

2010 Interim Report



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.

HIGHLIGHTS

- Turnover of the Group for the three months and six months ended 30 September 2010 from continuing and discontinued operations amounted to approximately HK\$16.6 million and HK\$21.4 million respectively (2009: HK\$11.9 million and HK\$23.3 million). Compared to corresponding periods last year, such increase of approximately 39.5% in the three months period and decrease of approximately 8.2% in the six months period is attributable to the change in principal business operation of the Group. Turnover of the Group for the six months period this year mainly resulted solely from turnover from the coal operation, while turnover for the same period last year mainly resulted from the business operation of providing beauty and repairs services to motor vehicles. Upon completion of disposal of the business operation of providing beauty and repairs services to motor vehicles by the Group on 30 June 2010, coal operation became the only business operation generating turnover for the Group for the six months ended 30 September 2010.
- The Group recorded total comprehensive income for the three months and six months ended 30 September 2010 amounted to approximately HK\$8.0 million and HK\$14.3 million respectively (2009: HK\$(222.3) million and HK\$(234.6) million). During the three months and six months ended 30 September 2010, the Group recorded other comprehensive income of approximately HK\$14.2 million and HK\$29.9 million respectively from the exchange differences of translating foreign operations, which offset the loss for the three months and six months ended 30 September 2010 of approximately HK\$(6.2) million and HK\$(15.5) million respectively (2009: HK\$(222.4) million and HK\$(234.6) million).
- Total comprehensive income attributable to owners of the Company for the three months and six months ended 30 September 2010 amounted to approximately HK\$2.3 million and HK\$4.0 million respectively (2009: HK\$(222.5) million and HK\$(235.0) million).
- Loss per share of the Group for the three months and six months ended 30 September 2010 from continuing and discontinued operations amounted to approximately HK cents 0.36 and HK cents 0.81 respectively (2009: HK cents 16.27 and HK cents 21.95).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2010

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 September 2010, together with the unaudited comparative figures for the corresponding periods in 2009 as follows:

	Note	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
		2010 HK\$'000	2009 HK\$'000 (Restated)	2010 HK\$'000	2009 HK\$'000 (Restated)
Continuing operations					
Turnover	4	16,590	—	21,386	—
Cost of goods sold		(7,418)	—	(10,989)	—
Gross profit		9,172	—	10,397	—
Other income		419	75	489	85
Selling and distribution costs		(2)	—	(12)	—
Administrative and other operating expenses		(7,764)	(8,428)	(12,151)	(11,156)
Profit/(loss) from operations		1,825	(8,353)	(1,277)	(11,071)
Finance costs		(7,731)	(212,884)	(11,142)	(221,626)
Loss on disposal of available-for-sale financial assets		(61)	—	(2,852)	—
Share of loss of an associate		—	(1,579)	—	(2,767)
Loss before tax		(5,967)	(222,816)	(15,271)	(235,464)
Income tax	5	(257)	—	(248)	—
Loss for the period from continuing operations		(6,224)	(222,816)	(15,519)	(235,464)
Discontinued operations					
Profit for the period from discontinued operations		—	450	—	845
Loss for the period	6	(6,224)	(222,366)	(15,519)	(234,619)

	Note	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
		2010 HK\$'000	2009 HK\$'000 (Restated)	2010 HK\$'000	2009 HK\$'000 (Restated)
Loss attributable to:					
Owners of the Company		(7,673)	(222,555)	(16,945)	(235,026)
Non-controlling interests		1,449	189	1,426	407
		(6,224)	(222,366)	(15,519)	(234,619)
Dividend	7	—	—	—	—
Earnings/(loss) per share (HK cents)	8				
From continuing and discontinued operations					
— basic		(0.36)	(16.27)	(0.81)	(21.95)
— diluted		0.002	(10.32)	(0.24)	(12.23)
From continuing operations					
— basic		(0.36)	(16.28)	(0.81)	(21.99)
— diluted		0.002	(10.33)	(0.24)	(12.26)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	Unaudited		Unaudited	
	Three months ended 30 September		Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000 (Restated)	2010 HK\$'000	2009 HK\$'000 (Restated)
Loss for the period	(6,224)	(222,366)	(15,519)	(234,619)
Other comprehensive income for the period, net of tax				
Exchange differences on translating foreign operations	14,179	18	29,851	55
Total comprehensive income for the period	7,955	(222,348)	14,332	(234,564)
Total comprehensive income attributable to:				
Owners of the Company	2,256	(222,537)	3,958	(234,971)
Non-controlling interests	5,699	189	10,374	407
	7,955	(222,348)	14,332	(234,564)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2010

