues

5 Financial sector weaknesses call for a repair

- Economic slowdown, coupled with exchange rate depreciation, hit the heavily dollarized financial sectors hard

- Restructured and overdue loans increased as borrowing costs in foreign currency rose, credit contracted, and banks lost reserves set aside to protect themselves in difficult times

- To tackle these financial sector issues, it is critical to identify bad loans and capital needs, as well as provide — under strict conditions — support to troubled banks

6 Structural reforms are more important than ever to sustain higher growth

- Reforms to diversify away from oil and other commodities, and reduce the reliance on remittances and build resilience against external shocks but improving external conditions could imply such reforms will be delayed

Central Asia Mining and Explorations

The above six factors accurately summarize the economic factors the Group's faced in Central Asia over the years. Central Asia as a whole is heavily affected by nearby regions economic status which includes landlocked Russia and China. This is also true for the Group's operations and development in Central Asia. Our presence in Central Asia is still largely commodities and mining driven which includes exploitation of coal in Tajikistan and minerals exploration and development in Kyrgyzstan. One of the biggest factors that affects the Group is the very volatile exchange rates. Since many of these Central Asian countries are not equipped with the expertise for mining machineries production and capable mining technicians, most of the cost in relation to mining in Central Asia is largely denominated in US dollars. From the below chart, it shows the depreciation of Tajikistan Somoni against the US dollars. In 5 years TJS/USD has depreciated approximately 50% and it is very difficult for the Group to conduct exploration and exploitation in Central Asia when most of the revenue is in local currencies while costs are in US dollars. Therefore, this is why Central Asia mining and explorations has been put into the backseat for a while but what is for certain is that we are not departing from this business in the region. The Group will still keep mining in Tajikistan at a level where we keep our machineries in proper condition and ready for the future.

Tajikistan Somoni exchange rate against USD for the past 5 years

Central Asia Equipment and Machineries Leasing

With the above 6 factors in mind, one of Central Asia's needs are equipment and machineries leasing because banks are no longer able to provide a reasonable rate for leasing as they are going through a difficult period but the demand is still there. Therefore, the Group's subsidiary's joint venture and with the help from our local partner in Tajikistan, the Group is trying to fill this leasing void in the region. This business would have been only possible given our experience and connections in the region. So far, our results have been satisfactory and the Group would like to expand this business to the rest of Central Asia once our leasing business starts to develop scale and when management of the Group deems it to be the right timing.

Other Central Asia Development

Having been in Tajikistan and Central Asia for such a long time, the Group understands the needs of the locals as well as potential investors that has interest in entering the Central Asian countries. Echoing point number five from the six factors, the Group does believe a there is a desperate need for help in the financial sector in Central Asia as a healthy and capable financial sector will instill trust and confidence for locals as well as for potential foreign investors in the future. Also, even though a reform would be good for Central Asia but currently the countries are still very dependent on its their commodities. Therefore, another need right now is an exchange platform that can deal with commodity trading and currently the Group is working with our long-term partner Tojiksodirot Bank towards this effort. The Group is willing to act as the "super connector" role again in bringing exchange platform and trading system expertise to Tajikistan to establish and install a centralized trading system so it will not only be beneficial for long term Central Asia investors like us but also potential foreign investors that would like to take advantage of this Belt and Road implementation stage. This potential platform will require the effort from local Government as well as foreign technical experts to make it work and the Group believes we have the connections to make this happen.

To summarize, Central Asia is very important to the Group as well as the Belt and Road initiative but it does take time and careful planning in order to find the most suitable investment method moving forward. Central Asia is full of opportunities and also one of the highest growth region in the world and the Group is one of the few companies in Hong Kong that has the experience and expertise to make things happen.

New Economy Business — eSports, eCommerce and Event Organizing Company

The Belt and Road new economy business ("New Economy") is a new addition to the Group since early 2017. The purpose of New Economy business unit is to look for asset light investments that partners us with industry veterans in the hopes to developing a sustainable and profitable business. During the Period, the New Economy team has established an eCommerce business unit, an eSports unit as well as invested in an event organizing company (partnered up with an industry veteran and currently establishing company structure and key management, remuneration and making hires) and a Belt and Road asset management platform.

eSports — partnership, development and upcoming event in Macau

The industry of eSports is very unique in which most of the veterans in the industry are usually long-time video game players and video game tournament participants. An eSport tournament is different from a normal sporting event in which the technical requirement is quite unique while also maintaining a high production value like a concert or show. This is why the Group has partnered up with Grow uP eSports (http://growupesports.com/), a major eSports force in the industry with staff and competing teams in the Americas, Europe as well as Asia. The Group is working closely with Grow uP eSports management (as seen below) to produce one of the biggest eSports event in Macau from 31 August to 3 September of 2017 — Girl Gamer eSports Festival (https://www.girlgamerfestival.com/).

