

Rationale behind the Very Substantial Disposal

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

The Inner Mongolian Government Proposal

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

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

How the Proposal Affects Kaisun Energy

- i) Reiterating point ii) above, Kaisun Energy’s coal mine is located in Ordos, an area within Inner Mongolia which is conventionally regarded as an area with good quality coal. This suggests the minimum production capacity requirement is most likely to be substantially above 1.2 million tonnes (Kaisun Energy’s current mining license is 1.2 million tonnes per annum)
- ii) In order to meet the minimum production requirement imposed by the above proposal, only 2 options are available to Kaisun Energy:
 - a) acquisition of other coal mines so that Kaisun Energy can continue operating coal business in Inner Mongolia
 - b) being acquired by other coal operators

How Kaisun Energy Reacts

The Directors of Kaisun Energy considers disposing Kaisun Energy's equity interest in Mengxi Minerals to be necessary for the Company for the following reasons:

- i) PRC legal advisors responses were mixed and inconclusive regarding how the restructuring policy will impact Kaisun Energy
- ii) Due to the current unfavorable sentiment in the capital market, raising capital needed to acquire other coal mines would be difficult, hence option a) above, acquisition of other coal mines, is unlikely to be a feasible option

How Other Inner Mongolian Coal Operators Reacts

Recent news articles reflect coal mine consolidations in Inner Mongolia have been in progress prior to the announcement of the government proposal and restructuring and consolidating will remain active in the foreseeable future:

- i) Yitai Group (伊泰集团), Huineng Group (汇能集团), Jun Zheng Group (内蒙古君正能源) have begun acquiring other coal mines in the area since last year¹
- ii) Other coal companies in the Inner Mongolian region are also in the process of filtering and matching up with suitable merger and acquisition partners with aims of elevating their annual production capacity to a level higher than the minimum 1.2 million tonnes. This is because meeting the minimum annual production capacity requirement is expected to be insufficient especially in coal rich areas such as Ordos in Inner Mongolia²

To Sum Up

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

To get a full understanding of the Very Substantial Disposal including the parties, consideration and reasoning involved, please read the Company's announcement dated 18 July 2011 "Very Substantial Disposal: Sale of Equity Interest in Mengxi Minerals"

¹ 华夏时报 (25 June 2011): "内蒙古煤炭整合不学"山西" 国企民企大对峙"
http://qd.focus.cn/news/2011-06-25/1356706_2.html

² 第一财经日报 (20 July 2011): "内蒙古煤改准入现"多重标准" 民企入局将遇更高门槛"
<http://www.yicai.com/news/2011/07/947060.html>