	Note	Unaudited as at 30 September 2010 HK\$'000	Audited as at 31 March 2010 HK\$'000
Non-current assets			
Fixed assets		48,898	33,200
Intangible assets	9	3,144,720	3,106,728
Deposits paid for construction in progress		157,427	155,524
Available-for-sale financial assets		—	3,591
		3,351,045	3,299,043
Current assets			
Inventories		3,171	89
Trade receivables	10	15,612	5,793
Deposits, prepayments and other receivables		91,766	19,634
Bank and cash balances		339,397	439,739
		449,946	465,255
Current liabilities			
Other payables, accruals and receipts in advance		43,762	47,699
Current tax liabilities		583	387
		44,345	48,086
Net current assets		405,601	417,169
Total assets less current liabilities		3,756,646	3,716,212

		Unaudited	Audited
	<i>Note</i>	as at 30 September 2010 HK\$'000	as at 31 March 2010 HK\$'000
Non-current liabilities			
Deferred tax liabilities		782,883	773,425
Convertible bonds	11	181,109	228,173
Bank loans		345,411	341,238
		1,309,403	1,342,836
NET ASSETS		2,447,243	2,373,376
Capital and reserves			
Share capital	12	21,144	20,057
Reserves		1,684,750	1,622,344
Equity attributable to owners of the Company		1,705,894	1,642,401
Non-controlling interests		741,349	730,975
TOTAL EQUITY		2,447,243	2,373,376

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 September 2010

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Foreign currency translation reserve	Share-based payment reserve	Convertible bonds reserve	Retained profits/ losses (accumulated)	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2009	7,700	142,936	(273)	12,981	—	116,145	279,489	39,707	319,196	
Total comprehensive income for the period	—	—	55	—	—	(235,026)	(234,971)	407	(234,564)	
Share-based payments	—	—	—	4,595	—	—	4,595	—	4,595	
Share options forfeited	—	—	—	(16)	—	16	—	—	—	
Issue of shares for convertible bonds converted	7,700	403,305	—	—	—	—	411,005	—	411,005	
Recognition of equity component of replacement convertible bonds issued	—	—	—	—	203,821	—	203,821	—	203,821	
Placing of shares	2,400	165,600	—	—	—	—	168,000	—	168,000	
Issue expenses for placing of shares	—	(12,310)	—	—	—	—	(12,310)	—	(12,310)	
Issue of shares on exercise of share options	194	14,544	—	(4,257)	—	—	10,481	—	10,481	
Issue of shares for replacement convertible bonds converted	104	8,697	—	—	(3,451)	—	5,350	—	5,350	
Changes in equity for the period	10,398	579,836	55	322	200,370	(235,010)	555,971	407	556,378	
At 30 September 2009 (restated)	18,098	722,772	(218)	13,303	200,370	(118,865)	835,460	40,114	875,574	
At 1 April 2010	20,057	889,427	3,265	22,244	138,553	568,855	1,642,401	730,975	2,373,376	
Total comprehensive income for the period	—	—	20,903	—	—	(16,945)	3,958	10,374	14,332	
Issue of shares for replacement convertible bonds converted	1,069	91,877	—	—	(34,751)	—	58,195	—	58,195	
Issue of shares on exercise of share options	18	1,877	—	(555)	—	—	1,340	—	1,340	
Changes in equity for the period	1,087	93,754	20,903	(555)	(34,751)	(16,945)	63,493	10,374	73,867	
At 30 September 2010	21,144	983,181	24,168	21,689	103,802	551,910	1,705,894	741,349	2,447,243	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 September 2010***Unaudited
Six months ended
30 September**

	2010 HK\$'000	2009 HK\$'000
Net cash (used in)/generated from operating activities	(90,299)	3,603
Net cash used in investing activities	(14,959)	(141)
Net cash generated from financing activities	1,328	154,947
Net (decrease)/increase in cash and cash equivalents	(103,930)	158,409
Effect of foreign exchange rate change	3,588	55
Cash and cash equivalents at 1 April	(100,342) 439,739	158,464 37,647
Cash and cash equivalents at 30 September	339,397	196,111

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

During the six months ended 30 September 2010, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting periods beginning on 1 April 2010. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the six months ended 30 September 2010 and the same period in last year.

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

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimate. It also requires the directors to exercise its judgements in the process of applying the accounting policies.

The accounting policies and basis of the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2010.

