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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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board of directors (the “Board”) of Nan Nan Resources Enterprise Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2019 (the “Reporting Period”) together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended 30 September	
	<i>Notes</i>	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue	4	63,665	16,079
Cost of services and goods sold		(33,206)	(11,824)
Gross profit		30,459	4,255
Other revenue		3,473	5,836
Selling and distribution expenses		(185)	(183)
Administrative and other operating expenses		(19,513)	(12,221)
Exchange loss, net		(4,900)	(6,971)
Finance costs		(2,758)	–
Change in fair value of contingent consideration receivables	12	1,234	–
Change in fair value of convertible bond designated as financial liabilities at fair value through profit or loss (“FVPL”)	17	28,484	44,148
Profit before tax		36,294	34,864
Income tax expenses	5	(3,869)	(291)
Profit for the period	6	32,425	34,573

		Six months ended	
		30 September	
	<i>Notes</i>	2019	2018
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Other comprehensive loss			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of functional currency to presentation currency		<u>(8,406)</u>	<u>(15,421)</u>
Other comprehensive loss for the period (net of nil tax)		<u>(8,406)</u>	<u>(15,421)</u>
Total comprehensive income for the period		<u>24,019</u>	<u>19,152</u>
Profit/(Loss) for the period attributable to:			
– Owners of the Company		32,973	34,573
– Non-controlling interests		<u>(548)</u>	<u>–</u>
		<u>32,425</u>	<u>34,573</u>
Total comprehensive income/(loss) for the period attributable to:			
– Owners of the Company		24,061	19,152
– Non-controlling interests		<u>(42)</u>	<u>–</u>
		<u>24,019</u>	<u>19,152</u>
Earnings per share (expressed in Hong Kong cents)			
– Basic	8	<u>4.31</u>	<u>4.52</u>
– Diluted	8	<u>0.82</u>	<u>0.61</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		30 September 2019	31 March 2019
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	89,209	51,370
Intangible assets	10	14,809	18,505
Goodwill	11	28,377	4,229
Security deposit		5,241	5,506
Non-refundable deposits	13	2,315	2,431
Prepayments for acquisition of property, plant and equipment	13	1,252	19,635
Deferred tax assets		1,884	2,009
Contingent consideration receivables	12	6,598	–
		149,685	103,685
Current assets			
Inventories		9,330	7,573
Financial assets measured at FVPL		–	60,236
Trade and other receivables	13	14,758	8,224
Restricted bank balances	14	73,888	77,612
Cash and cash equivalents		312,385	278,814
		410,361	432,459
Current liabilities			
Convertible bond designated as financial liabilities at FVPL	17	189,385	217,869
Trade and other payables	15	75,547	58,794
Interest-bearing borrowings	16	67,302	68,345
Promissory notes	18	2,310	–
Lease liabilities	19	1,796	–
Tax payables		5,930	3,196
		342,270	348,204
Net current assets		68,091	84,255
Total assets less current liabilities		217,776	187,940
Capital and reserves			
Share capital	20	76,537	76,537
Reserves		131,711	107,102
Equity attributable to owners of the Company		208,248	183,639
Non-controlling interests		1,284	1,044
		209,532	184,683
Non-current liabilities			
Provision for close down, restoration and environmental costs		2,733	2,870
Promissory notes	18	2,164	–
Lease liabilities	19	2,221	–
Deferred tax liabilities		1,126	387
		8,244	3,257
		217,776	187,940

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2019

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Nan Nan Resources Enterprise Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). In the opinion of the directors of the Company, its holding company is Ascent Goal Investments Limited (“Ascent Goal”), a company incorporated in the British Virgin Islands with limited liability and its 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 8/F., Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong. 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 functional currency of the Company is Renminbi (“RMB”).

The Company is an investment holding company and the subsidiaries of the Company (together the “Group”) are principally engaged in (i) mining and sales of coal; (ii) renewable energy solution; and (iii) provision of information technology outsourcing, consultancy and technical services.

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, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Preparation of the condensed consolidated interim financial information requires the directors of the Company to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The condensed consolidated interim financial information includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 March 2019, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA. They shall be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2019 (the “2018/2019 Audited Financial Statements”).

In preparing these condensed consolidated interim financial information, significant judgements made by the directors of the Company in applying the Group’s accounting policies and the key sources of estimation uncertainty are the same as those that applied in the 2018/2019 Audited Financial Statements.

The condensed consolidated interim financial information is unaudited, but has been reviewed by the Company’s audit committee and the Company’s external auditor in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

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 value.

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 2019 are consistent with those followed in the preparation of the 2018/2019 Audited Financial Statements.

In the current interim period, the Group has applied the following new/revised HKFRSs issued by the HKICPA.

Annual Improvements to HKFRSs	<i>2015-2017 Cycle</i>
HKFRS 16	<i>Leases</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKAS 19	<i>Employee Benefits</i>
Amendments to HKAS 28	<i>Investments in Associates and Joint Ventures</i>
Amendments to HKFRS 9	<i>Payment Features with Negative Compensation</i>

Apart from the impact on adoption of HKFRS 16 as set out below, the adoption of those new/revised HKFRSs has no material impact on the Group's results and financial position for the current or prior periods and does not result in any significant change in accounting policies of the Group.

HKFRS 16 “Leases”

The Group has adopted HKFRS 16, which replaced HKAS 17, and the related consequential amendments to other HKFRSs for the six months ended 30 September 2019 which resulted in changes in accounting policies.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in profit or loss over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognised long-term lease liabilities in relation to leases of certain properties which had previously been classified as operating leases. The Group did not reassess if a contract was or contained a lease at adoption. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to profit or loss in the period in which it is incurred on the basis that produces a constant periodic rate of interest on the remaining lease liabilities balance.

At the inception of a contract that contains a lease component, as a lessee, the Group allocated the consideration in the contract to each lease component on the basis of their relative stand-alone-price. The Group, as a lessee assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the condensed consolidated statements of financial position immediately before the date of initial application. The right-of-use assets were recognised in the unaudited condensed consolidated statements of financial position.

Depreciation was charged to profit or loss on a straight-line basis over the shorter of the assets useful lives or over the unexpired term of lease.

Payments associated with short-term leases or leases of low-value assets are recognised on a straight-line basis over the lease term as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The following table reconciles the adjustments made to the carrying amounts recognised in relation to the operating lease commitments in the condensed consolidated statement of financial position at the date of initial application of HKFRS 16 on 1 April 2019:

	Carrying amounts on 31 March 2019 under HKAS 17 HK\$'000	Adjustments HK\$'000	Carrying amounts on 1 April 2019 Under HKFRS16 HK\$'000
Non-current assets			
Right-of-use assets, presented in property, plant and equipment	—	2,339	2,339
Current liabilities			
Lease liabilities	—	708	708
Non-current liabilities			
Lease liabilities	—	1,631	1,631

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate as at 1 April 2019. The weighted average discount rates applied are ranging from 5.39% to 5.91%.

