

Third Quarterly Report **2012**



KEG

KAISUN ENERGY GROUP LIMITED

凱順能源集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8203

* For identification purpose only

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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 nine months ended 30 September 2012, together with the unaudited comparative figures for the corresponding periods in 2011 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

	Note	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000 (Restated)	2012 HK\$'000	2011 HK\$'000 (Restated)
Continuing operations					
Turnover	4	341,024	3,922	601,094	4,067
Cost of goods sold		(313,612)	(4,614)	(567,054)	(9,463)
Gross profit/(loss)		27,412	(692)	34,040	(5,396)
Other income		2,018	581	18,145	1,015
Administrative and other operating expenses		(22,422)	(11,104)	(68,722)	(22,777)
Profit/(loss) from operations		7,008	(11,215)	(16,537)	(27,158)
Finance costs	5	(5,102)	(5,449)	(15,535)	(15,836)
Profit/(loss) before tax		1,906	(16,664)	(32,072)	(42,994)
Income tax expense	6	—	—	—	—
Profit/(loss) for the period from continuing operations		1,906	(16,664)	(32,072)	(42,994)
Discontinued operations					
Profit for the period from discontinued operations	7	—	3,039	—	7,197
Profit/(loss) for the period		1,906	(13,625)	(32,072)	(35,797)

	Note	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000 (Restated)	2012 HK\$'000	2011 HK\$'000 (Restated)
Attributable to:					
Owners of the Company					
Profit/(loss) from continuing operations		205	(16,885)	(32,453)	(42,744)
Profit from discontinued operations		—	2,127	—	5,038
Profit/(loss) attributable to owners of the Company		205	(14,758)	(32,453)	(37,706)
Non-controlling interests					
Profit/(loss) from continuing operations		1,701	221	381	(250)
Profit from discontinued operations		—	912	—	2,159
Profit attributable to non-controlling interests		1,701	1,133	381	1,909
		1,906	(13,625)	(32,072)	(35,797)
Earnings/(loss) per share (HK Cents)					
	9				
From continuing and discontinued operations					
— basic		0.01	(0.58)	(1.24)	(1.57)
— diluted		N/A	N/A	N/A	N/A
From continuing operations					
— basic		0.01	(0.66)	(1.24)	(1.77)
— diluted		N/A	N/A	N/A	N/A



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Profit/(loss) for the period	1,906	(13,625)	(32,072)	(35,797)
Other comprehensive income for the period, net of tax				
Exchange differences on translating foreign operations	3,672	28,182	3,296	98,254
Total comprehensive income for the period	5,578	14,557	(28,776)	62,457
Total comprehensive income attributable to:				
Owners of the Company	3,870	2,154	(29,034)	28,101
Non-controlling interests	1,708	12,403	258	34,356
	5,578	14,557	(28,776)	62,457

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

	Attributable to owners of the Company								
	Share capital	Share premium	Foreign currency translation reserve	Share-based payment reserve	Convertible bonds reserve	Retained profits/ (Accumulated losses)	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	21,144	983,180	54,079	28,809	103,802	539,401	1,730,415	756,351	2,486,766
Total comprehensive income for the period	—	—	65,807	—	—	(37,706)	28,101	34,356	62,457
Share-based payments	—	—	—	10,251	—	—	10,251	—	10,251
Share options forfeited	—	—	—	(3,467)	—	3,467	—	—	—
Arising on acquisition of subsidiaries	4,229	171,265	—	—	—	—	175,494	—	175,494
Changes in equity for the period	4,229	171,265	65,807	6,784	—	(34,239)	213,846	34,356	248,202
At 30 September 2011 (unaudited)	25,373	1,154,445	119,886	35,593	103,802	505,162	1,944,261	790,707	2,734,968
At 1 January 2012	26,120	1,175,425	(8,561)	29,494	103,802	(504,400)	821,880	35,333	857,213
Total comprehensive income for the period	—	—	3,419	—	—	(32,453)	(29,034)	258	(28,776)
Share options forfeited	—	—	—	(5,384)	—	5,384	—	—	—
Share-based payments	—	—	—	949	—	—	949	—	949
Issue of shares on exercise of share options	50	1,393	—	(368)	—	—	1,075	—	1,075
Redemption of Convertible bonds	—	—	—	—	(2,544)	—	(2,544)	—	(2,544)
Changes in equity for the period	50	1,393	3,419	(4,803)	(2,544)	(27,069)	(29,554)	258	(29,296)
At 30 September 2012 (unaudited)	26,170	1,176,818	(5,142)	24,691	101,258	(531,469)	792,326	35,591	827,917