4. TURNOVER

	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover				
Sales of goods	16,590	11,394	21,386	22,398
Services rendered	—	550	—	886
	16,590	11,944	21,386	23,284
Representing:				
Continuing operations	16,590	—	21,386	—
Discontinued operations	—	11,944	—	23,284
	16,590	11,944	21,386	23,284

5. INCOME TAX

	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Income tax credit				
Current tax — PRC enterprise income tax	(257)	—	(248)	—
Representing:				
Continuing operations	(257)	—	(248)	—
Discontinued operations	—	—	—	—
	(257)	—	(248)	—

No provision for profits tax in the British Virgin Islands, Cayman Islands 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%.

6. LOSS FOR THE PERIOD

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

	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000 (Restated)	2010 HK\$'000	2009 HK\$'000 (Restated)
Auditors' remuneration	—	18	—	50
Cost of goods sold and service rendered	7,418	2,779	10,989	5,213
Depreciation	122	107	243	232
Bond interest	7,731	5,850	11,142	14,583
Fair value loss on derivative liability of convertible bonds	—	137,352	—	137,352
Operating lease rentals in respect of land and buildings	69	3,266	138	6,609
Staff costs (including directors' emoluments)				
Basic salaries, bonuses, allowances and benefits in kind	2,368	5,779	4,889	11,488
Retirement benefits scheme contributions	29	194	60	391
Equity-settled share-based payment	—	4,595	—	4,595

7. DIVIDEND

The Directors do not recommend the payment of dividend for the six months ended 30 September 2010 (Six months ended 30 September 2009: HK\$Nil).

8. 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 September		Unaudited Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000 (Restated)	2010 HK\$'000	2009 HK\$'000 (Restated)
Earnings/(loss)				
Continuing and discontinued operations:				
Loss for the purpose of calculating basic loss per share	(7,673)	(222,555)	(16,945)	(235,026)
Net finance costs saving on conversion of convertible bonds outstanding	7,731	5,850	11,142	14,583
Earnings/(loss) for the purpose of calculating diluted earnings/(loss) per share	58	(216,705)	(5,803)	(220,443)
Continuing operations:				
Loss for the purpose of calculating basic loss per share	(7,673)	(222,790)	(16,945)	(235,438)
Net finance costs saving on conversion of convertible bonds outstanding	7,731	5,850	11,142	14,583
Earnings/(loss) for the purpose of calculating diluted earnings/(loss) per share	58	(216,940)	(5,803)	(220,855)
Number of shares (in '000)				
Issued ordinary shares at beginning of the period	2,113,115	770,000	2,005,675	770,000
Effect of shares placed	—	91,304	—	45,902
Effect of conversion of convertible bonds and replacement convertible bonds	—	504,609	76,208	253,683
Effect of exercise of options	1,255	2,215	967	1,113
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	2,114,370	1,368,128	2,082,840	1,070,698
Effect of dilutive potential ordinary shares arising from share options outstanding	4,313	47,199	8,419	47,199
Effect of dilutive potential ordinary shares arising from replacement convertible bonds outstanding	310,943	683,870	341,382	683,870
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	2,429,626	2,099,197	2,432,641	1,801,767

From discontinued operations

Basic and diluted earnings per share from the discontinued operation are HK cent Nil and HK cent Nil respectively (Six months ended 30 September 2009: HK cent 0.08 and HK cent 0.05 respectively) for the six months ended 30 September 2010, based on the profit for the period from discontinued operations attributable to the owners of the Company of HK\$ Nil (Six months ended 30 September 2009: HK\$845,000) and the denominator used is the same as that detailed in the table above for basic and diluted loss per share.

9. INTANGIBLE ASSETS

	Mining rights
	HK\$'000
Cost	
At 1 April 2010	3,106,728
Exchange differences	37,992
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At 30 September 2010 (Unaudited)	3,144,720
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Accumulated amortisation and impairment	
At 1 April 2010 and 30 September 2010 (Unaudited)	—
	<hr/>
Carrying amount	
At 30 September 2010 (Unaudited)	3,144,720
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At 31 March 2010	3,106,728
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10. TRADE RECEIVABLES

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

	Unaudited	Audited
	as at	as at
	30 September	31 March
	2010	2010
	HK\$'000	HK\$'000
0–30 days	3,927	4,366
31–60 days	1,507	945
61–90 days	4,327	266
Over 90 days	5,851	216
	<hr/> 15,612 <hr/>	5,793