	HK\$'000
Operating lease commitments as at 31 March 2019 in relation to long-term leased properties	2,936
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 March 2020	(386)
Less: Future interest expenses	(211)
Lease liabilities recognised as at 1 April 2019	<u>2,339</u>

As at the date of authorisation of the condensed consolidated interim financial information, the Group has not early adopted the new/revised HKFRSs that have been issued but are not yet effective.

3. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being identified as the chief operating decision makers (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services rendered. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments are as follows:

- (1) coal mining business segment: mining and sales of coals in the People’s Republic of China (the “Mainland China”);
- (2) renewable energy business segment: service income from renewable energy services in Malaysia;
- (3) IT services business segment: information technology consultancy and technical services (including sales of hardware products) and information technology outsourcing services in Hong Kong, Malaysia, Singapore and United Kingdom.

Segment revenue and results

Segment revenue represents revenue derived from (i) coal mining business; (ii) renewable energy business; and (iii) IT services business.

Segment results, which are the measures reported to the CODM for the purposes of resources allocation and assessment of segment performance, represent the gross profit earned or loss incurred by each segment after allocation of other profit or loss items that attributable to the relevant segment.

Segment assets include property, plant and equipment, intangible assets, goodwill, security deposit, deferred tax assets, contingent consideration receivables, inventories, financial assets measured at FVPL, trade and other receivables, restricted bank balances and cash and cash equivalents. All assets are allocated to operating segments other than unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities include convertible bond designated as financial liabilities at FVPL, trade and other payables, interest-bearing borrowings, lease liabilities, tax payables, provision for close down, restoration and environmental costs and deferred tax liabilities. All liabilities are allocated to operating segments other than unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

In addition, the directors of the Company consider that the Group’s place of domicile is Hong Kong, where the central management and control is located.

The followings are analysis of the Group's revenue and results by reportable and operating segments:

	Coal mining business HK\$'000	Renewable energy business HK\$'000	IT services business HK\$'000	Unallocated HK\$'000	Total HK\$'000
Six months ended 30 September 2019 (unaudited)					
Revenue from external customers and reportable segment revenue	<u>38,166</u>	<u>388</u>	<u>25,111</u>	<u>-</u>	<u>63,665</u>
Gross profit	25,159	303	4,997	-	30,459
Other revenue	2,800	-	145	528	3,473
Selling and distribution expenses	(185)	-	-	-	(185)
Administrative and other operating expenses	(6,430)	(357)	(2,123)	(10,603)	(19,513)
Finance costs	(2,412)	-	(279)	(67)	(2,758)
Change in fair value of contingent consideration receivables	-	-	-	1,234	1,234
Change in fair value of convertible bond designated as financial liabilities at FVPL	-	-	-	28,484	28,484
Exchange loss, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,900)</u>	<u>(4,900)</u>
Profit/(Loss) before tax	18,932	(54)	2,740	14,676	36,294
Income tax expenses/(credit)	<u>(3,863)</u>	<u>15</u>	<u>(21)</u>	<u>-</u>	<u>(3,869)</u>
Segment results	<u>15,069</u>	<u>(39)</u>	<u>2,719</u>	<u>14,676</u>	<u>32,425</u>
<i>Additional segment information:</i>					
Amortisation	2,908	38	-	-	2,946
Depreciation	1,840	115	237	540	2,732
Additions to property, plant and equipment	<u>29,507</u>	<u>9,025</u>	<u>1,315</u>	<u>821</u>	<u>40,668</u>

	Coal mining business HK\$'000	Renewable energy business HK\$'000	IT services business HK\$'000	Unallocated HK\$'000	Total HK\$'000
Six months ended 30 September 2018 (unaudited)					
Revenue from external customers and reportable segment revenue	16,079	–	–	–	16,079
Gross profit	4,255	–	–	–	4,255
Other revenue	5,836	–	–	–	5,836
Selling and distribution expenses	(183)	–	–	–	(183)
Administrative and other operating expenses	(5,285)	–	–	(6,936)	(12,221)
Change in fair value of convertible bond designated as financial liabilities at FVPL	–	–	–	44,148	44,148
Exchange loss, net	–	–	–	(6,971)	(6,971)
Profit before tax	4,623	–	–	30,241	34,864
Income tax expenses	(291)	–	–	–	(291)
Segment results	4,332	–	–	30,241	34,573
<i>Additional segment information:</i>					
Amortisation	1,865	–	–	–	1,865
Depreciation	1,080	–	–	36	1,116
Additions to property, plant and equipment	1,627	–	–	225	1,852

Segment assets and liabilities

The followings are analysis of the Group's assets and liabilities by reportable and operating segments:

	Coal mining business HK\$'000	Renewable energy business HK\$'000	IT services business HK\$'000	Unallocated HK\$'000	Total HK\$'000
As at 30 September 2019 (unaudited)					
Property, plant and equipment	70,341	14,293	1,668	2,907	89,209
Intangible assets	13,255	1,554	-	-	14,809
Goodwill	-	4,229	24,148	-	28,377
Contingent consideration receivables	-	-	-	6,598	6,598
Other assets	325,306	689	16,392	78,666	421,053
Total assets	<u>408,902</u>	<u>20,765</u>	<u>42,208</u>	<u>88,171</u>	<u>560,046</u>
Convertible bond designated as financial liabilities at FVPL	-	-	-	(189,385)	(189,385)
Other liabilities	<u>(146,455)</u>	<u>(445)</u>	<u>(5,544)</u>	<u>(8,685)</u>	<u>(161,129)</u>
Total liabilities	<u>(146,455)</u>	<u>(445)</u>	<u>(5,544)</u>	<u>(198,070)</u>	<u>(350,514)</u>
As at 31 March 2019 (audited)					
Property, plant and equipment	45,507	5,618	-	245	51,370
Intangible assets	16,913	1,592	-	-	18,505
Goodwill	-	4,229	-	-	4,229
Other assets	327,299	1,340	-	133,401	462,040
Total assets	<u>389,719</u>	<u>12,779</u>	<u>-</u>	<u>133,646</u>	<u>536,144</u>
Convertible bond designated as financial liabilities at FVPL	-	-	-	(217,869)	(217,869)
Other liabilities	<u>(129,435)</u>	<u>(1,084)</u>	<u>-</u>	<u>(3,073)</u>	<u>(133,592)</u>
Total liabilities	<u>(129,435)</u>	<u>(1,084)</u>	<u>-</u>	<u>(220,942)</u>	<u>(351,461)</u>

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, goodwill, non-refundable deposits and prepayments for acquisition of property, plant and equipment ("Specified Non-current Assets"). The geographical location of the revenue is presented based on the location of the customers. The geographical location of the Specified Non-current Assets is presented based on the physical location of the assets or the location of operation.

