



**NAN NAN RESOURCES
ENTERPRISE LIMITED
南南資源實業有限公司**

(Incorporated in Bermuda with limited liability)
(Stock Code : 1229)



INTERIM REPORT
2014

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This interim report is prepared in English and Chinese. In case of inconsistency, please refer to the English version as it shall prevail.

CORPORATE INFORMATION

Board of Directors

Executive Directors

Lo Fong Hung

(Chairperson & Managing Director)

Wang Xiangfei

Kwan Man Fai

Independent Non-Executive Directors

Lam Ka Wai, Graham

Wong Man Hin, Raymond

Chan Yiu Fai, Youdey

Xu Xiao Sheng

Audit Committee

Lam Ka Wai, Graham (Chairman)

Wong Man Hin, Raymond

Chan Yiu Fai, Youdey

Xu Xiao Sheng

Remuneration Committee

Wong Man Hin, Raymond (Chairman)

Kwan Man Fai

Lam Ka Wai, Graham

Chan Yiu Fai, Youdey

Xu Xiao Sheng

Nomination Committee

Lo Fong Hung (Chairperson)

Kwan Man Fai

Lam Ka Wai, Graham

Wong Man Hin, Raymond

Chan Yiu Fai, Youdey

Xu Xiao Sheng

Company Secretary

Pang Kwei Ping

Auditor

Crowe Horwath (HK) CPA Limited

9/F., Leighton Centre

77 Leighton Road

Causeway Bay, Hong Kong

Legal Adviser

Conyers Dill and Pearman

2901, One Exchange Square

8 Connaught Place

Central, Hong Kong

Principal Bankers

China CITIC Bank International Limited

Industrial and Commercial Bank of China

(Asia) Limited

Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Head Office and Principal Place of Business

Suites 1003-1006

10/F., Two Pacific Place

88 Queensway, Hong Kong

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited

The Belvedere Building

69 Pitts Bay Road

Pembroke HM08, Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited

18/F., Fook Lee Commercial Centre

Town Place, 33 Lockhart Road

Wanchai, Hong Kong

Hong Kong Stock Exchange Stock Code

1229

Website

<http://www.nannanlisted.com>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	Notes	Six months ended 30 September	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Turnover	3	45,453	64,323
Cost of sales		(21,641)	(54,225)
Gross profit		23,812	10,098
Other revenue		3,307	1,140
Selling and distribution expenses		(377)	(394)
Administrative and operating expenses		(10,419)	(10,985)
Change in fair value of convertible bond	11	(39,322)	(2,139)
Loss before tax		(22,999)	(2,280)
Income tax expense	4	(2,389)	(4,604)
Loss for the period	5	(25,388)	(6,884)
Other comprehensive (loss)/income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of functional currency to presentation currency		(126)	3,315
Other comprehensive (loss)/income for the period (net of nil tax)		(126)	3,315
Total comprehensive loss for the period		(25,514)	(3,569)
Loss for the period attributable to:			
– Owners of the Company		(25,388)	(6,884)
Total comprehensive loss for the period attributable to:			
– Owners of the Company		(25,514)	(3,569)
Loss per share (expressed in Hong Kong cents)			
– Basic	7	(3.32)	(0.9)
– Diluted	7	(3.32)	(0.9)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

	Notes	30 September 2014 HK\$'000 (unaudited)	31 March 2014 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	21,277	22,196
Intangible assets		69,558	73,242
Goodwill		–	–
Security deposit		3,645	3,645
		94,480	99,083
Current assets			
Inventories		27,250	13,600
Trade and other receivables	9	3,078	1,805
Cash and cash equivalents		331,489	319,460
		361,817	334,865
Current liabilities			
Trade and other payables	10	59,519	49,616
Tax payable		1,671	2,397
		(61,190)	(52,013)
Net current assets		300,627	282,852
Total assets less current liabilities		395,107	381,935
Capital and reserves			
Share capital	13	76,537	76,537
Reserves		62,102	87,616
Equity attributable to owners of the Company		138,639	164,153
Non-current liabilities			
Convertible bond designated as financial liabilities at fair value through profit or loss	11	244,553	205,231
Provision for close down, restoration and environmental costs		1,996	1,996
Deferred tax liabilities		9,919	10,555
		256,468	217,782
		395,107	381,935

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

	Attributable to owners of the Company							
	Share capital HK\$'000	Share premium HK\$'000 <i>(Note i)</i>	Capital reserve HK\$'000 <i>(Note ii)</i>	Statutory reserves HK\$'000 <i>(Note iii)</i>	Exchange translation reserve HK\$'000 <i>(Note iv)</i>	Special reserve HK\$'000 <i>(Note v)</i>	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2014 (audited)	76,537	191,534	14,882	9,861	18,365	27,143	(174,169)	164,153
Loss for the period	-	-	-	-	-	-	(25,388)	(25,388)
Other comprehensive loss for the period	-	-	-	-	(126)	-	-	(126)
Total comprehensive loss for the period	-	-	-	-	(126)	-	(25,388)	(25,514)
Appropriation of maintenance and production funds	-	-	-	11,984	-	-	(11,984)	-
Utilisation of maintenance and production funds	-	-	-	(11,566)	-	-	11,566	-
At 30 September 2014 (unaudited)	76,537	191,534	14,882	10,279	18,239	27,143	(199,975)	138,639
At 1 April 2013 (audited)	76,537	191,534	14,882	9,485	15,130	27,143	(160,337)	174,374
Loss for the period	-	-	-	-	-	-	(6,884)	(6,884)
Other comprehensive income for the period	-	-	-	-	3,315	-	-	3,315
Total comprehensive (loss)/income for the period	-	-	-	-	3,315	-	(6,884)	(3,569)
Appropriation of maintenance and production funds	-	-	-	-	-	-	-	-
Utilisation of maintenance and production funds	-	-	-	-	-	-	-	-
At 30 September 2013 (unaudited)	76,537	191,534	14,882	9,485	18,445	27,143	(167,221)	170,805