11. CONVERTIBLE BONDS

The maturity date of the Replacement Bonds is 10 June 2013. The bondholders have the right to convert at any time from issue date up to Maturity Date into Shares at a fixed conversion price at HK\$0.70 per Share. The outstanding principal amount of the Replacement Bonds together with the accrued interest (if not paid by cash on redemption at maturity or upon acceleration) shall be automatically converted to Shares upon Maturity Date unless such conversion will result a holder of the Replacement Bonds and parties acting in concert with it, taken together, will directly or indirectly control or be interested in 30% or more of the voting rights in respect of the issued shares of the Company (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or the public float of the shares of the Company will fall below the minimum public float requirements stipulated under the GEM Listing Rules. Interest of 3.75 per cent per annum (compounded annually) is payable (i) in conversion shares on conversion; or (ii) in cash at maturity. The Company has no right to require the early cancellation or redemption of any of the Replacement Bonds prior to the Maturity Date.

During the period, the Company has received from the bondholders a conversion notice regarding the conversion of a principal amount of HK\$72,870,000 of the Replacement Bonds into 106,900,000 new Shares. Upon completion the conversion exercise, the outstanding principal of the Replacement Bonds was amounting HK\$217,660,000 and there are maximum of approximately 357,410,000 new Shares that can be converted into new Shares.

12. SHARE CAPITAL

	Unaudited	Audited
	as at	as at
	30 September	31 March
	2010	2010
	HK\$'000	HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid:		
2,114,383,750 (31 March 2010: 2,005,675,000) ordinary shares of HK\$0.01 each	21,144	20,057

During the period, the Company has received from the grantees exercise notices regarding the exercise of share options of conversion into 1,808,750 new Shares.

13. CONTINGENT LIABILITIES

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

14. LEASE COMMITMENTS

As at 30 September 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited as at 30 September 2010 HK\$'000	Audited as at 31 March 2010 HK\$'000
Within one year	138	263

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

15. BANKING FACILITIES

At 30 September 2010, the Group has been granted banking facilities totaling RMB300 million (approximately HK\$341,238,000) (As at 31 March 2010: RMB300 million (approximately HK\$341 million)) of which RMB300 million (approximately HK\$341,238,000) (As at 31 March 2010: RMB300 million (approximately HK\$341 million)) were utilised. The facilities were secured by pledge of the mining rights held by the Group and the entire equity interest of a subsidiary held by the Group and the non-controlling shareholder.

16. SEGMENT INFORMATION

The chief operating decision maker has been identified as the board of directors (the "Board"). The Board assesses the operating segments using a measure of operating profit. The Group's measurement policies for segment reporting under HKFRS 8 are the same as those used in its HKFRSs financial statements.

On adopting of HKFRS 8, based on the internal financial information reported to the Board for decisions about resources allocation to the Group's business components and review of these components' performance, the Group has identified only one business segment, being exploration, sale and processing of coal in the PRC. Accordingly, segment disclosures are not presented.

The segment information for the six months ended 30 September 2009 is stated as following:

Information about reportable segment profit or loss, assets and liabilities:

	Exploitation of coal HK\$'000	(Discontinued operation) Provisions of auto beauty and repairs operations HK\$'000	(Discontinued operation) Trading of printer accessories and battery HK\$'000	Consolidated HK\$'000 (Restated)
Six months ended 30 September 2009 (unaudited)				
Revenue				
Sales to external customers	—	22,398	886	23,284
Results				
Segment results	—	886	(41)	845
Unallocated corporate expenses				(11,156)
Other income				85
Loss from operations				(10,226)
Finance costs				(221,626)
Share of loss after tax of an associate less impairment loss				(2,767)
Loss before tax				(234,619)
Income tax expense				—
Loss for the period				(234,619)
As at 31 March 2010 (audited)				
Segment assets	3,591,385	—	—	3,591,385
Segment liabilities	1,152,876	—	—	1,152,876

Geographical information:

	HK\$'000
Six months ended 30 September 2009 (unaudited)	
Revenue	
Hong Kong	23,284
Discontinued operations	(23,284)
	<hr/>
Consolidated total	—
	<hr/>
At 31 March 2010 (audited)	
Non-current assets other than available-for-sale financial assets	
Hong Kong	461
The PRC	3,294,991
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Consolidated total	3,295,452
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In presenting the geographical information, revenue is based on the locations of the customers.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of HKAS 1 (Revised) "Presentation of Financial Statements". The changes included the reclassification of the fair value loss on derivative liability of convertible bonds amounted to HK\$137,352,000 and equity-settled share-based payment amounted to HK\$4,595,000 under other comprehensive income to finance costs and administrative and other operating expenses respectively.