From left to right: Grow uP eSports Macau Chairman — Frederico Alexandre Dos Santos Rosário, Grow uP eSports Portugal Founder and CEO — Telmo Silva, and Grow uP eSports Macau President Fernando Pereira


GIRL GAMER
ESPORTS FESTIVAL
31/AUG - 03/SEP
STUDIO CITY MACAU
ESPORTS BUSINESS CONFERENCE
LEAGUE OF LEGENDS & CS:GO INVITATIONAL TOURNAMENT
CLASH ROYALE OPEN TOURNAMENT - SHOW UP AND PLAY
COSPLAY SHOWCASE AND MUCH MORE!
LEAGUE OF LEGENDS
CS GO
CLASH ROYALE
PRIZE POOL
30,000 USD
WWW.GIRLGAMERFESTIVAL.COM
GROW UP ESPORTS
PARTNERS:
VENUE SPONSOR:
SPONSORS:
STUDIO CITY
FORGER
ZOWIE
Red Bull
All registered trademarks belong to their respective owners.

This Maritime Silk Road eSports event is supported and sponsored by the following government units and international companies:

澳門貿易投資促進局
Instituto de Promoção do Comércio e do Investimento de Macau
Macao Trade and Investment Promotion Institute

澳門特別行政區政府旅遊局
DIRECÇÃO DOS SERVIÇOS DE TURISMO
MACAO GOVERNMENT TOURISM OFFICE

STUDIO CITY MACAU
新濠影滙

ZOWIE
a brand by BenQ

Red Bull
ENERGY DRINK

Alibaba Cloud

The Group is very excited to be a strategic partner and a fellow organizer on such an exciting event and we hope that this event will kick off a series of successful Belt and Road related eSports events. Kaisun Energy has already been showcased in a few eSports events and we would like to make our presence known in a wider scale in the near future.

eCommerce Business

One of the earliest business established from the New Economy unit. It is currently in operations, please see the below simple development timeline:

Currently our eCommerce business is mainly for fulfilling our Belt and Road business partners as well as connections and their needs to order customized products (mainly shoes, factory uniforms, sporting event related jerseys, etc.) from mainland China. Group wide eCommerce integration is still on the way because the Group would like to make sure safety and payment methods meets high standards.

Belt and Road Asset Management Company — Sturgeon Capital Ltd.

During the Period, the Group through New Economy has invested in Sturgeon Capital Ltd ("Sturgeon Capital"). (http://sturgeoncapital.com/), a London, UK based Belt and Road investment management company with over a decade of experience investing in Belt and Road countries such as Iran, Central Asia, Turkey, Russia and the Caucasus. Sturgeon Capital has been investing in the Belt and Road and is the leading investment manager in the Silk Road region. Sturgeon Capital has been a long time Belt and Road associate of the Group and we have been exchanging Belt and Road investment ideas for quite some time. They operate in Belt and Road countries where the Group is less familiar about and we have connections in the PRC that is vital to Belt and Road development. In the end, the Group's goal in partnership with Sturgeon Capital is to solidify both our positions as the Belt and Road leaders by leveraging on each other investments' know-how and connections. The Group would also like to leverage on their fundraising power as an alternative fundraising option and even future exit route for the Group's existing operations.

Belt and Road Business Development for the Rest of 2017

Business Unit	**Development**
Shandong Mining and Metallurgical Machineries Production	• Increase production line and put resources into business development
Shandong Supply Chain Management	• Using our newly completed (phase 1) logistic center, to carry out loading and storage services with our existing clients and potential new clients
Xinjiang Coal Exploitation	• Continue to develop the mine for the rest of 2017 and production can commence within 2018
Supply Chain Management Service	• Continue to make deliveries to DKKK based on the first offtake agreement

Business Unit	Development
	• Continue to improve on quality control and enter into second offtake agreement • Look for other supply chain management service opportunities with long term partners or other potential Belt and Road partners
Agriculture Investment & Development	• Continue to develop potential Belt and Road agricultural business with our partner Cheung Lee
Central Asia Mining and Explorations	• Minimal exploitation will be conducted to keep our machineries in good shape • Explorations will take a break until currencies in Central Asia stabilizes or management of the Group deems it is the right moment
Central Asia Equipment Leasing	• Will try to achieve greater scale of operations in Tajikistan and make preparations to branch out to other Central Asian countries
eSports	• Will focus on our September Macau event — girl gamer festival • After the event will continue eSports business development
eCommerce Business	• Will continue Group wide eCommerce integration • Will put resources into business development