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 September 2014

Notes:

i) Share premium

The application of share premium is governed by Section 40 of the Bermuda Companies Act 1981.

ii) Capital reserve

Capital reserve arose from the acquisition of the additional equity interest of subsidiaries in prior years. It represents the difference between the carrying amount of the net assets of the subsidiaries attributable to the additional interest at the dates of acquisition and the fair value of consideration paid by the Group.

iii) Statutory reserves

Statutory surplus reserve

In accordance with the People's Republic of China (the "PRC") regulations, all of the Group's subsidiaries in the PRC are required to transfer part of their profit after tax to the statutory surplus reserve, which are non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies in accordance with their respective articles of association.

Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations, the Group is required to transfer production and maintenance funds at fixed rates based on production volume to a specific reserve accounts. The production and maintenance funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of production and maintenance funds utilised would be transferred from the specific reserve account to retained earnings.

iv) Exchange translation reserve

Exchange translation reserve comprises all foreign exchange differences arising from the translation of functional currency to presentation currency. The reserve is dealt with in accordance with the accounting policy.

v) Special reserve

The amount in special reserve represents the difference between the consideration paid for acquiring a further 49% equity interest in Star Fortune International Investment Company Limited ("Star Fortune") and the decrease in the carrying amount of the non-controlling interests of Star Fortune.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Operating activities		
Cash generated from operations	15,335	41,169
Income tax paid	(3,747)	(4,486)
Net cash generated from operating activities	11,588	36,683
Investing activities		
Additions of property, plant and equipment	(1,475)	(2,734)
Proceeds from disposal of property, plant and equipment	–	447
Interest received	2,055	1,012
Net cash generated from/(used in) investing activities	580	(1,275)
Net increase in cash and cash equivalents	12,168	35,408
Cash and cash equivalents at 1 April	319,460	255,620
Effect of foreign exchange rate changes	(139)	(2,683)
Cash and cash equivalents at 30 September, represented by bank balances and cash	331,489	288,345

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2014

1. General Information and Basis of Preparation

Nan Nan Resources Enterprise Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). In the opinion of the directors, the Group’s parent company is Ascent Goal Investments Limited (“Ascent Goal”), a company incorporated in the British Virgin Islands with limited liability and the Group’s ultimate holding company is New Bright International Development Limited (“New Bright”), a company incorporated in Hong Kong with limited liability. Its ultimate controlling party is Ms. Fung Yuen Kwan, Veronica.

The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Suites 1003–1006, 10th Floor, Two Pacific Place, 88 Queensway, Hong Kong. The functional currency of the Company is Renminbi (“RMB”). The condensed consolidated interim financial information is presented in Hong Kong dollars (“HK\$”) for the convenience of the shareholders as the Company is listed in Hong Kong.

The Company is an investment holding company. The subsidiaries of the Company are principally engaged in mining and selling of coal.

The condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

2. Principal Accounting Policies

The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 September 2014 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2014.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKFRS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKFRS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKFRS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC)-Int 21, *Levies*

The application of the above amendments to HKFRSs in the current period has had no material effect on the amounts reported in these condensed consolidated interim financial information and/or disclosure set out in these condensed consolidated interim financial information.

3. Turnover and Segment Information

The Group has only one single operating segment being the mining and selling of coal in the People's Republic of China ("PRC"). Geographical segmental information is therefore not presented.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

4. Income Tax Expense

The major components of income tax expense in the condensed consolidated statement of profit or loss and other comprehensive income are:

	Six months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Tax in other jurisdictions		
– current	3,022	3,673
Deferred tax	(633)	931
Income tax expense	2,389	4,604

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as there was no estimated assessable profit derived from Hong Kong for both periods ended 30 September 2014 and 30 September 2013.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods ended 30 September 2014 and 30 September 2013.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

5. Loss for the Period

Loss for the period has been arrived at after charging:

	Six months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Amortisation of intangible assets	3,674	–
Less: Amounts included in cost of inventories	(1,884)	–
Amounts included in cost of sales	1,790	–
Amount of inventories recognised as cost of sales	21,641	54,225
Depreciation of property, plant and equipment	2,389	2,164
Staff costs (excluding directors’ remuneration)		
– Basic salaries and allowances	3,237	3,880
– Contributions to defined contribution retirement plan	407	453

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

6. Interim Dividend

No dividends were paid, declared or proposed during the six months ended 30 September 2014. The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 September 2013: Nil).

7. Loss Per Share

- a) The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Loss		
Loss for the purposes of basic loss per share (Loss for the period attributable to owners of the Company)	(25,388)	(6,884)
	2014	2013
Weighted average number of ordinary shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	765,373,584	765,373,584

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

7. Loss Per Share *(Continued)*

- b) The calculation of the diluted loss per share attributable to the owners of the Company is based on the following data:

- i) *Loss attributable to owners of the Company (diluted)*

	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Loss for the period attributable to owners	(25,388)	(6,884)
Fair value gain on convertible bond*	–	–
Exchange loss on convertible bond*	–	–
Loss attributable to owners (diluted)	(25,388)	(6,884)

- ii) *Weighted average number of ordinary shares (diluted)*

	2014	2013
Weighted average number of ordinary shares for the purpose of basic loss per share	765,373,584	765,373,584
Effect of conversion of convertible bond*	–	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	765,373,584	765,373,584

- * The calculation of the diluted loss per share for the six months ended 30 September 2014 did not assume the conversion of the convertible bond since its conversion would result in a decrease in loss per share. The basic and diluted loss per share are the same.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

8. Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 30 September 2014, the Group acquired property, plant and equipment with a cost of HK\$1,475,000 (six months ended 30 September 2013: HK\$2,734,000).