In addition, the fair value loss on derivative liability of convertible bonds amounted to HK\$18,039,000 included in other comprehensive income and bond interest amounted to HK\$990,000 included in finance costs for the six months ended 30 September 2009 have been wrongly recognised and overstated by the Group respectively as the Replacement Bonds has been wrongly recognised as combined instruments which has been corrected for the year ended 31 March 2010. As such, the comparative figures have been restated accordingly which included recognised equity component of Replacement Bonds issued under the convertible bonds reserve and the effect on issue of shares for the Replacement Bonds converted in the condensed consolidated statement of changes in equity.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the reporting period, the Group generated its turnover from the sale of coking coal and thermal coal from Inner Mongolia, amounting to approximately HK\$21.4 million for the six months ended 30 September 2010. In April, the Group's open pit operation was interrupted because of a government imposed cessation on coal mining and related construction activities in Inner Mongolia caused by the flooding incident in the Lou Tou Mountain Coal Mine (駱駝山煤礦). The Group's progress on the underground mine construction was similarly affected. To make up for the loss of construction time, the Group had advanced the purchase of coal excavators for leasing to construction contractors for accelerating the progress of tunneling work. In August, extraction of coal was temporarily stopped because of the 12th Inner Mongolia Autonomous Region Games. Currently, production and construction activities have resumed to the normal level.

On 30 June 2010, the Group disposed of its remaining 14.57% interest in Long Capital Development Limited ("Long Capital"), details of which were discussed in the Company's announcement dated 30 June 2010. As the Group's business strategy is to reposition itself as an integrated coke producer in the PRC, after the disposal of its remaining 14.57% interest in Long Capital, the Group was no longer involved in the business of providing beauty and repairs services to motor vehicles. From 1 July 2010 onwards, coal becomes the sole business operation of the Group.

On 10 August 2010, Mengxi Minerals (as purchaser) and Mengxi Chemical (as vendor), each an indirect 70% subsidiary of the Company, entered into the Agreement for a group restructuring exercise involving the merger of Mengxi Minerals and Mengxi Chemical by the transfer of all assets, liabilities, businesses and employees of Mengxi Chemical to Mengxi Minerals at nil consideration. Mengxi Chemical would be dissolved upon completion of the Merger.

The principal business of Mengxi Chemical is the washing and choosing of mine run coal, the processing of coal and coke and their related coal by-products. The principal business of Mengxi Minerals is the sale of coal, the building of early stage infrastructure for exploitation of sagger, washing and choosing of mine run coal and processing of coke.

Each of Mengxi Minerals and Mengxi Chemical is a joint venture vehicle which is 70% indirectly owned by the Company and 30% by Mengxi HT. As Mengxi Minerals and Mengxi Chemical have the same shareholding structure, the Board considered that the Merger would enable the Group to streamline the corporate structure to facilitate integration of resources and unify the platform for sales of coal and washing and choosing of mine run coal by the Group. Cost savings for the Group can be achieved in the long run.

The acquisition and disposal of the assets, liabilities, businesses and employees of Mengxi Chemical under the Transfer constitute a part and parcel of the entire group restructuring exercise. Since all assets, liabilities, businesses and employees of Mengxi Chemical will be transferred to Mengxi Minerals at nil consideration, no significant gain or loss is expected to accrue to the Group from the Merger.

The transfer of all assets, liabilities, businesses and employees of Mengxi Chemical to Mengxi Minerals under the Merger had been completed on 25 August 2010. Mengxi Chemical was dissolved on 12 September 2010 upon completion of the necessary filings and obtaining of the relevant approvals in the PRC.

OUTLOOK

Construction of the Group's 1.5 mtpa beneficiation plant is progressing and is targeted for completion in the first half of 2011.

Recently, Mengxi Minerals has attained a milestone on completion of the construction of its Office Building and Staff Quarter. On 13 October 2010, a ceremony celebrating the completion of construction of the Office Building and Staff Quarter of Mengxi Minerals was held. As a respected company in Inner Mongolia, over 100 attendees comprising important local officials from Inner Mongolia Government Departments and business partners attended this ceremony. The successful completion of construction of these two buildings reflected that Mengxi Minerals is proceeding well on its implementation of constructing the planned infrastructure. This in turn reflects Kaisun Energy's successful effort to steer our controlling subsidiary into a producing operation.

The Group has obtained approval to build and operate a 0.80 mtpa coking plant. Because of central government's implementation of new policy, the Group is applying for approval to enlarge the processing capacity of the coking plant to 0.96 mtpa.