Business Unit	Development
Belt and Road Asset Management Company	• Will continue to work with Sturgeon Capital to find opportunities in the Belt and Road as well as potential project fundraising opportunities

Potential fundraising activities — the Group has survived all these years of Belt and Road business development with basically zero leverage but mining development and/or other larger scale development is quite capital intensive. In addition to equity financing, the Group would also like to leverage on our Belt and Road partners such as Sturgeon Capital and other partners that would like to participate in Belt and Road projects. Leasing is another type of business that after achieving scale, it would be wise for the Group to find partners to continue this operation so it would not put too much stress on the Group's cash position. Therefore, the Group is looking at all options in terms of fundraising and project development.

Social Responsibilities and Belt and Road Events Participation

Luncheon Gathering (17 May & 23 May 2017)

In April 2017, the Group sponsored a Belt and Road friendly basketball tournament (please refer to first quarterly report of 2017 for further details) and the tournament was a huge success bringing together different consulates and associates in Hong Kong. Therefore, to keep the Belt and Road spirit going, the Group has invited members of the consulates and NGOs that has participated in the friendly basketball tournament for a gathering to share our memories as well as to discuss future cooperation to help Belt and Road talents that currently resides in Hong Kong.

Picture includes Consul General of Nepal and Vice Consul of Consulate General of the Russian Federation

Some new guests, which includes the Consul General of Vietnam to the Hong Kong SAR and the Macau SAR, and other leaders of various industries were also present to bring more insights as to how Hong Kong and other countries can take full advantage of this Belt and Road opportunity.

Belt and Road Initiative Round Table Discussion (16 June 2017)

Silk Road Economic Development Research Centre, The Hong Kong Energy and Mineral United Association, Chu Hai College of Higher Education and the Group are the organizers of a round table discussion on how Hong Kong could pull the Belt and the Road countries together in order to contribute in the Belt and Road initiative in Hong Kong. The participants were consulate staff and academics with support from industry leaders. It was purely an academic discussion with an aim to hear from the Belt and Road countries consulates how we could help from a Hong Kong perspective, allowing participants to learn first-hand about the latest developments of the Belt and Road initiative.

Mr. Joseph Chan sharing his views at the Belt and Road Initiative Round Table Discussion

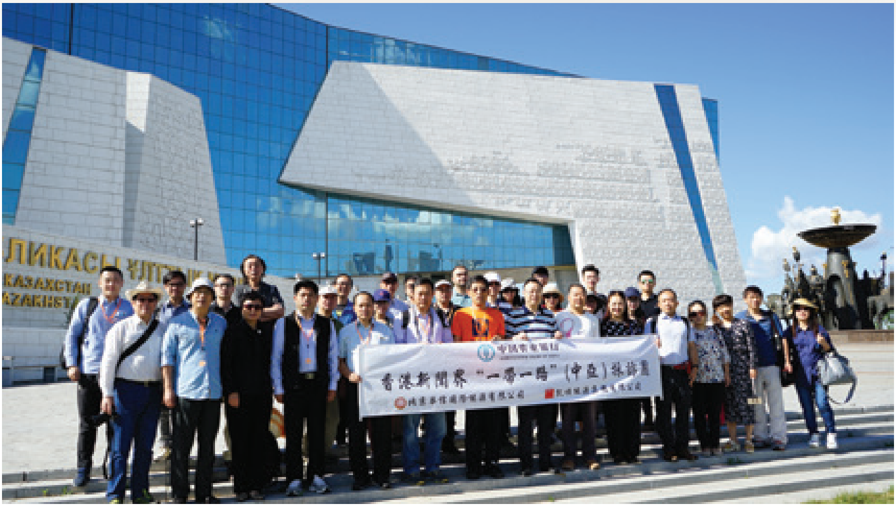
Central Asia Tour — Hong Kong Federation of Journalists

The delegation was organized by the Hong Kong Federation of Journalists, over ten mainstream media participated, such as: Ta Kung Pao, Wen Wei Po, Asia Weekly, Ming Pao, Hong Kong Commercial Daily, Sing Tao Daily, South China Morning Post etc.

During their stay in Kazakhstan, the delegation visited the China Pavilion at the Astana. They also visited the Group's office located in Tajikistan since 2011. The delegation truly enjoyed the culture and the warm reception from the local representatives.