During the six months ended 30 September 2014, the Group disposed of cost of property, plant and equipment of HK\$16,000 with loss of HK\$3,000 (six months ended 30 September 2013: disposal of HK\$900,784 with loss of HK\$20,722 resulted).

9. Trade and Other Receivables

The Group's coal sales to customers are largely on cash basis or with payment in advance. For certain well-established customers, the Group allows an average credit period of 90 days.

The following is an analysis of trade and bills receivables by age, presented based on invoice date (net of allowance for doubtful debts):

	30 September 2014 HK\$'000 (unaudited)	31 March 2014 HK\$'000 (audited)
Within 90 days	126	–
91 days to 180 days	139	–
181 days to 365 days	–	–
Over 1 year	–	–
Trade and bills receivables	265	–
Prepayments, deposits and other receivables	2,813	1,805
Total trade and other receivables	3,078	1,805

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

10. Trade and Other Payables

The following is an analysis of trade payables by age, presented based on invoice date:

	30 September 2014 HK\$'000 (unaudited)	31 March 2014 HK\$'000 (audited)
Within 90 days	9,977	1,540
91-180 days	287	559
181-365 days	146	750
Over 1 year	30	45
Trade payables	10,440	2,894
Receipt in advance	4,321	1,237
Value-added tax and non-income tax payable	2,429	3,443
Government levies payable		
– Economic development fees in coal resources areas	29,886	29,888
– Others	4,645	4,741
Accrued expenses	2,173	2,149
Other payables	5,625	5,264
Total trade and other payables	59,519	49,616

The average credit period of purchases of goods is 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

11. Convertible Bond

On 14 March 2008, the Company issued a zero-coupon convertible bond with an aggregate principal amount of HK\$200,000,000 to Ascent Goal simultaneously upon completion of the issue and allotment of 400,000,000 ordinary shares of HK\$0.1 each. The bond is denominated in HK\$ and entitles the holder to convert it into ordinary shares of the Company at any time between the date of issue of the bond and their settlement date on 13 March 2011 in multiples of HK\$1,000,000 at a conversion price HK\$0.20 (subject to adjustments) per share. The shares to be issued and allotted upon conversions shall rank *pari passu* in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. If the convertible bond has not been converted, the Company shall repay the principal amount of the outstanding convertible bond to Ascent Goal at 13 March 2011.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

11. Convertible Bond *(Continued)*

On 11 February 2011, the Company entered into a deed of amendment with Ascent Goal, to extend the maturity date of the convertible bond for 36 months and the conversion period will accordingly be extended for 36 months from 14 March 2011 (date of extension) to 13 March 2014. Apart from the extension of the maturity date and the conversion period, all terms of the convertible bond remain unchanged from the original terms.

Following the change of functional currency from HK\$ to RMB, the board of directors is of the view that the convertible bond upon extension of maturity date ("Convertible Bond") was no longer convertible at a fixed for fixed relationship. Accordingly, the Convertible Bond was designated as a financial liability at FVTPL in the condensed consolidated statement of financial position.

On 21 January 2014, the Company entered into a second deed of amendment with Ascent Goal ("New Convertible Bond"), to extend the maturity date of the Convertible Bond for 36 months and the conversion period will accordingly be extended for 36 months from 14 March 2014 (date of extension) to 13 March 2017 ("New Maturity Date"). Apart from the extension of maturity date and the conversion period, all terms of the Convertible Bond remain unchanged from the original terms.

The New Maturity Date is considered to be a substantial modification of terms of the Convertible Bond as the discounted present value of the cash flows of the New Convertible Bond is more than 10% different from the discounted present value of the cash flows of the outstanding Convertible Bond prior to the extension of maturity date. As such, Convertible Bond was derecognised and New Convertible Bond was recognised. The fair value of the New Convertible Bond as at 14 March 2014 amounted to approximately HK\$200,000,000. An extinguishment loss of approximately HK\$211,000 has been recognised in profit or loss.

The Convertible Bond and New Convertible Bond were valued by the directors of the Company with reference to valuation reports issued by Asset Appraisal Limited, an independent qualified valuer not connected to the Group. The increase in fair value of the New Convertible Bond from its carrying amount as at 31 March 2014, approximately HK\$39,322,000, has been recognised in the profit or loss for the six months ended 30 September 2014 (six months ended 30 September 2013: increase by HK\$2,139,000).