The Group's coking coal mine, located in the district of Qian Li Gou (千里溝) in Ordos, 35 kilometers from Wuhai, Inner Mongolia. Wuhai is the main area that produces coking coal and coke in Inner Mongolia, with approximately 20 million tonnes of annual raw coking coal production. The Group's mine is one of the thirteen mines in the district. The majority of these mines are not in production because they cannot meet the current minimum 0.6 mtpa production quota in Ordos. The Group's coking coal mine, being the largest in the district and the only one owned by a listed company, is favorably supported by the local government and the Group is regarded as having the financial resources and technical capability to acquire and consolidate the other small coking coal mines in the district for commencing production in future.

Capital expenditures for the construction of the underground mine, which is anticipated to be around RMB480 million, are being satisfied by the Group's internal resources together with a RMB300 million loan provided by the China Construction Bank (the "Bank"). In July, in response to a credit review process, an undertaking letter affirming the Group's commitment to provide about RMB50 million to RMB70 million, being the estimated balance of the Group's RMB180 million internal resources funding commitment, was issued by a subsidiary of the Group to the bank.

The Group continues to look towards the steel industry to gauge the health of the coking coal industry. The latest crude steel production estimate for 2010 remains robust with some industry experts predicting a 11% increase over last year's China's historical record breaking performance of 568 million tonnes.

A research paper recently published by an investment bank provided yet another positive outlook for the coking coal industry. The paper reported "a much needed and long-awaited hike to long-term commodity prices has taken place" with coking coal being named amongst its list of winners. In the report, the long-term global price for coking coal has been revised upward by 42% to USD170 per tonne.

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

FINANCIAL REVIEW

Turnover of the Group for the three months and six months ended 30 September 2010 from continuing and discontinued operations amounted to approximately HK\$16.6 million and HK\$21.4 million respectively (2009: HK\$11.9 million and HK\$23.3 million). Compared to corresponding periods last year, such increase of approximately 39.5% in the three months period and decrease of approximately 8.2% in the six months period is attributable to the change in principal business operation of the Group. Turnover of the Group for the six months period this year resulted solely from turnover from the coal operation, while turnover for the same period last year mainly resulted from the business operation of providing beauty and repairs services to motor vehicles. Upon completion of disposal of the business operation of providing beauty and repairs services to motor vehicles by the Group on 30 June 2010, coal operation became the only business operation generating turnover for the Group for the six months ended 30 September 2010.

Correspondingly, gross profit from the Group's continuing and discontinued operations for the three months and six months ended 30 September 2010 was approximately HK\$9.2 million and HK\$10.4 million respectively (2009: HK\$8.8 million and HK\$17.5 million).

For the three months and six months ended 30 September 2010, the total administrative and other operating expenses from the Group's continuing operations totaled HK\$7.8 million and HK\$12.2 million respectively (2009: HK\$8.4 million and HK\$11.2 million).

For the three months and six months ended 30 September 2010, total finance cost from the Group's continuing operations amounted to HK\$7.7 million and HK\$11.1 million respectively (2009: HK\$212.9 million and HK\$221.6 million), this period finance cost representing an accrued interest payable on the Convertible Bonds upon the Bondholders redemption of Convertible Bonds.

The Group recorded loss for the three months and six months ended 30 September 2010 of approximately HK\$6.2 million and HK\$15.5 million respectively (2009: HK\$(222.3) million and HK\$(234.6) million). During the three months and six months ended 30 September 2010, because exchange differences of translating foreign operations recorded other comprehensive income of approximately HK\$14.2 million and HK\$29.9 million respectively, hence the Group recorded total comprehensive income for the three months and six months ended 30 September 2010 of approximately HK\$8.0 million and HK\$14.3 million respectively (2009: HK\$(222.3) million and HK\$(234.6) million).

Total comprehensive income attributable to owners of the Company for the three months and six months ended 30 September 2010 amounted to approximately HK\$2.3 million and HK\$4.0 million respectively (2009: HK\$(222.5) million and HK\$(235.0) million).

LIQUIDITY AND FINANCIAL RESOURCE

As at 30 September 2010, the Group has a bank and cash balance of approximately HK\$339.4 million (as at 31 March 2010: HK\$440 million).

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

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total assets, was 0.36 as at 30 September 2010 (as at 31 March 2010: 0.37).