To quote Mr. Jiang, the Chairman of the Hong Kong Federation of Journalists "Kaisun Energy Group is the pioneer of Hong Kong Investor; it plays the role as "Super Connector" in Belt & Road. The media should spread the experience of Kaisun to the public, to encourage all sectors in Hong Kong to put more effort into Belt & Road Initiative. Please also visit the following link (from Hong Kong Commercial Daily) for some of the Group's media coverage from this tour.

http://hk.hkcd.com/content/2017-07/13/content_3663519.htm



FINANCIAL REVIEW

Revenue of the Group for the period amounted to approximately HK$56.5 million, representing an increase of approximately 2 times compared to that of the same period of 2016 (2016: HK$18.9 million). Revenue arose from the provision of supply chain management services for mineral business and Shandong mining and metallurgical machineries production amounted to HK$50.5 million and HK$6.0 million respectively.

The Group's gross profit for the period increased approximately 2.7 times to approximately HK$3.6 million compared to the same period in 2016 (2016: HK$950,000). Gross profit arising from the provision of supply chain management services for mineral business was approximately HK$745,000 and from Shandong mining and metallurgical machineries production was approximately HK$2.8 million.

For the period, the gain on disposal of financial assets at fair value through profit or loss increased approximately 3.1 times to HK$468,000 compared to the same period in 2016 (2016: HK$113,000). The fair value gain on financial assets at fair value through profit or loss was HK$9.6 million, representing approximately 4.3 times compared to that of approximately HK$1.8 million for the period ended 30 June 2016.

As listed securities investment is one of the principal activities and normal course of business of the Group, the income from listed securities investment for the period was separately reflected as "Gain on disposal of financial assets at fair value through profit or loss" and "Fair value gain/loss on financial assets at fair value through profit or loss". Hence the columns of comparable figures of the unaudited condensed consolidated statement of profit or loss for the six months ended 30 June 2016 on P. 2 in the Interim Report were restated to reflect such changes.

For the period, the total administrative and other operating expenses from the Group's operations was approximately HK$26.1 million (2016: HK$18.0 million).

For the period, the loss from operations was approximately HK$(11.5) million (2016: HK$(10.8) million).

Upon completion of the acquisition of Xingliang Coal Mine in Xinjiang, PRC, the fair value of the mining right is approximately HK$171.2 million and the excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of a subsidiary was approximately HK$143.2 million.

Upon completion of the investment in Sturgeon Capital Limited ("Sturgeon Capital") in United Kingdom, which engages in belt and road asset management and fundraising activities, the Company has the right to obtain further 71,429 shares, approximately 20% enlarged shares of Sturgeon Capital at nil consideration if the assets management units ("AMU") of the Sturgeon Capital is below US$45 million on or before 4 November 2017. The fair value gain of derivate financial instrument (call option) valued by the independent valuer amounted to HK$4.3 million. The AMU of Sturgeon Capital as at investment date and the reporting date is US$70 million.

The Group recorded profit for the period of approximately HK$93.1 million (2016: HK$(11.4) million).

The total comprehensive income attributable to owners of the Company for the period amounted to approximately HK$67.2 million (2016: HK$(12.2) million).

As at 30 June 2017, the Group has cash balance of approximately HK$1.5 million held in a Hong Kong securities broker. The fair value of listed securities amounted to HK$114.0 million.

As at 30 June 2017, the Group held financial assets at fair value through profit or loss of approximately HK$114.0 million, wholly comprised of listed investment in securities listed in Hong Kong. The details of financial assets at fair value through profit or loss are set out as follow:

Company Name	Number of sharers held as at 30 June 2017	% of share-holding as at 30 June 2017	Unrealized gain/(loss) on fair value change for the period ended 30 June 2017	Fair value as at 30 June 2017	Fair value as at 31 December 2016	% of the Group's net assets as at 30 June 2017	Investment cost	Reasons for fair value loss
			HK$	HK$	HK$		HK$	
Cathay Pacific Airways Limited (0293) *(Note 1)*	10,000	0.00	—	121,200	—	0.03	121,200	—
Fosun International Limited (0656) *(Note 2)*	8,000	0.00	1,280	97,600	—	0.02	96,320	—
Hang Seng Bank Limited (0011) *(Note 3)*	1,000	0.00	3,200	163,300	—	0.03	160,100	—
Jai Meng Holdings Limited (8101) *(Note 4)*	110,000,000	3.80	(2,970,000)	10,890,000	13,860,000	2.27	7,775,000	Drop in Share price
LEAP Holdings Group Limited (1499) *(Note 5)*	12,680,000	0.24	(595,960)	2,700,840	3,666,000	0.56	1,773,407	Drop in Share price
MTR Corporation Limited (0066) *(Note 6)*	11,000	0.00	(6,975)	483,450	—	0.10	490,425	Drop in Share price
OP Financial Investments Limited (1140) *(Note 7)*	36,756,000	1.94	13,967,280	95,565,600	81,598,320	19.96	53,976,200	—
Sau San Tong Holdings Limited (8200) *(Note 8)*	42,000,000	0.77	(756,000)	3,318,000	1,274,000	0.69	5,600,000	Drop in Share price
Shanghai Industrial Urban Development Group Limited (0563) *(Note 9)*	130,000	0.00	(1,300)	228,800	—	0.05	230,100	Drop in Share price
Shimao Property Holdings Limited (0813) *(Note 10)*	20,000	0.00	(15,600)	267,200	—	0.06	282,800	Drop in Share price
Tencent Holdings Limited (0700) *(Note 11)*	500	0.00	(2,400)	139,600	—	0.03	142,000	Drop in Share price
Pantronics Holdings Limited (1611) *(Note 12)*	—	—	—	—	2,324,600	—	—	—
Total			**9,623,525**	**113,975,590**	**102,722,920**	**23.80**	**70,647,552**	