The assumptions adopted for the valuation of the New Convertible Bond are as follows:

- (1) The estimation of risk free rate has made reference to the yield of Exchange Fund Bill with same duration as the convertible bond;
- (2) The estimation of volatility for the underlying share price has considered the historical price movements of those companies engaged in similar industry;
- (3) The discount rate was arrived at based on the Company's credit rating and selected comparable corporate bonds with similar maturity and credit risk to derive the range of comparable yield to maturity as of date of valuation and the median range has been adopted.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

11. Convertible Bond *(Continued)*

The fair value of the convertible bond was calculated by using the binominal model. Major parameters adopted in the calculation of the fair value are summarised below:

	30 September 2014	31 March 2014
Stock price	HK\$0.425	HK\$0.395
Exercise price	HK\$0.20	HK\$0.20
Risk free-rate	0.67%	0.86%
Discount rate	7.697%	8.506%
Dividend yield	0%	0%
Time to expiration	2.45 years	2.95 years
Stock price volatility	51.32%	49.57%
Borrowing rate of issuer	7.70%	8.51%
	HK\$'000	HK\$'000
The movement of the convertible bond for the period/year is set out below:		
At the beginning of the period/year	205,231	189,858
Total gain/(loss) recognised in profit or loss:		
Fair value change charged to the profit or loss, included in a line item of condensed consolidated statement of profit or loss and other comprehensive income	39,322	15,373
Gain on translation of convertible bond denominated in a foreign currency into the functional currency, included in administrative and other operating expenses	(40)	(3,604)
Total loss included in profit or loss for the period/year	39,282	11,769
Total gain recognised in other comprehensive income:		
Exchange adjustment arising on translation of functional currency to presentation currency	40	3,604
Derecognition on maturity	–	(200,000)
Recognition on date of extension	–	200,000
At end of the period/year	244,553	205,231

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

12. Fair Value Measurement of Financial Instruments

Other than the financial liabilities at FVTPL, the directors of the Company consider that the carrying amounts of other financial assets and financial liabilities, recorded at amortised cost, in the condensed consolidated interim financial statements approximate to their fair values.

Fair value hierarchy

The following table presents the fair value of the Group's and the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group uses an independent valuer to perform valuations of financial instruments which are categorised into Level 3 of the fair value hierarchy. A valuation report with analysis of changes in fair value measurement is prepared by the independent valuer at each interim and annual reporting date, and is reviewed and approved by the management of the Company. Discussion of the valuation process and results with the management of the Company is held twice a year to coincide with the reporting dates.

	Fair value at	Fair value measurements as at		
	30 September	30 September 2014 categorised into		
	2014	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group and the Company				
Recurring fair value measurements				
Liabilities:				
Convertible bond designated				
as financial liabilities at FVTPL	244,553	–	–	244,553

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

12. Fair Value Measurement of Financial Instruments *(Continued)*

Fair value hierarchy (Continued)

	Fair value at	Fair value measurements as at		
	31 March	31 March 2014 categorised into		
	2014	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group and the Company				
Recurring fair value measurements				
Liabilities:				
Convertible bond designated				
as financial liabilities at FVTPL	205,231	-	-	205,231

During the year ended 31 March 2014 and period ended 30 September 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

The fair value of the convertible bond is equal to the summation of the fair value of the liability component and conversion option component, calculated by using discounted cash flows and binominal model, respectively. The assumptions adopted for the valuation of the convertible bond are as follows:

- i) The estimation of risk free rate has made reference to the yield of Exchange Fund Bill with same duration as the convertible bond;
- ii) The estimation of volatility for the underlying share price has considered the historical price movements of those companies engaged in similar industry;
- iii) The discount rate was arrived at based on the Company's credit rating and selected comparable corporate bonds with similar maturity and credit risk to derive the range of comparable yield to maturity as of date of valuation and the median range has been adopted.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

12. Fair Value Measurement of Financial Instruments *(Continued)*

Information about Level 3 fair value measurements (Continued)

Major parameters adopted in the calculation of the fair value are summarised below:

	30 September 2014	31 March 2014
Stock price	HK\$0.425	HK\$0.395
Exercise price	HK\$0.20	HK\$0.20
Risk free rate	0.67%	0.86%
Discount rate	7.697%	8.506%
Dividend yield	0%	0%
Time to expiration	2.45 years	2.95 years
Stock price volatility	51.32%	49.57%
Borrowing rate of issuer	7.70%	8.51%

The significant unobservable input used in the fair value measurement is expected stock price volatility. The fair value measurement is positively correlated to the expected stock price volatility. If the expected stock price volatility has been 5% higher with all other variables held constant, the Group's and the Company's loss for the six months ended 30 September 2014 and accumulated losses would increase by approximately HK\$2,852,000 during the six months ended 30 September 2014. If the expected stock price volatility has been 5% lower with all other variables held constant, the Group's and the Company's loss for the year and accumulated losses would decrease by approximately HK\$2,874,000 during the six months ended 30 September 2014.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

12. Fair Value Measurement of Financial Instruments *(Continued)*

Reconciliation of Level 3 fair value measurements

The movement during the period in the balance of financial liability of Level 3 fair value measurements is as follows:

	The Group and the Company	
	30 September 2014 HK\$'000 (unaudited)	30 September 2013 HK\$'000 (unaudited)
Convertible bond (note 11):		
At beginning of the period	205,231	189,858
Total loss/(gain) recognised in profit or loss:		
Fair value change charged to the profit or loss, included in a line item of condensed consolidated statement of profit or loss and other comprehensive income	39,322	2,139
Gain on translation of convertible bond denominated in a foreign currency into the functional currency, included in administrative and other operating expenses	(40)	(3,726)
Total loss/(gain) included in profit or loss for the period	39,282	(1,587)
Total loss recognised in other comprehensive income:		
Exchange adjustment arising on translation of functional currency to presentation currency	40	3,726
At the period ended	244,553	191,997
Total loss/(gain) for the period relating to: – financial liability held at the end of reporting period, under change in fair value of convertible bond	39,282	(1,587)
Included in other comprehensive income arising on translation of functional currency to presentation currency	40	3,726