HUMAN RESOURCES

As at 30 September 2010, the Group had approximately 71 (as at 31 March 2010: 161) employees. The Group continues to employ, promote and reward its staff with reference to their performance and experience. The Group also consistently adopt a policy of human resources enrichment, and provides training programme to its employees. In addition to their basic salaries, the Group's employees are also entitled to other fringe benefits such as provident fund. The management will continue to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality.

The total staff costs, including Directors' emoluments and equity settled share-based payment, amounted to approximately HK\$4.9 million (2009: HK\$16.5 million) for the six months ended 30 September 2010.

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi ("RMB"). As at 30 September 2010, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

CAPITAL STRUCTURE

During the period, the Company has received from conversion notice from the Bondholders regarding the conversion of a principal amount of HK\$72,870,000 of the Replacement Bonds into 106,900,000 new Shares. Upon completion of the conversion exercise during the period, the outstanding principal of the Replacement Bonds was amounting HK\$217,660,000 and a maximum of approximately 357,410,000 new Shares can be converted on the maturity date.

During the period, the Company has received an exercise notice from the grantee regarding the exercise of share option of conversion into 1,808,750 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 2010, 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 underlying Shares		Approximate percentage of the total issued Shares as at 30 September 2010
		Shares	Shares	
<i>(Note 1)</i>				
Chan Nap Kee, Joseph	Beneficial owner	200,000	24,981,750	1.19%
Yeap Soon P, Jonathan	Beneficial owner	300,000	7,700,000	0.38%
Chow Pok Yu, Augustine	Beneficial owner	700,000	4,925,000	0.27%
Yang Yongcheng	Beneficial owner	—	4,925,000	0.23%
Liew Swee Yean	Beneficial owner	540,000	—	0.03%
Siu Siu Ling, Robert	Beneficial owner	540,000	—	0.03%
Wong Yun Kuen	Beneficial owner	540,000	—	0.03%
Anderson Brian Ralph	Beneficial owner	—	1,200,000	0.06%
Li Hong	Beneficial owner	—	3,000,000	0.14%

Note 1: 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 2010, 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 30 September 2010, 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 of underlying Shares <i>(Note 4)</i>	Total Interest	Approximate percentage of the total issued Shares as at 30 September 2010
<i>Substantial shareholders</i>					
Zhang Zhi Ping	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 <i>(Note 1)</i>	25.09%
Zhang Gaobo	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 <i>(Note 1)</i>	25.09%
Oriental Patron Financial Group Limited ("OPFGL")	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 <i>(Note 1)</i>	25.09%
OP Financial Investments Limited ("OPFIL")	Interest of a controlled corporation	129,260,000	206,070,000	335,330,000 <i>(Note 1)</i>	15.87%
Profit Raider Investments Limited ("PRIL")	Beneficial owner	129,260,000	206,070,000	335,330,000 <i>(Note 1)</i>	15.87%

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number of underlying Shares (Note 4)	Total Interest	Approximate percentage of the total issued Shares as at 30 September 2010
<i>Other persons who had interests in the Shares and underlying Shares</i>					
Oriental Patron Financial Services Group Limited ("OPFSGL")	Interest of a controlled corporation	86,380,000	108,420,000	194,800,000 (Note 1)	9.22%
Pacific Top Holding Limited ("PTHL")	Beneficial owner	86,380,000	108,420,000	194,800,000 (Note 1)	9.22%
GEM Global Yield Fund Limited ("GEM Global")	Beneficial owner/Interest of a controlled corporation	230,000,000	791,000,000	1,021,000,000 (Note 2)	48.32%

Notes:

- OPFGL holds 215,640,000 Shares and 314,490,000 underlying Shares. OPFGL is 51% owned by Zhang Zhi Ping and is 49% owned by Zhang Gaobo.

Of these 215,640,000 Shares and 314,490,000 underlying Shares of the Company, 86,380,000 Shares and 108,420,000 underlying Shares are held by PTHL. PTHL is wholly owned by OPFSGL, OPFSGL is 95% held by OPGFL. Zhang Zhi Ping, Zhang Gaobo, OPFGL and OPFSGL are deemed to be interested in the interests held by PTHL under the SFO.

Of these 215,640,000 Shares and 314,490,000 underlying Shares, 129,260,000 Shares and 206,070,000 underlying Shares are held by PRIL. PRIL is wholly owned by OPFIL, OPFIL is 42.07% held by Ottness Investments Limited ("OIL"). Zhang Zhi Ping, Zhang Gaobo, OPFGL, OIL and OPFIL are deemed to be interested in the interests held by PRIL under the SFO.