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 21/F., Chun Wo Commercial Centre, 23–29 Wing Wo Street, Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

These condensed financial information should be read in conjunction with the 2011 annual financial statements. The accounting policies and methods of computation used in preparation of these condensed financial information are consistent with those used in the annual financial statements for the year ended 31 December 2011.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

During the nine months ended 30 September 2012, the Group has adopted all the new and revised IFRSs issued by IASB that are relevant to its operations and effective for its accounting periods beginning on 1 January 2012. IFRSs comprise IFRSs; 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 nine months ended 30 September 2012 and the same period in last year.

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

4. TURNOVER

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover				
Sales of coal	19,725	38,280	19,956	60,963
Provide supply chain management services for mineral business	321,299	—	581,138	—
	341,024	38,280	601,094	60,963
Representing:				
Continuing operations	341,024	3,922	601,094	4,067
Discontinued operations (Note 7)	—	34,358	—	56,896
	341,024	38,280	601,094	60,963

5. FINANCE COSTS

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Interest on bank loans and overdrafts	—	6,214	—	17,224
Amount capitalised	—	6,214	—	17,224
	—	—	—	—
Interest on convertible bonds	5,102	5,102	15,196	15,140
Interest on loan from a former owner of a subsidiary	—	347	339	696
	5,102	5,449	15,535	15,836
Representing:				
Continuing operations	5,102	5,449	15,535	15,836
Discontinued operations (Note 7)	—	—	—	—
	5,102	5,449	15,535	15,836



6. INCOME TAX EXPENSE

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Income tax expense				
Current tax — PRC enterprise income tax	—	(10)	—	(1,436)
Representing:				
Discontinued operations <i>(Note 7)</i>	—	(10)	—	(1,436)

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

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

7. DISCONTINUED OPERATIONS

Pursuant to an agreement dated 15 June 2011 ("Agreement") entered into between the Group and an independent third party (the "Purchaser"), the Group disposed of its entire 70% equity interest in 內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Limited) ("Mengxi Minerals"). The disposal was completed on 22 December 2011.

	Unaudited Three months ended 30 September 2011	Unaudited Nine months ended 30 September 2011
	HK\$'000	HK\$'000
Turnover	34,358	56,896
Cost of goods sold	(25,011)	(31,864)
Gross profit	9,347	25,032
Other income	194	198
Selling and distribution costs	(11)	(142)
Administrative and other operating expenses	(6,481)	(16,455)
Profit from operations	3,049	8,633
Finance costs	—	—
Profit before tax	3,049	8,633
Income tax expense	(10)	(1,436)
Profit for the period	3,039	7,197

8. DIVIDENDS

The Directors do not recommend the payment of dividend for the nine months ended 30 September 2012 (Nine months ended 30 September 2011: HK\$Nil).

9. EARNINGS/(LOSS) PER SHARE

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

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) for the period attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period are used in the



basic earnings/(loss) per share calculation, and the weighted average number ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Earnings/(loss)				
Continuing and discontinued operations				
Profit/(loss) for the purpose of calculating basic earnings/(loss) per share	205	(14,758)	(32,453)	(37,706)
Continuing operations				
Profit/(loss) for the purpose of calculating basic earnings/(loss) per share	205	(16,885)	(32,453)	(42,744)
Number of shares				
Issued ordinary shares at the beginning of the period	2,617,006	2,537,261	2,612,006	2,114,384
Acquisition of subsidiaries	—	—	—	294,310
Effect of exercise of options	—	—	4,051	—
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	2,617,006	2,537,261	2,616,057	2,408,694

No diluted earnings/(loss) per share are presented as the Company did not have any dilutive potential ordinary sharing during the period ended 30 September 2012 and 2011.