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

13. Share Capital

	Number of ordinary shares of HK\$0.1 each	Amount HK\$'000
Ordinary Shares		
Authorised:		
At 1 April 2013, 31 March 2014 and 30 September 2014	5,000,000,000	500,000
Issued and fully paid:		
At 1 April 2013, 31 March 2014 and 30 September 2014	765,373,584	76,537

14. Related Party Transactions

- a) Except as disclosed elsewhere in the condensed consolidated interim financial information, the significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Six months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
China Sonangol International Limited ("China Sonangol") <i>(Note a)</i> – rental expenses <i>(Note b)</i>	330	300

Notes:

- a) China Sonangol is an intermediate holding company of the Company.
- b) Operating lease commitment for future minimum lease payments under non-cancellable operating lease with China Sonangol amounted to HK\$330,000 (31 March 2014: HK\$495,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

For the six months ended 30 September 2014

14. Related Party Transactions *(Continued)*

b) *Compensation of key management personnel*

The remuneration of the directors and other members of key management for the six months ended 30 September 2014 and 2013 were as follows:

	Six months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Short-term employee benefits	1,334	1,287
Post-employment benefits	17	15
	1,351	1,302

The remuneration of directors and key executives of the Company is determined by the remuneration committee having regard to the performance of individuals and the market trends.

15. Operating Lease Commitments

The Group leases certain of its offices and warehouse under operating lease arrangements. Lease for properties are negotiated for terms ranging from one to three years and rental are fixed.

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2014 HK\$'000 (unaudited)	31 March 2014 HK\$'000 (audited)
Within one year	632	2,349
In the second to fifth years, inclusive	–	471
	632	2,820

16. Capital Commitments

During the six months ended 30 September 2014, capital expenditure of HK\$148,000 in respect of the acquisition of property, plant and equipment was contracted for but not provided in the unaudited condensed consolidated interim financial information (31 March 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

For the six months ended 30 September 2014, the Group recorded a turnover of approximately HK\$45,453,000, which is a decrease of 29.34% (or HK\$18,870,000) as compared with HK\$64,323,000 achieved in the corresponding period in 2013.

Geographically, Xinjiang Uygur Autonomous Region ("Xinjiang") is remote from rest of the Country. Coal produced in Xinjiang is mainly consumed locally due to logistic and cost reason. The coal price in Xinjiang is lower than the average China market price.

Reduction in sales is mainly due to weak demand for large, nucleus and slack coals. The Group sold approximately 477,211 tonnes (2013: approximately 712,915 tonnes) of coal, decreased by 33% in volume from a year ago.

Cost of sales

The cost of sales for the period was approximately HK\$21,641,000 (2013: approximately HK\$54,225,000). The cost mainly comprises machine rental cost, direct labor cost, cost for explosive works, depreciation, amortization, etc. The decrease in cost of sales was largely in line with the decrease in sales volume and the saving of Coal Resources Domestic Economic development fees during the period as compared with the last corresponding period. According to the notice issued by the PRC Government, the fees have been temporarily suspended from 1 April 2014. Prior to 1 April 2014, such economic development fees were levied at RMB20 per ton on slack coal produced from Kaiyuan Open Pit Coal Mine.

Gross profit

Due to the factors explained above, therefore, the gross profit of the Group for the six months ended 30 September 2014 increased to approximately HK\$23,812,000 from HK\$10,098,000 for the six months ended 30 September 2013, representing an increase of approximately 136% and gross profit margin improved from 15.7% for the six months ended 30 September 2013 to 52.3%, representing an increase of 36.6 percentage points.

Other revenue

The Group's other revenue for the six months ended 30 September 2014 was HK\$3,307,000, representing an increase of HK\$2,167,000 or 190% as compared with the corresponding period in the last year. This was mainly due to the fact that: the net income from selling coal gangue (煤矸石) was HK\$1,251,000 or 109%; increase in other income and interest income by HK\$914,000 or 80% due to better interest rate from banks in PRC.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses for the six months ended 30 September 2014 was HK\$10,796,000, representing a decrease of HK\$583,000 or 5% as compared with the previous corresponding period. This was mainly due to the decrease in salaries cost and motor car expenses.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Loss for the period

Loss of the Group for the six months ended 30 September 2014 was approximately HK\$25,388,000 (2013: approximately HK\$6,884,000), representing an increase of HK\$18,504,000 as compared with the corresponding period in the last year. The increase in loss was mainly due to increase in loss on change in fair value of convertible bond of approximately HK\$37,183,000.

Segment Information

Business segment

The Group's operating segment, based on information reported to the chief operating decision makers who are also the executive directors, for the purposes of resources allocation and performance assessment, is more specifically focused on the types of goods delivered and services provided by the Group's operating divisions.

Coal mining business is the only reportable operating segment from which the Group derived its revenue from sale of coal. Accordingly, no further segment information is provided.

Coal mining business

Coal mining is the sole business of the Group at present. It contributed a turnover of HK\$45,453,000 for the reporting period (2013: HK\$64,323,000), a 29.34% decrease as compared with the corresponding period in 2013. The decrease in turnover is mainly resulted from decrease in sales volume during the reporting period.

Sales and production of coals

During the reporting period, the Group sold 0.48 million tonnes of coals with total sales income of HK\$45,453,000. Details of coal sales in tonnes are listed in the below table.