Notes:

1. Cathay Pacific Airways Limited (HKEx: 0293) — Cathay Pacific Airways Limited is principally engaged in operating scheduled airline services, airline catering, aircraft handling, aircraft engineering and cargo terminal operation.

2. Fosun International Limited (HKEx: 0656) — The core businesses of Fosun International Limited consist of (i) insurance; (ii)industrial operations; (iii) investment; and (iv) asset management.

3. Hang Seng Bank Limited (HKEx: 0011) — Hang Seng Bank Limited and its subsidiaries and associates are engaged in the provision of banking and related financial services.

4. Jia Meng Holdings Limited (HKEx: 8101) — The principal activity of Jia Meng Holdings Limited is investment holding. The principal activities of the Jia Meng Holdings Limited's subsidiaries are: (i) design, manufacture and sales of mattress and soft bed products; (ii) securities investment; (iii) property investment; and (iv) the provision of property management and property agency services.

5. Leap Holdings Group Limited (HKEx: 1499) — Leap Holdings Group Limited is principally engaged in the provision of (i) foundation works and ancillary services; and (ii) construction wastes handling at the public fill reception facilities managed by the Government in Hong Kong. Leap Holdings Group Limited undertook primarily construction projects in the private sector in Hong Kong and was generally engaged as a subcontractor or sub-subcontractor.

6. MTR Corporation Limited (HKEx: 0066) — MTR Corporation Limited is principally engaged in the following core businesses — railway design, construction, operation, maintenance and investment in Hong Kong, the Mainland of China and a number of major overseas cities; project management in relation to railway and property development businesses; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; and investment in Octopus Holdings Limited.

7. OP Financial Investments Limited (HKEx: 1140) — OP Financial Investments Limited ("OP Financial" or "OP Financial Investments Limited") is a Hong Kong listed Investment Company with the mandate allowing the Company to invest in various assets, financial instruments, and businesses globally. OP Financial produce medium to long term shareholder returns by developing customized investment solutions for and alongside institutional and corporate investors in the region. OP Financial's co-investors are mainly large financial institutions and organizations targeting either high growth opportunities within China or strategic investments

outside the region. OP Financial also invests in funds of listed and unlisted equities to generate diversified returns. Over time, these funds will serve as the foundation of a marketable proprietary financial services platform for attracting new investment partners.

8. Sau San Tong Holdings Limited (HKEx: 8200) — Sau San Tong Holdings Limited is principally engaged in the provision of beauty and slimming services from slimming centres, distribution sales of cosmetic and skin care products and sale of other health and beauty products. The slimming centres, which are operated under the "Sau San Tong" brand name, provide services such as whole and partial body slimming, weight management, body treatment services and facial treatment services to its customers.

9. Shanghai Industrial Urban Development Group Limited (HKEx: 0563) — The principal activities of Shanghai Industrial Urban Development Group Limited are property development and property investment and hotel operation in the People's Republic of China ("PRC").

10. Shimao Property Holdings Limited (HKEx: 0813) — Shimao Property Holdings Limited is principally engaged in property development, investment and hotel operation.

11. Tencent Holdings Limited (HKEx: 0700) — Tencent Holdings Limited is principally engaged in the provision of Value-added service and online advertising services to users in the PRC.

12. Pantronics Holdings Limited (HKEx: 1611) — Headquartered in Hong Kong, Pantronics Holdings Limited began it's business as an OEM manufacturer over 30 years ago and, between the years 2001 and 2004, Pantronics Holdings Limited have evolved to become a manufacturer in the EMS industry. Pantronics Holdings Limited manufactures power-related electrical and electronic products, including solenoid coils, battery charger solution and power supply, LED lighting and others such as PCBA and parts assembly.