Location of revenue

Revenue from external customers

	Six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
The Mainland China	38,166	16,079
Hong Kong	13,369	–
Malaysia	8,445	–
Singapore	2,071	–
United Kingdom	1,614	–
	<u>63,665</u>	<u>16,079</u>

Location of the Specified Non-current Assets

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
	The Mainland China	87,163
Hong Kong	34,500	–
Malaysia	14,300	11,439
	<u>135,963</u>	<u>95,925</u>

Information about major customers

Revenue from external customers contributing 10% or more of the total revenue is as follow:

	Six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Customer A from coal mining business segment	*	10,197
Customer B from coal mining business segment	6,765	2,333
Customer C and its affiliated companies from IT services business segment	<u>12,761</u>	<u>–</u>

* The corresponding revenue did not contribute 10% or more of the total revenue of the Group during the period ended 30 September 2019.

4. REVENUE

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (unaudited)
Revenue from contracts with customers within HKFRS 15		
Coal mining business		
– Sales of coals	38,166	16,079
Renewable energy business		
– Service income from renewable energy services	388	–
IT services business		
– Sales of hardware products	4,446	–
– IT outsourcing services	14,606	–
– IT consultancy and technical services	6,059	–
	<u>63,665</u>	<u>16,079</u>

In addition to the information shown in segment disclosures, the revenue from contracts with customers within HKFRS 15 is disaggregated as follows:

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (unaudited)
<i>Timing of revenue recognition:</i>		
– at a point of time		
Sales of coals	38,166	16,079
Sales of hardware products	4,446	–
	<u>42,612</u>	<u>16,079</u>
– over time		
Service income from renewable energy services	388	–
IT outsourcing services	14,606	–
IT consultancy and technical services	6,059	–
	<u>21,053</u>	<u>–</u>
	<u>63,665</u>	<u>16,079</u>

5. INCOME TAX EXPENSES

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

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
The Mainland China Enterprise Income Tax	3,757	286
Malaysia corporate income tax (“Malaysia CIT”)	16	–
Singapore corporate income tax (“Singapore CIT”)	5	–
	<hr/>	<hr/>
	3,778	286
	<hr/>	<hr/>
Deferred tax		
Changes in temporary differences	91	5
	<hr/>	<hr/>
Total income tax expenses	3,869	291
	<hr/>	<hr/>

The Company is incorporated in Bermuda and is exempted from income tax in Bermuda. The Company’s subsidiaries established in the British Virgin Islands and Samoa are exempted from income tax in the British Virgin Islands and Samoa respectively.

In March 2018, the two-tiered profits tax rates regime was signed into law of Hong Kong, under which the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5% for the six months ended 30 September 2019 and 2018. The profits of corporations in the Group not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% of the estimated assessable profits for the six months ended 30 September 2019 and 2018.

Under the Law of the Mainland China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Mainland China subsidiaries is 25% for both six months ended 30 September 2019 and 2018.

Malaysia CIT is calculated at the rate of 24% of the estimated assessable profits of the Group’s entities in Malaysia arising from Malaysia during the period ended 30 September 2019. Malaysia incorporated entities with paid-up capital of RM2.5 million or less enjoy tax rate of 18% on the first RM500,000 and remaining balance of the estimated assessable profits at the standard rate for the six months ended 30 September 2019.

During the six months ended 30 September 2019, Malaysian subsidiaries are eligible for a reduction of between 1% and 4% on the standard tax rate for a portion of their income if there is an increase of 5% or more in the entities’ taxable income from a business, compared to the immediately preceding year of assessment. The reduction in the tax rate will apply to the portion of taxable income representing the increase.

Singapore CIT is calculated at the rate of 17% of the estimated assessable profits of the Group's entities in Singapore arising from Singapore with Singapore CIT rebate of 20%, capped at Singapore dollars ("S\$") 10,000 for the six months ended 30 September 2019.

During the six months ended 30 September 2019, Singapore incorporated companies can enjoy 75% tax exemption on the first S\$10,000 of normal taxable income and a further 50% tax exemption on the next S\$290,000 of normal taxable income.

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as there was no estimated assessable profits being derived from Hong Kong for both six months ended 30 September 2019 and 2018.

The Group's entities established in United Kingdom is subject to the CIT at a statutory rate of 19% for the six months ended 30 September 2019.

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Finance costs		
Interest on interest-bearing borrowings	2,568	–
Interest on promissory notes	110	–
Interest on lease liabilities	80	–
	<hr/> 2,758 <hr/>	<hr/> – <hr/>
Other items		
Amortisation of intangible assets (included in "Cost of services and goods sold")	2,946	1,865
Cost of inventories sold	16,471	11,824
Depreciation of property, plant and equipment	2,732	1,116
Staff costs (excluding directors' remuneration)		
– Basic salaries, allowances, bonus and other short-term employee benefits	23,312	4,165
– Contributions to defined contribution retirement plans	962	471
	<hr/> 962 <hr/>	<hr/> 471 <hr/>

7. INTERIM DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 September 2019 (six months ended 30 September 2018: Nil). The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 September 2018: Nil).

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share attributable to the owners of the Company for the period is based on the following data:

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit		
Profit for the purpose of basic earnings per share (Profit for the period attributable to owners of the Company)	<u>32,973</u>	<u>34,573</u>
Weighted average number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>765,373,584</u>	<u>765,373,584</u>

(b) Diluted earnings per share

The calculation of the diluted earnings per share attributable to the owners of the Company for the period is based on the following data:

(i) Profit for the period attributable to owners of the Company

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period attributable to owners of the Company	32,973	34,573
Change in fair value of convertible bond	(28,484)	(44,148)
Exchange loss on convertible bond	<u>10,064</u>	<u>20,426</u>
	<u>14,553</u>	<u>10,851</u>

(ii) *Weighted average number of ordinary shares*

	Six months ended 30 September	
	2019	2018
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	765,373,584	765,373,584
Effect of conversion of convertible bond	1,000,000,000	1,000,000,000
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,765,373,584	1,765,373,584
	<hr/>	<hr/>

9. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, equipment and motor vehicles <i>HK\$'000</i>	Construction- in-progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
As at 1 April 2019 (audited)	–	14,458	25,298	7,500	32,350	79,606
Adjustment on transition to HKFRS16 (<i>Note 2</i>)	2,339	–	–	–	–	2,339
Additions through acquisition of subsidiaries (<i>Note 23</i>)	565	–	–	24	–	589
Exchange realignment	–	(1,112)	(1,961)	(245)	(988)	(4,306)
Additions	1,605	297	556	240	37,970	40,668
Transfers	–	19,331	40,698	–	(60,029)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 September 2019 (unaudited)	4,509	32,974	64,591	7,519	9,303	118,896
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation and impairment losses						
As at 1 April 2019 (audited)	–	7,757	15,758	4,721	–	28,236
Exchange realignment	–	(380)	(666)	(235)	–	(1,281)
Charge for the year	657	370	1,341	364	–	2,732
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 September 2019 (unaudited)	657	7,747	16,433	4,850	–	29,687
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net carrying amount						
As at 30 September 2019 (unaudited)	3,852	25,227	48,158	2,669	9,303	89,209
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 March 2019 (audited)	–	6,701	9,540	2,779	32,350	51,370
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

10. INTANGIBLE ASSETS

During the six months ended 30 September 2019, no impairment loss (six months ended 30 September 2018: no impairment loss) was made on the intangible assets.