	Period ended 30 September	
	2014	2013
Coal sales	477,211 tonnes	712,915 tonnes

Coal sales in tonnes and percentage

	Coal Sales (tonnes)	Coal Sales in %
Large Coal	37,467	7.85
Middle Coal	124,552	26.10
Three Eight Coal	39,698	8.31
Small-medium sized Coal	40,277	8.44
Slack Coal	235,217	49.30
Total	477,211	100.00

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information (Continued)

Reserves and resources

The Group owns one mining right and one exploration right in Xinjiang, which is Kaiyuan Open Pit Coal Mine ("Kaiyuan Mine") and Zexu Open Pit Coal Mine ("Zexu Mine") respectively. The estimated remaining coal reserve in Kaiyuan Mine was 13.26 million tonnes as at 30 September 2014 (2013: 13.96 million tonnes). The coal reserve was calculated by using the following formula, which was in line with the market practice:

Coal reserve as at 30 September 2014 = Coal reserve as at 31 March 2014 – Amount of coal extracted (the "Coal Extracts") by the Group during 1 April 2014 to 30 September 2014.

The original exploration permit of Zexu Mine had expired on 20 February 2014 and a renewal of the permit was granted by the Department of Land and Resources of Xinjiang Uygur Autonomous Region on 19 March 2014 to further extend the permit to 25 February 2016. However, full impairment of this intangible asset had been made in the financial year of 2013.

Cost of sales

The cost of sales for the period was approximately HK\$21,641,000 (2013: approximately HK\$54,225,000). The cost mainly comprises machine rental cost, direct labor cost, cost for explosive works, depreciation, amortization, etc. The decrease in cost of sales was largely in line with the decrease in sales volume and the saving of Coal Resources Domestic Economic development fees during the period as compared with last corresponding period. According to the notice issued by the PRC Government, the fees have been temporarily suspended from 1 April 2014. Prior to 1 April 2014, such economic development fees were levied at RMB20 per ton on slack coal produced from Kaiyuan Mine.

Geographic segment

The geographical location of customers is determined based on the location where the goods are delivered. The Group's turnover and results from operations are all derived from activities in the PRC. No business activities are covered outside the PRC. The principal assets of the Group are also located in the PRC. Accordingly, no geographical segment information is required.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Major Events

Progress of the Optimization and Upgrading Plan[#] and the Updated Optimization and Upgrading Plan^{##}

Pursuant to the instructions from the National Development and Reform Commission of the PRC, the Department of Land and Resources of Xinjiang Uygur Autonomous Region (the “Xinjiang Land Department”) had to plan for a management restructuring of seven different coal mines (including the Zexu Mine) in the Xiheishan Mining Area (the “Optimization and Upgrading Plan”), consolidating some smaller mines together so as to increase the size efficiency (for details, please refer to the Company’s announcement dated 11 November 2011). After being informed of this Optimization and Upgrading Plan, the Board has requested our management in Xinjiang to conduct frequent meetings and negotiations with the Xinjiang Land Department and other relevant government authorities in order to protect the Company’s interest in relation to the exploration permit of the Zexu Mine (the “Exploration Permit”).

According to the letter dated 13 June 2012 issued by the Administrative Bureau of Coal Industry of Changji Prefecture (the “Changji Administrative Bureau”) informing the updated status of the Optimization and Upgrading Plan, the following proposals (the “Updated Optimization and Upgrading Plan”) in relation to the Company’s Kaiyuan Mine and Zexu Mine have been submitted to the working group head office for coal industry structural upgrade work of Xinjiang Uygur Autonomous Region for consideration and approval:

1. The Company’s Kaiyuan Mine would be restructured and upgraded, and the exploration right in the Zexu Mine granted to the Company would be terminated; and
2. The mining area of the Kaiyuan Mine, where the Company is now conducting mining activities, was proposed to be increased from 1.1596 square kilometers to 4.12 square kilometers, with the estimated coal resources of approximately 131.18 million tonnes.

As at the date hereof, the Company has still not yet received any written notification from the relevant Xinjiang government department in respect of the approval of the Updated Optimization and Upgrading Plan.

As stated in the Company’s announcement dated 21 March 2014, the Exploration Permit of the Zexu Mine of the Company originally expired on 20 February 2014. Concerned that the Company’s position and rights in the Optimization and Upgrading Plan might be compromised since the Updated Optimization and Upgrading Plan had still not then been approved by the Xinjiang Uygur Autonomous Region Government, the Company through its Xinjiang staff has continued to make informal representations to Chinese officials urging them to exercise administrative discretion to renew the Exploration Permit despite the fact that the Company had earlier obtained a PRC legal opinion advising the Company no further renewal beyond 20 February 2014 could be obtained for Zexu Mine Exploration Permit. Eventually, on 19 March 2014, the Company obtained a renewal permit from Xinjiang Land Department granting the renewal of the Exploration Permit from 25 February 2014 to 25 February 2016.

[#] “Optimization and Upgrading Plan” was previously referred to as “Management Restructuring Plan” in the announcement of the Company dated 11 November 2011 and in the announcements, notices, circulars, interim reports and annual reports of the Company thereafter.

^{##} “Updated Optimization and Upgrading Plan” was previously referred to as “Updated Restructuring Proposals” in the announcement of the Company dated 15 June 2012 and in the announcements, notices, circulars, interim reports and annual reports of the Company thereafter.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Prospects

The Board considers that the coal business is full of challenges and endeavors to achieve our goal of bringing maximum values for shareholders by strengthening management of the Company, controlling the cost of coal mining, cooperating with the national policies of developing economy in the western region, seizing new chances, exploring new markets, and seeking for investment opportunities.