10. CONVERTIBLE BONDS

The maturity date of the convertible bonds ("Replacement Bonds") is 10 June 2013 ("Maturity Date"). The bondholders have the right to convert at any time from issue date up to Maturity Date into Shares at a fixed conversion price at HK\$0.70 per Share. The outstanding principal

amount of the Replacement Bonds together with the accrued interest (if not paid by cash on redemption at maturity or upon acceleration) shall be automatically converted to Shares upon Maturity Date unless such conversion will result a holder of the Replacement Bonds and parties acting in concert with it, taken together, will directly or indirectly control or be interested in 30% or more of the voting rights in respect of the issued shares of the Company (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or the public float of the shares of the Company will fall below the minimum public float requirements stipulated under the GEM Listing Rules. Interest of 3.75 per cent per annum (compounded annually) is payable (i) in conversion shares on conversion; or (ii) in cash at maturity.

During the period ended 30 September 2012, half of the outstanding Replacement Bonds was redeemed by the Company at the redemption amount equal to the principal amount of HK\$108,830,000 together with the accrued interest of HK\$13,050,000.

At 30 September 2012, the outstanding principal of the Replacement Bonds was amounting HK\$108,830,000 and there are maximum of approximately 174,132,000 new Shares that can be converted into new Shares.

11. SHARE CAPITAL

	Unaudited as at 30 September 2012 HK\$'000	Audited as at 31 December 2011 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid:		
2,617,005,700 (31 December 2011: 2,612,005,700) Ordinary shares of HK\$0.01 each	26,170	26,120

On 22 February 2012, 5,000,000 Shares were issued in relation to share options exercised under the share option scheme of the Company at HK\$0.215 for a total cash consideration of HK\$1,075,000. The excess of the subscription consideration received over the nominal values issued was credited to the share premium account.



12. SEGMENT INFORMATION

The Group has two reportable segments which are exploitation of coal in Tajikistan and provide supply chain management for mineral business for the period.

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

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 December 2011.

	Provide supply chain management services for mineral business	Exploitation of coal in Tajikistan	Total
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
For nine months ended 30 September 2012			
Revenue from external customers	581,138	19,956	601,094
Segment profit/(loss)	6,700	(28,763)	(22,063)
As at 30 September 2012			
Segment assets	515,608	262,882	778,490

	Discontinued operations		Total HK\$'000 (unaudited)
	Exploitation of Coal in the PRC	Exploitation of coal in Tajikistan	
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	
For nine months ended 30 September 2011			
Revenue from external customers	56,896	4,067	60,963
Segment profit/(loss)	7,197	(5,605)	1,592
As at 30 September 2011			
Segment assets	3,928,266	249,101	4,177,367

	Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Reconciliations of segment profit or loss		
Total profit or loss of reportable segments	(22,063)	1,592
Other profit or loss	(10,009)	(37,389)
Consolidated loss for the period	(32,072)	(35,797)



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group currently owns mining rights and interests in three mines in Tajikistan, including the Kaftar-Hona anthracite deposit, the Zeddi coal deposit and the Mienadu coal deposit. In addition, the Group engages in provision of supply chain management services business.

For the three months and nine months ended 30 September 2012, the Group generated its turnover of approximately HK\$341.0 million and HK\$601.1 million respectively and gross profit of approximately HK\$27.4 million and HK\$34.0 million respectively.

For the three months ended 30 September 2012, profit for the period was approximately HK\$1.9 million after adding finance cost of approximately HK\$5.1 million; while for the nine months ended 30 September 2012, loss for the period was approximately HK\$32.1 million after adding finance cost of approximately HK\$15.5 million. The loss is mostly from the increased expense to improve infrastructure of the mines in Tajikistan.

The finance cost for the three months ended 30 September 2012 is wholly attributable to interest on convertible bonds. Of the approximately HK\$15.5 million finance cost for the nine months ended 30 September 2012, approximately HK\$15.2 million is attributable to interest on convertible bonds. (Note 5 to financial statements)

In order to save interest cost for the Company, the Company planned to early redeem the convertible bonds. On 28 September 2012, the Company exercised its right to early redeem the Replacement Bonds held by the Bondholders in accordance with the terms and conditions of the Replacement Bonds, in the aggregate principal amount of HK\$108,830,000, representing half of the total outstanding principal amount of the Replacement Bonds (the "RB Redemption"), saving future interest cost for the Company. The Company will issue an announcement upon completion of redemption of all remaining outstanding Replacement Bonds.