As at 30 June 2017, the Group held available-for-sale financial assets of approximately HK$18.5 million, wholly comprised of unlisted equity securities in Hong Kong and United Kingdom. The details of available-for-sale financial assets are set out as follow:

Company Name	Number of sharers held as at 30 June 2017	% of share holding as at 30 June 2017	% of the Group's net assets as at 30 June 2017	Investment cost as at 30 June 2017	Investment cost as at 31 December 2016
				HK$	HK$
Cheung Lee Farming Corporation *(Note 1)*	270	2.7	0.56	2,700,000	1,200,000
Sturgeon Capital Limited *(Note 2)*	24,999	10.0	1.61	7,800,000	—
Xin Ying Holdings Limited *(Note 3)*	8,000,000	N/A	1.66	8,000,000	—
Xinjiang Turpan Xingliang Mining Limited *(Note 4)*	N/A	N/A	—	—	1,116,656
			3.83	18,500,000	2,316,656

Notes:

1. Cheung Lee Farming Corporation incorporated under the laws of the British Virgin Islands with limited liability. The principal activities of the company together with its subsidiaries are engaged in the business of production and distribution of pollution-free vegetables.

2. Sturgeon Capital Limited is an independent alternative investment manager specializing in frontier and emerging markets. Sturgeon Capital manages the Sturgeon Central Asia fund, a multi-strategy investment fund focused on Central Asia and the surrounding region. The Sturgeon Capital management team have been investing in the region since 2005 and is made up of industry professionals with diverse professional background of regional and industry specific experience.

3. The principal activity of Xin Ying Holdings Limited ("Xin Ying") is investment holding. Xin Ying's subsidiaries combine the development of financial globalization and internet information technology innovation mean to provide innovative and efficient financing, assessment, consulting management, interconnection, financial e-commerce and more professional financial services for domestic enterprises and individual customers in PRC. Xin Ying's subsidiaries hold two types of credit license — 融資性擔保機構經營許可證 and 深圳市小額貸款業務資格.

4. Xinjiang Turpan Xingliang Mining Limited ("Xingliang) is a Xinjiang mining company incorporated on 4 May 2011. It holds a mining license with coal output of 90,000 tonne per year. Kailai (the Company's 70% subsidiary) obtained ownership of Xingliang on 8 February 2017 with government approval on the transfer of the valid mining license from the sellers.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group has a bank and cash balance of approximately HK$51.2 million (as at 31 December 2016: HK$36.3 million).

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's long term debts over the Group's total asset, was Nil as at 30 June 2017 (as at 31 December 2016: Nil).

FOREIGN EXCHANGE EXPOSURE

Majority of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi ("RMB"), Sterling Pound, United States dollars and Tajikistan Somoni. As at 30 June 2017, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

PLACEMENT OF NEW SHARES AND USE OF PROCEEDS

(i) The Company did two fund raisings in year 2015. On 7 May 2015, the Company allotted and issued 523,400,000 ordinary shares of HK$0.01 each in the capital of the Company by way of placing at a placing price of HK$0.089 per share. The Company raised approximately HK$44,250,000 (net of expenses). On 17 June 2015, the Company allotted and issued 628,400,000 ordinary shares of HK$0.01 each in the capital of the Company by way of placing at a placing price of HK$0.14 per share. The Company raised approximately HK$83,520,000 (net of expenses). The total proceeds of the two placings were HK$127,770,000. The net proceeds have been and will be applied as per the manner set out in the announcements of the Company dated 27 April 2015 and 2 June 2015, that is general working capital of the Group in particular the business development in the Central Asia part of the Silk Road.

For the 26 months up to 30 June 2017, all proceeds (HK$127.8 million) had been used as intended, including approximately: (i) HK$32.8 million on capital expenditure of the Shandong project, (ii) HK$15.8 million on providing working capital for Central Asia's operation and (iii) HK$79.2 million for general working capital.

(ii) On 16 January 2017, the Company allotted and issued 1,884,202,850 Rights Shares under Rights Issue on the basis of one Rights Share for every two Shares at the subscription price of HK$0.048 per Rights Share. The Company raised approximately HK$85,425,000 (net of expenses). The net proceeds will be applied as per the manner set out in the announcement of the Company dated 1 December 2016.

For the 5 months up to 30 June 2017, approximately HK$34.2 million had been used as intended, including approximately: (i) HK$18 million used for business or investment opportunities in countries and regions covered by the "Belt & Road" initiatives of the PRC government; (ii) HK$16.2 million used for general working capital.

The Company intends to use the remaining proceeds, including (i) approximately HK$21.4 million for expansion of mining and metallurgical machineries production, and supply chain management services for mineral business, (ii) approximately HK$12.0 million for business or investment opportunities in countries and regions covered by the "Belt and Road" initiatives of the PRC government and (iii) approximately HK$17.8 million for the Group's general working capital, as intended.