11. GOODWILL

	Coal Mining CGU HK\$'000 (Note (a))	Renewable Energy CGU HK\$'000 (Note (b))	IT Services CGU HK\$'000 (Note (c))	Total HK\$'000
Cost				
As at 1 April 2019 (audited)	37,469	4,229	–	41,698
Arising from acquisition of subsidiaries (Note 23)	–	–	24,148	24,148
As at 30 September 2019 (unaudited)	37,469	4,229	24,148	65,846
Accumulated impairment losses				
As at 1 April 2019 (audited) and 30 September 2019 (unaudited)	37,469	–	–	37,469
Net carrying amount				
As at 30 September 2019 (unaudited)	–	4,229	24,148	28,377
As at 31 March 2019 (audited)	–	4,229	–	4,229

11(a) Coal Mining CGU

The goodwill arising on acquisition of 奇台縣澤旭商貿有限責任公司 (Qitai County Zexu Trading Company Limited*) and 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Coal Company Limited*, “Kaiyuan Company”) was fully impaired during the year ended 31 March 2011.

* English translation for identification purpose only.

11(b) Renewable Energy CGU

The goodwill arising from the acquisition of 90% equity interests in NEFIN Leasing Technologies Limited and its subsidiary on 8 October 2018 was included in the cash generating units engaged in renewable energy solutions (the “Renewable Energy CGU”).

As at 30 September 2019, the directors of the Company assessed the recoverable amount of the Renewable Energy CGU with reference to value-in-use (“VIU”) calculations using cash flow projections based on financial budgets and forecasts covering a five-year period and extrapolation of cash flows beyond such period conducted by ValQuest Advisory Group Limited (“ValQuest”).

As at 30 September 2019, the recoverable amount of the Renewable Energy CGU is higher than its carrying amount. Accordingly, there was no impairment on the goodwill during the six months ended 30 September 2019.

11(c) IT services CGU

The goodwill of approximately HK\$24,148,000 arising from the acquisition of 80.86% equity interests in Harbour Group Holdings Limited (“Harbour Group Holdings”) and its subsidiaries (together referred to as “Harbour Group”) on 23 April 2019 (Note 23) was included in the cash generating units engaged in information technology outsourcing, consultancy and technical services (the “IT services CGU”).

As at 30 September 2019, the directors of the Company assessed the recoverable amount of the IT services CGU with reference to VIU calculations using cash flow projections based on financial budgets and forecasts covering a five-year period and extrapolation of cash flows beyond such period conducted by Peak Vision Appraisals Limited (“Peak Vision”).

As at 30 September 2019, the recoverable amount of the IT services CGU is higher than its carrying amount. Accordingly, there was no impairment on the goodwill during the six months ended 30 September 2019.

12. CONTINGENT CONSIDERATION RECEIVABLES

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Reconciliation of carrying amount		
At the beginning of the reporting period	–	–
Arising from acquisition of subsidiaries	5,364	–
Change in fair value recognised in profit or loss	1,234	–
	<hr/>	<hr/>
At the end of the reporting period	6,598	–
	<hr/>	<hr/>

As part of the acquisition consideration upon the completion of the acquisition of Harbour Group Holdings, the vendor of Harbour Group (the “Vendor”) has agreed to guarantee to the Company that the audited consolidated net profit generated from operating activities of Harbour Group in its ordinary and usual course of business (i.e. the net profit after tax of Harbour Group as to be shown in the audited accounts of Harbour Group), prepared in accordance with HKFRS issued by the HKICPA for the relevant financial period by the auditors appointed by the Company (the “Net Profit”) for each of the financial years ended/ending 31 December 2018, 2019 and 2020 (each such 12-month period is referred to as a “PG 12-Month Period”) shall be no less than HK\$7,200,000 per annum (the “Guaranteed Profit”). In the event that the Net Profit during the PG-12 Month Period is less than the Guaranteed Profit, the Vendor unconditionally and irrevocably undertakes and guarantees, as a continuing obligation, to pay such shortfall multiplying the ratio (1.13) (the “Shortfall Amount”) presented as below:

$$\text{Shortfall Payment} = 1.13 \times (\text{Guaranteed Profit} - \text{Net Profit})$$

In the opinion of the directors of the Company, this profit guarantee is for the exchange of control for the Harbour Group and therefore considered as contingent consideration receivables and measured at fair value. Subsequent changes to the fair value of the contingent consideration receivables will be recognised in profit or loss of the Group, approximately HK\$1,234,000 was recognised in profit or loss during the six months ended 30 September 2019.

The valuation of the contingent consideration receivables is valued by Peak Vision in accordance with HKFRS 13 and is mainly based on the latest audited financial information of Harbour Group for the year ended 31 December 2018 and Harbour Group’s financial performance forecasts for the years ending 31 December 2019 and 2020 prepared by the management of the Harbour Group. Accordingly, the fair value of the contingent consideration receivable was estimated to be approximately HK\$5,364,000 as at the acquisition date (i.e. 23 April 2019). Monte Carlo Simulation Method is used for the valuation of contingent consideration receivables which is commonly-adopted in the market. It was first introduced to finance in 1964 by David B. Hertz through his Harvard Business Review article, and in 1977, Prelim Boyle pioneered the use of simulation in derivative valuation in his seminal Journal of Financial Economics paper.

The value of contingent consideration receivables is derived from the cash flow compensation as a result of the possibility of failure to meet the Guaranteed Profit by Harbour Group. As such, Peak Vision adopted the Monte Carlo Simulation Method, which is a path dependent model to consider the probability weighted distribution of the possible outcomes and factors the volatility of these outcomes. The Monte Carlo Simulation Method is one of the most commonly adopted valuation methodologies to value contingent receivable or profit guarantee.

The Vendor shall pay to the Group the Shortfall Amount by way of cash and/or setting off the same amount from the amount owed by the Company under the Promissory Notes (as defined in Note 18) after the audited financial statements are issued by the auditors of Harbour Group for the relevant PG-12 Month Period.

In the event that the Net Profit for the PG-12 Month Period exceeds the Guaranteed Profit, such excess amount shall not be carried forward to meet the Guaranteed Profit for the subsequent period.