Although the Company has obtained a renewal Exploration Permit of Zexu Mine from Xinjiang Land Department from 25 February 2014 to 25 February 2016, no development or production activity is now taking place and we have no existing plan to apply for the mining permit of Zexu Mine as the Company is still waiting for the written notification from the relevant Xinjiang government department in respect of the approval of the Updated Optimization and Upgrading Plan. The Company will continue to follow up the updated status of the approval process of the Updated Optimization and Upgrading Plan, in order to protect the interests of the Company in Kaiyuan Mine and Zexu Mine.

Despite the aforesaid progress of the Updated Optimization and Upgrading Plan, the Company is still waiting for the written notification from the relevant Xinjiang government department in respect of the approval of the Updated Optimization and Upgrading Plan. It is therefore uncertain whether the proposals can be approved by the PRC Government eventually. For this reason, the Company would keep all options open and the Company would not at this stage rule out the possibility of resuming the exploration process for Zexu Mine and then applying for a mining permit of the Zexu Mine either by the Company alone or jointly with other companies having coal mines in the vicinity if the circumstances warrant such course of action being taken.

Liquidity and Financial Resources

As at 30 September 2014, the Group had:

- net current assets of approximately HK\$300,627,000 (31 March 2014: approximately HK\$282,852,000).
- bank balances and cash of approximately HK\$331,489,000 (31 March 2014: approximately HK\$319,460,000) which were the major components of the Group's current assets of approximately HK\$361,817,000 (31 March 2014: approximately HK\$334,865,000).
- current liabilities of approximately HK\$61,190,000 (31 March 2014: approximately HK\$52,013,000) which comprised mainly trade and other payables of approximately HK\$59,519,000 (31 March 2014: approximately HK\$49,616,000).
- non-current liabilities of approximately HK\$256,468,000 (31 March 2014: approximately HK\$217,782,000) which comprised mainly deferred tax liability of approximately HK\$9,919,000 (31 March 2014: approximately HK\$10,555,000) and convertible bond designated as financial liabilities at fair value through profit or loss of approximately HK\$244,553,000 (31 March 2014: approximately HK\$205,231,000).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources *(Continued)*

The Group's gearing ratio was 1.76 (31 March 2014: 1.25). The computation is based on total debt (amount due to an intermediate holding company and convertible bond designated as financial liabilities at fair value through profit or loss) divided by total equity.

Charges on Group's Assets

As at 30 September 2014, none of the Group's assets was under charges (2013: Nil).

Foreign Exchange Exposure

The Group mainly earns revenue in RMB and incurs costs in RMB and Hong Kong dollars. The Group is exposed to foreign exchange risk based on fluctuations between Hong Kong dollars and RMB arising from its core operation in the PRC. In order to minimize the foreign currency risk exposure between these two currencies, the Group maintained cash balances in both currencies that are sufficient to meet three to four months' of operating cash flows requirements of the Group.

Treasury Policies

Apart from the issue of convertible bond at their face value of HK\$200 million, the Group finances its operation mainly by internal generated resources.

Contingent Liabilities and Capital Commitments

During the six months ended 30 September 2014, capital expenditure of HK\$148,000 in respect of the acquisition of plant and equipment was contracted for but not provided in the unaudited condensed consolidated interim financial information (31 March 2014: Nil). The Group did not have any material contingent liabilities.

Employees

As at 30 September 2014, the Group had 89 employees (31 March 2014: 91) spreading among Hong Kong and the PRC. Employment relationship has been well maintained by the Group with its employees. The Group has adopted an extensive training policy for its employees. It has also sponsored senior executives for higher education programmes.

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2014 (2013: Nil).

OTHER INFORMATION

Directors' and Chief Executives' Interests and Short Positions

As at 30 September 2014, the interests and short positions of the directors and chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were 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 have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Interests in an associated corporation of the Company

Name of director	Notes	Name of associated corporation	Capacity	Number of shares interested	Approximate percentage of the issued share capital
Ms. Lo Fong Hung	1	New Bright International Development Limited	Interests of controlled corporation	3,000(L)	30%
Mr. Wang Xiangfei	2	New Bright International Development Limited	Interests of controlled corporation	3,000(L)	30%

(L) denotes as long position

Notes:

1. Ms. Lo Fong Hung ("Ms. Lo") is interested in 3,000 shares in New Bright International Development Limited ("New Bright"), representing 30% of the issued share capital of New Bright, which currently owns 70% shareholding interests in China Sonangol International Limited ("China Sonangol"). China Sonangol is the holding company of Ascent Goal Investments Limited ("Ascent Goal"), the controlling shareholder of the Company. The shareholding interests of Ascent Goal in the Company is set out in the section headed "Substantial shareholders' interests" of this report.
2. Mr. Wang Xiangfei is the husband of Ms. Lo and is deemed to be interested in 3,000 shares of New Bright under the SFO.

OTHER INFORMATION *(Continued)*

- Ms. Lo, an executive director of the Company, owns 30% of the issued share capital of New Bright which in turn is interested in 70% of China Sonangol. China Sonangol is the holding company of Ascent Goal. Thus, Ms. Lo has an attributable interest in 569,616,589 shares of the Company and a HK\$200,000,000 convertible bond at the conversion price of HK\$0.20 (the "Convertible Bond") per share giving rise to an interest in 1,000,000,000 underlying shares of the Company.*

Save for those disclosed above, as at 30 September 2014, none of the directors or chief executives of the Company or their respective associates, had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were 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 have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Save for those disclosed under the headings "Directors' and chief executives' interests and short positions" above and "Share option scheme" below, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company (including their spouses and children under the age of 18) to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Share Option Scheme

Pursuant to the share option scheme of the Company approved at the annual general meeting held on 28 August 2003 (the "Share Option Scheme"), the Board may, at its discretion, offer any directors of the Company and eligible participants options to subscribe for shares in the Company subject to the terms and conditions of the Share Option Scheme. The purpose of the Share Option Scheme is to provide incentives to directors of the Company and eligible participants, and it has expired on 27 August 2013.