The consideration of approximately HK\$121,880,067 for the RB Redemption was satisfied by cash generated from part of the sale proceeds from the Group's disposal of 70% of the equity interest in Inner Mongolia Mengxi Minerals Co., Ltd., as set out in the circular of the Company dated 6 October 2011.

OUTLOOK AND PROSPECTS

The Group plans to seek more opportunities to increase revenue from provision of supply chain management services for mineral business. In addition, the Group plans to establish a logistic team to promote coal trading in Xinjiang. The group also continues in seeking good quality exploration stage projects to acquire and develop while the coal market is still comparatively undervalued in order to create more future upside.

Considering the Company's relative small size in capital and assets, the Company's current strategy is to acquire late stage exploration coal mines, partnering with the larger companies/SOEs to reap rewards from developing these coal mines.

On 5 July 2012, the Vendor, the Company and the Purchaser, Up Energy Development Limited ("Up Energy"), entered into a non-binding MOU, which sets out the basic terms and conditions for the Proposed Disposal by the Company's entire 52% equity interest in Kamarob ("Proposed Disposal"), at the consideration of HK\$394,648,800 (half being cash and half being shares), and on further terms and conditions to be agreed.

The Company is currently under negotiation with the Purchaser on a Sale and Purchase Agreement on the proposed disposal. Announcement(s) will be published when appropriate.

Kamarob is the company that holds relevant licenses to conduct geological exploration and coal mining in Kaftar-Hona anthracite deposit in Tajikistan.

The Purchaser for the Proposed Disposal, Up Energy, is listed on the Main Board of the Stock Exchange (stock code 307). It is the largest non-state owned coking coal operator in Xinjiang. Up Energy currently owns three mines.



As Xinjiang and Tajikistan are in close proximity to each other, the Proposed Disposal with the deal structure of half cash and half shares issued by the Purchaser to the Company will utilize competences and resources of both Kaisun Energy and that of our purchaser. The consideration shares of Up Energy also provide an upside for Kaisun Energy resulting in a win-win situation and good prospects for both parties.

Details of the announcement can be found in the related announcement dated 5 July 2012 on "<http://www.kaisunenergy.com>" under "Announcements" section.

FINANCIAL REVIEW

Turnover of the Group from continuing operations for the three months and nine months ended 30 September 2012 was approximately HK\$341.0 million and HK\$601.1 million respectively (for three months and nine months ended 30 September 2011: continuing operations: HK\$3.9 million and HK\$4.1 million, discontinued operations: HK\$34.4 million and HK\$56.9 million).

Correspondingly, gross profit from the Group's continuing operations for the three months and nine months ended 30 September 2012 was approximately HK\$27.4 million and HK\$34.0 million respectively (for three months and nine months ended 30 September 2011: continuing operations: HK\$(0.7) million and HK\$(5.4) million, discontinued operations: HK\$9.3 million and HK\$25.0 million).

For the three months and nine months ended 30 September 2012, total finance cost from the Group's continuing operations amounted to approximately HK\$5.1 million and HK\$15.5 million respectively (for three months and nine months ended 30 September 2011: continuing operations: HK\$5.4 million and HK\$15.8 million), representing an accrued interest payable on the Convertible Bonds upon the Bondholders redemption of Convertible Bonds and loan interest charged by previous owners of a subsidiary.

The Group recorded the total comprehensive income attributable to owners of the Company of approximately HK\$3.9 million and HK\$(29.0) million respectively (for three months and nine months ended 30 September 2011: HK\$2.2 million and HK\$28.1 million) for the three months and nine months ended 30 September 2012.



LIQUIDITY AND FINANCIAL RESOURCE

As at 30 September 2012, the Group has a bank and cash balance of approximately HK\$261 million (as at 31 December 2011: HK\$295 million).

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total asset, was 0.18 as at 30 September 2012 (as at 31 December 2011: 0.28).

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi ("RMB"), Sterling Pound, United States dollars and Tajik Somoni. As at 30 September 2012, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

CAPITAL STRUCTURE

During the period, the Company received exercise notices from the grantees regarding the exercise of share options of conversion into 5,000,000 new shares.