Key inputs adopted in the calculation of the fair value of contingent consideration receivables are summarised below:

	30 September 2019 (unaudited)	23 April 2019 (unaudited)
Discount rate	6.88% – 7.09%	6.65% – 6.78%
Volatility	41.46% – 63.00%	58.62% – 61.40%
Time to maturity	<u>0.25 year – 1.25 year</u>	<u>0.67 year – 1.67 year</u>

The description of sensitivity of changes in unobservable inputs for recurring Level 3 fair value measurements, are as follows:

Asset	Valuation technique	Unobservable inputs	Relationship of unobservable inputs to fair value
Contingent consideration receivables	Monte-Carlo Simulation	Discount rate	The higher the discount rate, the lower the fair value, vice versa
		Volatility	The higher the volatility, the higher the fair value, vice versa

13. TRADE AND OTHER RECEIVABLES

	30 September	31 March
	2019	2019
<i>Note</i>	HK\$'000	HK\$'000
	(unaudited)	(audited)
Trade receivables		
From third parties	8,044	–
Loss allowances	(46)	–
	<hr/>	<hr/>
<i>13(a)</i>	7,998	–
	<hr/>	<hr/>
Other receivables		
Prepayments, deposits and other receivables	6,566	4,040
Refundable deposit paid for acquisition of subsidiaries	–	3,571
Other taxes receivables	194	613
Non-refundable deposits	2,315	2,431
Prepayments for acquisition of property, plant and equipment	1,252	19,635
	<hr/>	<hr/>
	10,327	30,290
	<hr/>	<hr/>
	18,325	30,290
	<hr/>	<hr/>
Analysed by:		
Non-current assets	3,567	22,066
Current assets	14,758	8,224
	<hr/>	<hr/>
	18,325	30,290
	<hr/>	<hr/>

13(a) Trade receivables

Loss allowance

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

The Group grants credit period up to 60 days from the date of issuance of invoice to its customers from renewable energy business segment and IT services business segment.

Ageing analysis

At the end of reporting period, the ageing analysis of the trade receivables (presented based on the invoice date) and bills receivables (presented based on the issuance date of relevant bills), net of loss allowances was as follows:

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Within 30 days	5,006	–
31-60 days	1,425	–
61-90 days	778	–
Over 90 days	835	–
Less: loss allowance	(46)	–
	<hr/> 7,998 <hr/>	<hr/> – <hr/>

14. RESTRICTED BANK BALANCES

Pursuant to the loan agreement signed with a bank in the Mainland China, the amounts represent bank balances in the bank in the Mainland China maintained solely for the purpose of settlement of outstanding interest-bearing borrowings and are restricted for use by the Group for any other purposes. The restricted bank balances are denominated in RMB.

15. TRADE AND OTHER PAYABLES

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

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Within 90 days	12,099	11
91-180 days	32	10,523
181-365 days	9,938	80
Over 1 year	71	75
Trade payables	22,140	10,689
Contract liabilities	8,002	564
Government levies payable		
– Economic development fees in coal resources areas	25,997	27,307
– Others	3,660	3,845
Accrued expenses	3,547	3,906
Non-refundable deposits received	6,909	5,673
Other payables	5,292	6,810
Total trade and other payables	<u>75,547</u>	<u>58,794</u>

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

16. INTEREST-BEARING BORROWINGS

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Current portion		
Interest-bearing borrowings, secured	<u>67,302</u>	<u>68,345</u>

As at 30 September 2019, the Group's interest-bearing borrowings of approximately HK\$63,962,000 are dominated in RMB, carry interest rate at 4.75% per annum (31 March 2019: 4.75%) and are repayable by instalments of RMB1,000,000 semi-annually while the outstanding balances of the borrowings are to be repaid in full in September 2020. The interest-bearing borrowings are secured by restricted bank balances (Note 14) with carrying amount of approximately HK\$73,888,000 (31 March 2019: approximately HK\$77,612,000). The Group's interest-bearing borrowings of approximately HK\$3,340,000 are dominated in HK\$ carry interest rate at 4.40% to 6.00% per annum and are wholly repayable within five years since its inception. The interest-bearing borrowings are guaranteed by a director of the Group's subsidiaries and the Hong Kong Mortgage Corporation Limited.

The interest-bearing borrowings with a clause in their terms that gives the bank an overriding right to demand for repayment without notice at its sole discretion are classified as current liabilities even though the directors of the Company do not expect that the bank would exercise its right to demand repayment.

17. CONVERTIBLE BOND

On 14 March 2008, the Company issued 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\$0.10 each. The bond is denominated in HK\$ and entitles the holders to convert any parts of it into ordinary shares of the Company at any time between the date of issue of the bond and its 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.

On 11 February 2011, the Company entered into a deed of amendment with Ascent Goal (“1st extended 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 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 fair value through profit or loss in the condensed consolidated statement of financial position.

On 21 January 2014, the Company entered into a second deed of amendment with Ascent Goal (“2nd extended Convertible Bond”) to extend the maturity date of 1st extended 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 (“2nd extended Maturity Date”). Apart from the extension of maturity date and the conversion period, all terms of the 2nd extended Convertible Bond remain unchanged from the original terms.

The 2nd extended Maturity Date is considered to be a substantial modification of terms of 1st extended Convertible Bond as the discounted present value of the cash flows of the 2nd extended Convertible Bond is more than 10% different from the discounted present value of the cash flows of the outstanding 1st extended Convertible Bond prior to the extension of maturity date. As such, Convertible Bond was derecognised and 2nd extended Convertible Bond was recognised. The fair value of the 2nd extended Convertible Bond as at 14 March 2014 amounting to approximately HK\$200,000,000. An extinguishment loss of approximately HK\$211,000 has been recognised in profit or loss during the year ended 31 March 2014.

On 25 January 2017, the Company entered into a third deed of amendment with Ascent Goal (“3rd extended Convertible Bond”), to further extend the maturity date of the 2nd extended Convertible Bond for 36 months and the conversion period will accordingly be extended for 36 months from 14 March 2017 (date of extension) to 13 March 2020 (“3rd extended 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 3rd extended Maturity Date was considered to be a substantial modification of terms of the 2nd extended Convertible Bond as the discounted present value of the cash flows of the 3rd extended Convertible Bond is more than 10% different from the discounted present value of the cash flows of the 2nd extended Convertible Bond prior to the extension of maturity date. As such, the 2nd extended Convertible Bond was derecognised and the 3rd extended Convertible Bond was recognised. The fair value of the 3rd extended Convertible Bond as at 14 March 2017 amounted to approximately HK\$264,904,000. An extinguishment loss of approximately HK\$5,941,000 has been recognised in profit or loss during the year ended 31 March 2017.