2. These 1,021,000,000 Shares and underlying Shares represent the aggregate of: (i) the 230,000,000 Shares held by Grand Pacific Source Limited ("Grand Pacific"), which was a wholly-owned subsidiary of GEM Global; and (ii) 170,000,000 underlying Shares held by Grand Pacific and 621,000,000 underlying Shares held by GEM Global. Accordingly, GEM Global is deemed to be interested in those Shares and underlying Shares held by Grand Pacific under the SFO.

The Directors are unable to ascertain the interests of GEM Global as at the Latest Practicable Date, and confirm whether the interests of GEM Global as at the Latest Practicable Date, have been accurately shown. The interest of GEM Global as shown was disclosed in the corporate substantial notice of GEM Global filed on 3 April 2008 and recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO. As set out in the Company's announcement dated 3 June 2008, the Company received default notification from GEM Global in relation to HK\$540 Million Placing Convertible Bonds (as defined in such announcement). Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of such default. In addition to the default of the Placing Convertible Bonds mentioned above, as set out in the Company's announcements dated 3 June 2008 and 11 June 2008, on 10 June 2008, 230 million Consideration Shares (as defined in such announcements) were allotted and issued to Grand Pacific, the entire equity interests of which were acquired by Glimmer Stone Investments Limited ("Glimmer") from GEM Global on the same day, and 60 million Consideration Shares were transferred from Grand Pacific to GEM Global as consideration for such acquisition. Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of the acquisition of Grand Pacific by Glimmer mentioned above. The Company has not received any updated corporate substantial notice of GEM Global after 3 April 2008. However, the Directors cannot exclude the possibility that GEM Global may have acquired or disposed of any interests in shares or underlying shares of the Company after the above announcements.

The Directors are also unable to ascertain the shareholding of GEM Global from the register of members of the Company as the information contained therein may not reflect the actual beneficial shareholdings of the shareholders (i.e. the registered shareholders may be have trustee or holding some shares of the Company on behalf of the others and this kind of interest is not required to be disclosed under the SFO).

3. The long positions in underlying Shares mentioned above represent the interests held by such Bondholders as at the Latest Practicable Date in the convertible bonds in the principal amount of HK\$273,330,000 convertible into 400,300,000 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 2010, had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 & 3 of Part XV of the SFO.

3. SHARE OPTIONS

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

As at 30 September 2010, a total of 110,897,000 Shares, representing 5.25% 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 2010 are as follows:

	Date of Grant	Exercise Period	No. of Options				Outstanding as at 30/9/2010
			Outstanding as at 1/4/2010	Grant during the Period	Exercise during the Period	Lapsed during the Period	
Directors							
Wong Yun Kuen	19/2/2008	19/2/2008–18/2/2011	540,000	—	(540,000)	—	—
Yeap Soon P, Jonathan	24/6/2008	24/6/2008–23/6/2011	7,700,000	—	—	—	7,700,000
Chan Nap Kee, Joseph	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	4,925,000
	9/2/2010	9/2/2010–8/2/2013	20,056,750	—	—	—	20,056,750
Chow Pok Yu, Augustine	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	4,925,000
Yang Yongcheng	11/8/2009	11/8/2009–10/8/2012	4,925,000	—	—	—	4,925,000
Anderson Brian Ralph	11/8/2009	11/8/2009–10/8/2012	1,200,000	—	—	—	1,200,000
Li Hong	18/11/2009	18/11/2009–17/11/2012	—	—	—	3,000,000	3,000,000
		Sub-total	44,271,750	—	(540,000)	3,000,000	46,731,750
Employees in aggregate	24/6/2008	24/6/2008–23/6/2011	5,000,000	—	—	—	5,000,000
	11/8/2009	11/8/2009–10/8/2012	7,143,750	—	(1,268,750)	—	5,875,000
	18/11/2009	18/11/2009–17/11/2012	3,000,000	—	—	(3,000,000)	—
Other participants in aggregate	19/2/2008	19/2/2008–18/2/2011	500,000	—	—	—	500,000
			59,915,500	—	(1,808,750)	—	58,106,750

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

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

5. AUDIT COMMITTEE

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

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

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

The unaudited interim results for the six months ended 30 September 2009 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

6. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the three months ended 30 September 2010. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the three months ended 30 September 2010.

7. CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 September 2010. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by Directors.

8. CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 September 2010.

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

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

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

Hong Kong, 8 November 2010

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

As at the date of this report, the Board comprises four executive directors of the Company are Mr. CHAN Nap Kee Joseph, Dr. CHOW Pok Yu Augustine, Mr. LI Hong 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.