OTHER INFORMATION

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

As at 30 September 2012, the interests and short positions of the directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were



required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the directors are as follows:

Long position in Shares and underlying Shares

Name of Directors	Capacity	Number of Shares	Number of Underlying Shares <i>(Note)</i>	Approximate percentage of the total issued Shares as at 30 September 2012
Chan Nap Kee, Joseph	Beneficial owner	22,390,000	45,429,350	2.59%
Yang Yongcheng	Beneficial owner	100,000	10,000,000	0.39%
Liew Swee Yean	Beneficial owner	540,000	2,537,260	0.12%
Siu Siu Ling, Robert	Beneficial owner	540,000	2,537,260	0.12%
Wong Yun Kuen	Beneficial owner	2,000,000	2,537,260	0.17%
Anderson Brian Ralph	Beneficial owner	—	2,537,260	0.10%

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

Save as disclosed above, as at 30 September 2012, none of the directors or chief executive of the Company had any interest or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Ordinance) which is required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or any interests required to be entered in the register maintained in accordance with Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors.

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

- (a) As at the 30 September 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and underlying Shares:

Long positions in Shares and underlying Shares

Name of Shareholders	Capacity and nature of interest	Number of shares	Number underlying Shares <i>(Note 3)</i>	Total Interest	Approximate percentage of the total issued Shares as of at 30 September 2012
<i>Substantial shareholders</i>					
Zhang Zhi Ping	Interest of controlled corporations	218,490,000	178,726,000	397,216,000 <i>(Note 1)</i>	15.18%
Zhang Gaobo	Interest of controlled corporations	218,490,000	178,726,000	397,216,000 <i>(Note 1)</i>	15.18%
Oriental Patron Financial Group Limited ("OPFGL")	Interest of controlled corporations	218,490,000	178,726,000	397,216,000 <i>(Note 1)</i>	15.18%
Ottness Investments Limited ("OIL")	Interest of controlled corporations	132,110,000	117,109,000	249,219,000 <i>(Note 1)</i>	9.52%
OP Financial Investments Limited ("OPFIL")	Interest of a controlled corporation	132,110,000	117,109,000	249,219,000 <i>(Note 1)</i>	9.52%
Profit Raider Investments Limited ("PRIL")	Beneficial Owner	132,110,000	117,109,000	249,219,000 <i>(Note 1)</i>	9.52%
Oriental Patron Financial Services Group Limited ("OPFSGL")	Interest of a controlled corporation	86,380,000	61,617,000	147,997,000 <i>(Note 1)</i>	5.66%
Pacific Top Holding Limited ("PTHL")	Beneficial Owner	86,380,000	61,617,000	147,997,000 <i>(Note 1)</i>	5.66%



Notes:

1. OPFGL holds 218,490,000 Shares and 178,726,000 underlying Shares. OPFGL is 51% owned by Zhang Zhi Ping and is 49% owned by Zhang Gaobo.

Of these 218,490,000 Shares and 178,726,000 underlying Shares of the Company, 86,380,000 Shares and 61,617,000 underlying Shares are held by PTHL. PTHL is wholly owned by OPFSG, OPFSG is 95% held by OPFGL. Zhang Zhi Ping, Zhang Gaobo, OPFGL and OPFSG are deemed to be interested in the interests held by PTHL under the SFO.

Of these 218,490,000 Shares and 178,726,000 underlying Shares, 132,110,000 Shares and 117,109,000 underlying Shares are held by PRIL. PRIL is wholly owned by OPFIL, OPFIL is 35.05% held by OIL. Zhang Zhi Ping, Zhang Gaobo, OPFGL, OIL and OPFIL are deemed to be interested in the interests held by PRIL under the SFO.

2. The long positions in underlying Shares mentioned above represent the interests held by such Bondholders as at the 30 September 2012 in the convertible bonds in the principal amount of HK\$108,830,000 convertible into 178,726,000 new Shares issued by the Company on and subject to the terms of the Variation Agreement.

Save as disclosed above, the Directors were not aware of any other person (other than the directors and the chief executives of the Company) who, as at 30 September 2012, had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 & 3 of Part XV of the SFO.