The 3rd extended Convertible Bond was valued by the directors of the Company with reference to valuation report issued by an independent qualified valuer not connected to the Group. The fair value changes during the six months ended 30 September 2019 and 2018 have been recognised in profit or loss.

The movements of the convertible bond for the period/year are set out below:

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Balance at beginning of the period/year	217,869	247,242
Fair value change credited to the profit or loss	(28,484)	(29,373)
Loss on translation of 3 rd extended Convertible Bond denominated in a foreign currency into the functional currency	10,064	16,340
Exchange adjustment arising on translation of functional currency to presentation currency and record to other comprehensive income	(10,064)	(16,340)
Balance at end of the period/year	<u>189,385</u>	<u>217,869</u>
Analysed for reporting as:		
Current liabilities	<u>189,385</u>	<u>217,869</u>
Difference between carrying amount and maturity amount:		
3 rd extended Convertible Bond at fair value	189,385	217,869
Amount payable on maturity	<u>(200,000)</u>	<u>(200,000)</u>
	<u>(10,615)</u>	<u>17,869</u>

None of the 3rd extended Convertible Bond had been converted into ordinary shares of the Company during the six months ended 30 September 2019 and the year ended 31 March 2019.

18. PROMISSORY NOTES

		30 September	31 March
		2019	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
At the beginning of the reporting period		–	–
Issued during the period	<i>(i)</i>	6,764	–
Repayment of a promissory note	<i>(ii)</i>	(2,400)	–
Accrued effective interest expenses		110	–
		<hr/>	<hr/>
Carrying value at the end of the reporting period		4,474	–
		<hr/>	<hr/>
Face value, at the end of the reporting period		4,800	–
		<hr/>	<hr/>
<i>Analysed by:</i>			
Non-current liabilities		2,164	–
Current liabilities		2,310	–
		<hr/>	<hr/>
		4,474	–
		<hr/>	<hr/>

- (i) During the six months ended 30 September 2019, 3 promissory notes with principal amount of HK\$2,400,000 each (“Promissory Note 1”, “Promissory Note 2” and “Promissory Note 3”, together “Promissory Notes”) were issued by the Company to the as part of the acquisition consideration upon the completion of the Group’s acquisition of Harbour Group Holdings on 23 April 2019 with a fair value of approximately HK\$6,764,000 (aggregate principal amount of HK\$7,200,000) based on the professional valuation performed by Peak Vision, as set out in Note 23. The Promissory Notes bear no interest. The maturity dates of Promissory Note 1, Promissory Note 2 and Promissory Note 3 are 15 business days after the audited consolidated financial statements are issued by the auditors of the Harbour Group for the year ended/ending 31 December 2018, 2019 and 2020, respectively. The effective interest rates of the Promissory Note 1, Promissory Note 2 and Promissory Note 3 were determined to be approximately 0%, 6.65% and 6.78% per annum, respectively.
- (ii) During the six months ended 30 September 2019, the Group fully repaid the Promissory Note 1 with principal amount of HK\$2,400,000 as it was mature.

19. LEASE LIABILITIES

	30 September 2019	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Carrying amount of right-of-use assets <i>(Note 9)</i>		
Leased properties	3,464	–
Motor vehicles	388	–
	<u>3,852</u>	<u>–</u>
	30 September 2019	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
<i>Lease liabilities</i>		
Current	1,796	–
Non-current	2,221	–
	<u>4,017</u>	<u>–</u>

In addition to the information disclosed in Note 9, the Group had the following amounts relating to leases during the six months ended 30 September 2019:

	30 September 2019	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Depreciation charge of right-of-use assets		
Leased properties	480	–
Motor vehicles	177	–
	<u>657</u>	<u>–</u>

The total cash outflow for leases for the period ended 30 September 2019 was approximately HK\$560,000.

Commitments and present value of lease liabilities:

	Lease payments		Present value of lease payments	
	30 September 2019 <i>HK\$'000</i> (unaudited)	31 March 2019 <i>HK\$'000</i> (audited)	30 September 2019 <i>HK\$'000</i> (unaudited)	31 March 2019 <i>HK\$'000</i> (audited)
Amount payable:				
Within one year	1,990	–	1,818	–
More than one year, but not exceeding two years	<u>2,280</u>	<u>–</u>	<u>2,199</u>	<u>–</u>
	4,270	–	4,017	–
Less: future finance charges	<u>(253)</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>4,017</u>	<u>–</u>	<u>4,017</u>	<u>–</u>

20. SHARE CAPITAL

	Number of ordinary shares of HK\$0.1 each	Amount <i>HK\$'000</i>
Ordinary Shares		
Authorised:		
At 1 April 2018 (audited), 31 March 2019 (audited) and 30 September 2019 (unaudited)	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 April 2018 (audited), 31 March 2019 (audited) and 30 September 2019 (unaudited)	<u>765,373,584</u>	<u>76,537</u>

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 30 September 2019 and 31 March 2019.

Fair value hierarchy

The following table presents the fair value of the Group'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 and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 (lowest level): unobservable inputs for the asset or liability

The Group uses independent professional valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierarchy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent professional valuers at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

	Fair value as at 30 September 2019 HK\$'000	Unaudited		
		Fair value measurements as at 30 September 2019 categorised into		
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurements				
Assets:				
Contingent consideration receivables	6,598	-	-	6,598
Liabilities:				
Convertible bond designated as financial liabilities at FVPL	(189,385)	-	-	(189,385)

	Fair value as at 31 March 2019 HK\$'000	Audited		
		Fair value measurements as at 31 March 2019 categorised into		
		Level 1	Level 2	Level 3
		HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements				
Assets:				
Financial assets measured at FVPL-				
Principal guaranteed funds	60,236	–	60,236	–
Liabilities:				
Convertible bond designated as financial liabilities at FVPL	<u>(217,869)</u>	<u>–</u>	<u>–</u>	<u>(217,869)</u>

During the year ended 31 March 2019 and six months ended 30 September 2019, 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.

The fair value of the principal guaranteed funds was determined by reference to the price quoted by the bank at initial subscription and adjusted for any change in relevant interest rates credit rating and/or holding period of the principal guaranteed funds, if the impact is material.

Information about Level 3 fair value measurements

The descriptions of the valuation techniques and inputs used in fair value measurement for contingent consideration receivables were detailed in Note 12.

Convertible bond designated as financial liabilities at FVPL

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 binomial 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 the Company;

- (iii) The discount rate was determined based on the Company's credit rating and comparable corporate bonds with similar maturity and credit risk for which the range of comparable yield to maturity as of date of valuation was determined and the median has been adopted; and
- (iv) The estimation of dividend yield is based on historical dividend payment of the Company.