HUMAN RESOURCES

As at 30 June 2017, the Group had 143 (as at 31 December 2016: 97) staff in Hong Kong, the PRC and Tajikistan. Compared to the same period last year, the increase in number of staff is mainly attributable to the completion of acquisition of Xingliang mine on 8 February 2017, after which the Group recruited engineers and technical staff for development of Xingliang mine.

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$14.1 million for the six months ended 30 June 2017 (Six months ended 30 June 2016: HK$9.6 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

The interest and short positions of the directors and chief executives in the Shares, after allotment of rights shares on 16 January 2017 and share consolidation of 10 shares into 1 share which became effective on 16 February 2017, were as follow:

Name of Directors	**Capacity**	**Number of shares as at 30 June 2017**	**Approximate percentage of the total issued shares**
Chan Nap Kee, Joseph	Beneficial owner	159,782,298 *(Note 1)*	27.71%
Yang Yongcheng	Beneficial owner	615,000 *(Note 2)*	0.11%
Liew Swee Yean	Beneficial owner	204,000 *(Note 3)*	0.04%
Siu Siu Ling, Robert	Beneficial owner	204,000 *(Note 3)*	0.04%
Wong Yun Kuen	Beneficial owner	525,000 *(Note 3)*	0.09%
Anderson Brian Ralph	Beneficial owner	150,000 *(Note 3)*	0.03%

Save as disclosed above, as at 30 June 2017, 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.

Notes:

1. After allotment of rights shares on 16 January 2017 and share consolidation of 10 shares into 1 share became effective on 16 February 2017, the total number of shares beneficially owned by Mr. Chan Nap Kee, Joseph ("Mr. Chan") was 159,132,298. Of these, 2,004,000 shares were shares awarded to Mr. Chan as Director on 30 December 2015 under the Share Award Scheme adopted since 10 May 2013. In addition, 650,000 shares were purchased by Mr. Chan Nap Kee, Joseph on the market from 29 March to 30 June 2017. Hence total number of shares owned by Mr. Chan was 159,782,298 as at 30 June 2017.

2. Of these, 400,000 shares were shares awarded to Mr. Yang Yongcheng as Director on 30 December 2015 under the Share Award Scheme 2013.

3. Of these, 150,000 shares were shares awarded to each of Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Mr. Anderson Brian Ralph as Director on 30 December 2015 under the Share Award Scheme 2013.

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

As at 30 June 2017, so far as is known to the Directors and chief executive of the Company, the persons (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long positions in Shares and underlying Shares

Name of Shareholders	Capacity and nature of interest	Number of shares	Approximate percentage of the total issued shares as of at 30 June 2017
Mr. Chan Nap Kee, Joseph	Beneficial Owner	159,782,298	27.71%
Ms. Yeung Po Yee, Bonita	Interest of spouse *(Note 1)*	159,782,298	27.71%

Note:

1. These were total number of Shares that Mr. Chan Nap Kee, Joseph ("Mr. Chan") beneficially owned. As the spouse of Mr. Chan, Ms. Yeung Po Yee, Bonita, was taken to be interested in the Shares in which Mr. Chan was interested by virtue of 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 2017, 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. SHARED-BASED COMPENSATION SCHEME

The Company operates two share award schemes, Share Award Schemes 2013 and Share Award Scheme 2016, for the purpose of assisting in recruiting, retaining and motivating key staff members. Eligible participants of the schemes include the Company's directors (including independent non-executive directors) and other employees of the Group.

I. Share Award Scheme 2013

The Company adopted the Share Award Scheme on 10 May 2013. For details of the Share Award Scheme 2013, please refer to the announcement of the Company dated 10 May 2013.

During the year 2016, based on the Company's instructions, the trustee of the Share Award Scheme 2013 purchased a total of 20,110,000 shares of the Company from the open market on the Stock Exchange ("Purchased Shares"). After share consolidation of every ten (10) Shares of the Company into one (1) Consolidated Share which became effective on 16 February 2017, the total no. of Purchased Shares in the Share Award Scheme 2013 became 2,011,000.

Following the expiry of the Share Award Scheme 2013 and the adoption of the Share Award Scheme 2016, by mutual agreement between the Company and the Trustee, the total no. of the Purchased Shares of 2,011,000 held by trust for Share Award Scheme 2013 was transferred to the trust for Share Award Scheme 2016. After this transfer of Purchased Shares, the Share Award Scheme 2013 was terminated.