3. SHARE OPTIONS

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

As at 30 September 2012, a total of 15,226,036 Shares, representing 0.58% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Details of the Options granted under the Scheme during the period ended 30 September 2012 are as follows:

	Date of Grant	Exercise Period	No. of Options				Outstanding as at 30/9/2012
			Outstanding as at 31/12/2011	Grant during the Period	Exercise during the Period	Lapsed during the Period	
<i>(Note 2)</i>							
Directors							
Chan Nap Kee, Joseph	8/1/2009	8/1/2009-7/1/2012	4,925,000	—	—	(4,925,000)	—
	9/2/2010	9/2/2010-8/2/2013	20,056,750	—	—	—	20,056,750
	12/8/2011	12/8/2011-9/12/2013	25,372,600	—	—	—	25,372,600
Chow Pok Yu, Augustine	8/1/2009	8/1/2009-7/1/2012	4,925,000	—	—	(4,925,000)	—
Yang Yongcheng	11/8/2009	11/8/2009-10/8/2012	4,925,000	—	—	(4,925,000)	—
	12/8/2011	12/8/2011-9/12/2013	10,000,000	—	—	—	10,000,000
Li Hong	18/11/2009	18/11/2009-17/11/2012	3,000,000	—	—	(3,000,000)	—
Liew Swee Yean	12/8/2011	12/8/2011-9/12/2013	2,537,260	—	—	—	2,537,260
Siu Siu Ling, Robert	12/8/2011	12/8/2011-9/12/2013	2,537,260	—	—	—	2,537,260
Wong Yun Kuen	12/8/2011	12/8/2011-9/12/2013	2,537,260	—	—	—	2,537,260
Anderson Brian Ralph	11/8/2009	11/8/2009-10/8/2012	1,200,000	—	—	(1,200,000)	—
	12/8/2011	12/8/2011-9/12/2013	2,537,260	—	—	—	2,537,260
		Sub-total	84,553,390	—	—	(18,975,000)	65,578,390
Employees in aggregate							
	11/8/2009	11/8/2009-10/8/2012	200,000	—	—	(200,000)	—
	12/8/2011	12/8/2011-9/12/2013	10,000,000	—	—	—	10,000,000
	10/4/2012	10/4/2012-9/12/2013	—	15,000,000	—	—	15,000,000
Other participants							
	18/10/2010	18/10/2010-17/10/2013	42,287,674	—	—	—	42,287,674
in aggregate	12/8/2011	12/8/2011-9/12/2013	5,000,000	—	(5,000,000)	—	—
			142,041,064	15,000,000	(5,000,000)	(19,175,000)	132,866,064

Note:

- (1) These Options represent personal interest held by the relevant directors as beneficial owners.
- (2) 19,175,000 Options lapsed during the period under review.



4. DIRECTORS' INTEREST IN COMPETING BUSINESS

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

5. AUDIT COMMITTEE

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

The written terms of reference which describe the authority and duties of the audit committee is available on the Company's website under the "Investor Relations" section with "Corporate Governance" heading.

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

The unaudited quarterly results for the nine months ended 30 September 2012 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

6. REMUNERATION COMMITTEE

The Company has established a Remuneration Committee ("RC") with written terms of reference which deals clearly with its authorities and duties. The RC comprises three members, namely Dr. Wong Yun Kuen (chairman of RC), Mr. Anderson Brian Ralph and Mr. Chan Nap Kee, Joseph.



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

7. NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

On 30 March 2012, the Company has 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 SHARES

The Company has not redeemed any of its shares during the nine months ended 30 September 2012. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the nine months ended 30 September 2012.

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 nine months ended 30 September 2012. 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 Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 September 2012.

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

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

As the Company is developing its business in resources sector and has recently acquired coal mining assets outside China, the Remuneration Committee is searching for the right person to take up the role of Chief Executive Officer to handle its latest development. In the meantime, Mr. Chan Nap Kee Joseph, our Chairman, took up the role of Acting Chief Executive Officer until the suitable person who will handle our latest development is selected. The Company will publish announcement on appointment of Chief Executive Officer when appropriate.

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

Hong Kong, 7 November 2012

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

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