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

	30 September 2019 (unaudited)	31 March 2019 (audited)
Stock price	HK\$0.19	HK\$0.24
Exercise price	HK\$0.20	HK\$0.20
Risk free rate	2.01%	1.44%
Discount rate	14.20%	9.40%
Dividend yield	0%	0%
Time to expiration	0.45 years	0.95 years
Stock price volatility	39.32%	64.00%

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% (31 March 2019: 5%) higher with all other variables held constant, the Group's profit for the six months ended 30 September 2019 would decrease and accumulated losses would increase by approximately HK\$992,000 (31 March 2019: the Group's profit for the year would decrease and accumulated losses would increase by approximately HK\$3,080,000) during the six months ended 30 September 2019. If the expected stock price volatility has been 5% (31 March 2019: 5%) lower with all other variables held constant, the Group's profit for the six months ended 30 September 2019 would increase and accumulated losses would decrease by approximately HK\$694,000 (31 March 2019: the Group's profit for the year would increase and accumulated losses would decrease by approximately HK\$3,048,000) during the six months ended 30 September 2019.

Reconciliation of Level 3 fair value measurements

The movements during the period in the balances of financial asset and financial liability of level 3 fair value measurement is set out in Note 12 and Note 17, respectively.

22. RELATED PARTY TRANSACTIONS

- (a) Except as disclosed elsewhere in the condensed consolidated interim financial information, the significant related party transactions are as follows:

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
China Sonangol International Limited (“China Sonangol”) (Note a)		
– rental expenses	–	420

Note:

- (a) China Sonangol is an intermediate holding company of the Company.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management for the six months ended 30 September 2019 and 2018 were as follows:

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Basic salaries, allowances, bonus and other short-term employee benefits	7,580	1,494
Contributions to defined contribution retirement plans	22	7
	<u>7,602</u>	<u>1,501</u>

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

23. ACQUISITION OF SUBSIDIARIES

On 11 March 2019, (i) Ample Talent Ventures Limited (“Ample Talent”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, the Vendor, pursuant to which the Vendor has conditionally agreed to sell, and Ample Talent has conditionally agreed to purchase 80% equity interest in Harbour Group Holdings at an aggregate consideration of HK\$35,712,000; and (ii) Ample Talent and Harbour Group Holdings entered into a subscription agreement, pursuant to which Harbour Group Holdings has conditionally agreed to issue and allot to Ample Talent, and Ample Talent has conditionally agreed to subscribe for 450 ordinary shares of Harbour Group Holdings, representing approximately 4.5% of the total number of shares of Harbour Group Holdings in issue as at the date of subscription agreement at an aggregate subscription price of HK\$2,008,800. Upon completion of the above transactions, Ample Talent held 80.86% equity interest in Harbour Group Holdings.

Pursuant to the sale and purchase agreement, the consideration for the sale and purchase of the sale shares shall be the sum of HK\$35,712,000, which shall be settled by Ample Talent to the Vendor in the following manner:

- (a) on the date of the sale and purchase agreement, the Ample Talent paid to the Vendor a sum of HK\$3,571,200 in cash as a refundable deposit and partial payment of the consideration; and
- (b) at the completion date of sale and purchase of the 80% equity interest in Harbour Group Holdings, Ample Talent shall pay to the Vendor (i) a further sum of HK\$24,940,800 in cash; and (ii) the remaining amount of HK\$7,200,000 by means of the issue of the Promissory Notes by the Company to the Vendor.

Pursuant to the sale and purchase agreement, the Vendor has agreed to guarantee that the Net Profit for PG 12-Month Period shall be no less than the Guaranteed Profit. In the event that the Net Profit during the PG 12-Month Period is less than the Guaranteed Profit, the Vendor unconditionally and irrevocably undertakes and guarantees, as a continuing obligation, to pay the Shortfall. The detail is set out in Note 12.

Harbour Group consists of Harbour Group Holdings, Harbour Group (Singapore) Pte. Limited, Harbour Group Consulting (UK) Limited, HGH Technology Sdn. Bhd., Mountain Managed Cloud Consulting Limited and Vanguard Business Services Limited. Harbour Group is principally engaged in the provision of information technology outsourcing, consultancy and technical services mainly in Hong Kong with expanding business in United Kingdom, Malaysia and Singapore. The directors of the Company are of the view that the acquisition can broaden the Group’s revenue base and benefit from the diversified return in future. The acquisition constituted a business combination and had been accounted for using the acquisition method under HKFRS 3 Business Combinations.

On 23 April 2019, the acquisition of Harbour Group Holdings was completed and Harbour Group has become subsidiaries of the Group since then. The consideration paid and the amounts of the net identifiable assets acquired and liabilities assumed of Harbour Group are as follows:

HK\$'000

Total identifiable assets acquired and liabilities assumed, at fair value:

Non current assets

Property, plant and equipment	589
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Current assets

Trade and other receivables	13,906
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Bank balances and cash	6,027
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Current liabilities

Trade and other payables	(5,132)
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Income tax payables	(427)
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Bank overdrafts and interest-bearing borrowings	(4,112)
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Lease liabilities	(553)
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Non current liabilities

Deferred tax liabilities	(685)
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Total identifiable net assets, at fair value	9,613
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Non-controlling interests	(1,840)
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Goodwill arising from acquisition (Note 11)	24,148
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Net consideration (fair value)	31,921
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Satisfied by:

Cash	30,521
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Promissory Notes (<i>Note 18</i>)	6,764
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37,285

Less:

Fair value of contingent consideration receivables (<i>Note 12</i>)	(5,364)
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Net consideration (fair value)	31,921
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Analysis of the net outflows in respect of the acquisition of Harbour Group is as follows:

Cash and cash equivalents acquired	6,027
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Cash paid	(30,521)
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(24,494)

The directors of the Company have engaged Peak Vision to provide assistance in determining the fair value of the assets and liabilities of Harbour Group in accordance with HKFRS 13. Peak Vision has reviewed the methodologies, the key valuation parameters and business assumptions adopted.

The non-controlling interests were measured at the present ownership instruments' proportionate share in the recognised amounts of the Harbour Group's identifiable net assets as at 23 April 2019.

The goodwill arising from the acquisition is attributable to the growth and profit potential in the expansion of innovative and information technology business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Since acquisition and up to 30 September 2019, the acquired business has contributed revenue of approximate HK\$25,111,000 and contributed a profit of approximately HK\$2,719,000 to the Group.

If the business combinations effected during the six months ended 30 September 2019 had been taken place as at 1 April 2019, the revenue and profits of the Group would be increased by approximately HK\$29,868,000 and increased by approximately HK\$3,120,000, respectively.