There was no outstanding share option under the Share Option Scheme as at 30 September 2014.

OTHER INFORMATION *(Continued)*

Substantial Shareholders' Interests

As at 30 September 2014, the following persons (other than directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares or underlying shares of the Company

Name of shareholder	Notes	Nature of interest	Number of shares held	Number of underlying shares held	Total number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
Ascent Goal	1,4	Beneficial owner	569,616,589	1,000,000,000	1,569,616,589	205.08%
China Sonangol	2,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
New Bright	2,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Ms. Fung Yuen Kwan, Veronica	3,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Africa Israel Investments Ltd.	5	Beneficial owner	45,000,000	-	45,000,000	5.88%
Mr. Lev Leviaev	5	Beneficial owner	1,000,000	-	1,000,000	0.13%
	5	Interests of controlled corporation	74,000,000	-	74,000,000	9.67%

Notes:

1. *Ascent Goal was directly interested in 569,616,589 shares and a further 1,000,000,000 underlying shares which may be fully allotted and issued if the Convertible Bond are converted at the conversion price of HK\$0.20 per share. These 1,569,616,589 shares were held by Ascent Goal directly as beneficial owner. It includes (i) interests in 569,616,589 shares and (ii) the Convertible Bond giving rise to an interest in 1,000,000,000 underlying shares.*
2. *Since Ascent Goal is a wholly-owned subsidiary of China Sonangol which is beneficially owned as to 70% by New Bright, the interests of Ascent Goal is deemed to be the interests of China Sonangol and in turn the interests of New Bright under the SFO.*

OTHER INFORMATION *(Continued)*

3. *Ms. Fung Yuen Kwan, Veronica is deemed to have interests in the shares and underlying shares through her 70% interests in New Bright.*
4. *The 569,616,589 shares and 1,000,000,000 underlying shares under the Convertible Bond represent 74.42% and 130.66% of the existing issued share capital of the Company respectively, thus the total of 569,616,589 shares and 1,000,000,000 underlying shares represent 205.08% of the existing issued share capital of the Company. The conversion rights attaching to the Convertible Bond will not be exercised and the Company will not issue the conversion shares if, immediately following the conversion, the Company would be unable to meet the public float requirement under the Listing Rules.*
5. *For the shares held by Mr. Lev Leviev, of these shares, 45,000,000 shares were held by Africa Israel Investments Ltd., a company controlled by Mr. Lev Leviev through his 74.89% interests in Africa Israel Investments Ltd.; 29,000,000 shares were held by Memorand Management (1998) Ltd., a company controlled by Mr. Lev Leviev through his 99% interests in Memorand Ltd.; and 1,000,000 shares were held by Mr. Lev Leviev directly.*
6. *The approximate percentage of shareholdings is based on 765,373,584 shares as at 30 September 2014, not the enlarged issued share capital of the Company upon full conversion of the Convertible Bond.*

Save as disclosed above, the directors of the Company are not aware of any other persons who, as at 30 September 2014, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2014.

Corporate Governance

In the opinion of the directors of the Company, the Company has complied with Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") during the six months ended 30 September 2014, save for the deviations from Code provisions A.2.1, A.6.7 and E.1.2 as disclosed below:

OTHER INFORMATION *(Continued)*

Code Provision A.2.1

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive ("CE") should be separate and should not be performed by the same individual. During the six months ended 30 September 2014, the Company did not have any officer with CE title. Ms. Lo Fong Hung, the Chairperson and Managing Director of the Company, also carried out the responsibility of CE during such period. In view of the size of operation of the Group, the Board considered that this structure is more suitable for the Company as it can promote the efficient formulation and implementation of the Company's strategies.

Code Provision A.6.7

Under Code provision A.6.7 of the Code, the independent non-executive directors and other non-executive directors should attend the general meeting and develop a balanced understanding of the views of shareholders. It was noted that one of the Independent Non-executive Directors of the Company was unable to attend the annual general meeting of the Company held on 25 August 2014 due to his other business commitments.

Code Provision E.1.2

Code provision E.1.2 of the Code provides that the chairman of the board should attend the annual general meeting. It was noted that the chairperson of the Board and the Nomination Committee, Ms. Lo Fong Hung was unable to attend the annual general meeting of the Company held on 25 August 2014 due to other business commitments.

Appointment of Director

Mr. Xu Xiao Sheng was appointed as an Independent Non-executive Director of the Company with effect from 14 July 2014.

He was also appointed as a member of the audit committee, the nomination committee and the remuneration committee of the Company respectively with effect from 14 July 2014.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. All directors of the Company have confirmed, following specific enquiry made by the Company, that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2014.

OTHER INFORMATION *(Continued)*

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises four independent non-executive directors, namely Mr. Lam Ka Wai, Graham, Mr. Wong Man Hin, Raymond, Mr. Chan Yiu Fai, Youdey and Mr. Xu Xiao Sheng. The Audit Committee together with the management of the Company have reviewed the accounting principles and practices adopted by the Group and discussed and reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2014.

By Order of the Board

Kwan Man Fai

Executive Director

Hong Kong, 26 November 2014