II. Share Award Scheme 2016

The Company adopted the Share Award Scheme 2016 on 14 June 2016 ("Share Award Scheme 2016"). Subject to any early termination as may be determined by the Board by a resolution of the Board, Share Award Scheme 2016 shall be valid and effective for a term of 5 years commencing from the date of the Scheme. The Board shall not make any further award of Awarded Shares which will result in the total number of issued Shares awarded by the Board under Share Award Scheme 2016 exceeding 10% of the total number of issued Shares from time to time.

For details of the Share Award Scheme 2016 and proposed issue of new shares under specific mandate, please refer to the Company's announcement dated 14 June 2016 and circular dated 15 June 2016, and the Company's announcement dated 30 June 2016 on poll results of the Extraordinary General Meeting ("EGM") for approving the specific mandate.

Grant of Award shares pursuant to the Share Award Scheme 2016

— by issue of New Shares under Specific Mandate to Selected Employees

The specific mandate (the "Specific Mandate") was granted by the shareholders (the "Shareholders") of the Company pursuant to resolutions of the Shareholders in an extraordinary general meeting of the Company held on 30 June 2016 which has authorised the Board to exercise the powers of the Company to allot and issue up to 113,052,000 new Shares (which has been consolidated into 11,305,200 new Shares following the share consolidation of every ten (10) shares of HK$0.01 each in the issued and unissued share capital of the Company into one (1) consolidated share of HK$0.10 each in the issued and unissued share capital of the Company as approved by the Shareholders in the extraordinary general meeting of the Company held on 15 February 2017, which took effect from 16 February 2017) within one year after the date of approval of such resolution to the Trustee in relation to the 2016 Share Award Scheme for the purpose of satisfying future awards to be granted under the 2016 Share Award Scheme.

On 2 June 2017, the board (the "Board") of directors (the "Directors") of the Company has resolved to grant an award (the "Award") of 11,305,200 ordinary shares (the "Shares") of HK$0.10 each in the share capital of the Company (the "Award Shares") to 17 selected employees of the Group (the "Selected Employees") under the 2016 Share Award Scheme, which was satisfied by way of issue and allotment of new Shares to the trustee appointed by the Company for the purpose of the trust in connection with the 2016 Share Award Scheme (the "Trustee") pursuant to the Specific Mandate.

Please refer to the Company's announcement dated 2 June 2017 for details on grant of award shares pursuant to the Share Award Scheme 2016 to Selected Employees.

During the 6 months to 30 June 2017, based on the Company's instructions, the trustee of the Share Award Scheme 2016 purchased a total of 940,000 shares of the Company from the open market. Together with the Purchased Shares transferred from Share Award Scheme 2013, the total number of Purchased Shares as at 30 June 2017 in Share Award Scheme 2016 was 2,951,000. During the period, no Purchased Shares were awarded to any director or employee of the Company under the Share Award Scheme 2016.

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 established the audit committee ("AC") with written terms of reference that sets out the authorities and duties of the committee.

The AC 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 AC.

The primary duties of the AC are to review and supervise the financial reporting process, risk management and internal control system of the Group and provide an important link between the Board and the Company's auditors on 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.

The Group's financial statements for the six months ended 30 June 2017 have been reviewed by the AC, who is of the opinion that such statements comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

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".

6. REMUNERATION COMMITTEE

The Company established the Remuneration Committee ("RC") with written terms of reference that sets out the authorities and duties of the committee. The 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 Remuneration Committee.

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

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

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 (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 2017, 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 2016, pursuant to the terms of the rules and trust deed of the Share Award Scheme 2016, purchased on the Stock Exchange a total of 940,000 shares of the Company at a total consideration of about HK$365,800.

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 2017. 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 maintain good standard of corporate governance practices and procedures. Except for the deviations described below, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG code") contained in Appendix 15 to the GEM Listing Rules throughout the period ended 30 June 2017 under review.

The Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual. From 2 November 2010 to 26 October 2016, Mr. Chan Nap Kee, Joseph, chairman, took up the role of acting chief executive officer and he was redesignated to Chief Executive Officer with effect from 26 October 2016. As Mr. Chan is both Chairman and Chief Executive Officer, Code Provision A.2.1 has been deviated.

The 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.

11. REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS

The Board has conducted a review of the effectiveness of the Group's risk management and internal control systems for the six months ended 30 June 2017, covering material financial, operational and compliance controls, and considered that the Group's risk management and internal control systems are effective and adequate.

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

Hong Kong, 9 August 2017

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 two executive directors of the Company are Mr. CHAN Nap Kee Joseph 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.

This report will remain on the GEM website at http://www.hkgem.com on the "Latest Company Reports" page for 7 days from the day of its posting, and on the Company's website at http://www.kaisunenergy.com.