24. COMMITMENTS

Capital expenditure commitments

	30 September 2019	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Contracted but not provided net of deposit paid for acquisition of property, plant and equipment	<u>28,248</u>	<u>13,993</u>

Operating lease commitments

The Group as lessee

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

At end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2019	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Within one year	1,312	1,211
In the second to fifth years, inclusive	<u>–</u>	<u>1,725</u>
	<u>1,312</u>	<u>2,936</u>

25. EVENTS AFTER REPORTING PERIOD

- (a) On 1 November 2019, Kaiyuan Company received a reminder notice issued by Production Safety Supervision and Administration Bureau of Xinjiang Zhundong Economic and Technological Development Zone* (新疆准東經濟技術開發區安全生產監督管理局), pursuant to which, Kaiyuan Company shall suspend the mining operations and sale of Kaiyuan Open Pit Coal Mine (“Kaiyuan Mine”) after the expiry of the mining permit of Kaiyuan Company at Kaiyuan Mine (“Existing Mining Permit”) on 3 November 2019 if Kaiyuan Company fails to extend the Existing Mining Permit. The operation of Kaiyuan Mine was suspended following the expiry of the Existing Mining Permit on 3 November 2019.
- (b) As disclosed in the announcement of the Company on 15 November 2019:

Kaiyuan Company has been granted the New Mining Permit in respect of the Kaiyuan Extended Area Mining Right for the Kaiyuan Mine with an enlarged mining area (including the original mining area) from the original mining area of approximately 1.1596 km² (the “Original Kaiyuan Mine”) to 4.1123 km² (the “Enlarged Kaiyuan Mine”). The New Mining Permit is valid for 1 year from 21 December 2018 to 21 December 2019, which covers a mining area of approximately 4.1123 km² with designed capacity of 0.9 million tonnes per annum, representing ten times of the designed annual capacity of 90,000 tonnes of the Original Kaiyuan Mine;

According to the New Mining Permit, the estimated coal resources of the approved Kaiyuan Extended Area Mining Right for the mining life of 30 years are 41.6433 million tonnes. The assessed value of the Kaiyuan Extended Area Mining Right by the Xinjiang Natural Resources Department is RMB160,978,000;

A formal transfer agreement is requested to be entered into between Kaiyuan Company and the Xinjiang Natural Resources Department, which sets out the rights and obligations of the respective parties in respect of the Kaiyuan Extended Area Mining Right, including but not limited to, the amount payable (i.e. the assessed value) by the Kaiyuan Company to the Xinjiang Natural Resources Department for the transfer of the Kaiyuan Extended Area Mining Right, the supplemental resources fee and the relevant payment schedule. Such agreement is now placed under the official approval process of the Xinjiang Natural Resources Department.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

For the Reporting Period, the Group was engaged in three business segments, (1) coal mining business; (2) renewable energy business and (3) IT services business. Our main business is coal mining and sales of coal in Xinjiang Uygur Autonomous Region (“Xinjiang”) of Mainland China. Xinjiang is remote from major industrial cities in Mainland China, hence coal produced in Xinjiang is mainly consumed locally due to the reason of logistic and transportation costs. On 8 October 2018, we completed the acquisition of NEFIN Leasing Technologies Limited and its wholly-owned subsidiary, NEFIN Technologies (Malaysia) Sdn. Bhd. (“NEFIN Technologies”) (together the “NEFIN Group”) which is principally engaged in renewable energy solutions in Malaysia. We further allocated resources into the solar energy projects during the Reporting Period so as to enable higher efficiency together with the existing solar assets. On 23 April 2019, we further completed the acquisition of Harbour Group which is principally engaged in the provision of information technology outsourcing, consultancy and technical services mainly in Hong Kong with expanding business in United Kingdom, Malaysia and Singapore. Our Group will endeavor to continue our focus on developing the existing business. In the long run, we will aspire and strive to grow into an enterprise with a diversified business.

Revenue

The Group recorded a revenue of approximately HK\$63,665,000 for the Reporting Period (2018: approximately HK\$16,079,000). It represents an increase of approximately HK\$47,586,000 or approximately 295.95% as compared with the previous corresponding period.

Coal Mining Business

During the Reporting Period, the revenue of approximately HK\$38,166,000 of the coal mining business increased by approximately HK\$22,087,000 or approximately 137.37% as compared to approximately HK\$16,079,000 in the same period of year 2018. The increase in revenue of the coal mining business was mainly due to (i) the suspension of production at the Kaiyuan Mine in the previous corresponding period from 11 April 2018 to 29 August 2018 was not incurred in the Reporting Period; and (ii) the Group sold approximately 572,011 tonnes (2018: approximately 357,372 tonnes) of coal during the Reporting Period, increased by approximately 60.06% in volume compared to that in the previous corresponding period.

Renewable Energy Business

During the Reporting Period, the renewable energy business recorded a turnover of approximately HK\$388,000 (2018: Nil).

IT Services Business

During the Reporting Period, the IT services business contributed a revenue of approximately HK\$25,111,000 (2018: Nil).

Cost of services and goods sold

Coal Mining Business

The cost of sales of the coal mining business for the Reporting Period was approximately HK\$13,007,000 (2018: approximately HK\$11,824,000). The cost mainly comprises direct labor cost, cost for explosive works, depreciation, amortisation and cost of services and materials, etc. The increase in cost of sales was largely in line with the increase in sales volume of coal during the Reporting Period as compared with the previous corresponding period.

Renewable Energy Business

During the Reporting Period, the cost of services of the renewable energy business is approximately HK\$85,000 (2018: Nil).

IT Services Business

During the Reporting Period, the cost of services of the IT services business is approximately HK\$20,114,000 (2018: Nil).

Gross profit

The gross profit of the Group for the Reporting Period increased to approximately HK\$30,459,000 (2018: approximately HK\$4,255,000). It represents an increase of approximately HK\$26,204,000 or approximately 615.84% and gross profit margin increased by approximately 21.38% for the Reporting Period to approximately 47.84% as compared with last correspondence period. Coal mining business contributed approximately HK\$25,159,000 (2018: HK\$ 4,255,000), IT services business contributed approximately HK\$4,997,000 (2018: Nil) and renewable energy business contributed approximately HK\$303,000 (2018: Nil).

Other revenue

The Group's other revenue for the Reporting Period was approximately HK\$3,473,000 (2018: approximately HK\$5,836,000), representing a decrease of approximately HK\$2,363,000 or approximately 40.49% as compared with the last correspondence period. This was mainly due to decrease in net income from selling coal gangue (煤矸石) by approximately HK\$2,269,000.

Administrative and operating expenses

The Group's administrative and operating expenses for the Reporting Period was approximately HK\$19,513,000 (2018: approximately HK\$12,221,000), representing an increase of approximately HK\$7,292,000 or approximately 59.67% as compared with the previous corresponding period. This was mainly due to additional salaries and bonus of approximately HK\$5,356,000 derived from the newly acquired IT services business during the Reporting Period.

Profit for the Reporting Period

Profit of the Group for the Reporting Period was approximately HK\$32,425,000 (2018: profit of approximately HK\$34,573,000), representing a decrease in profit of approximately HK\$2,148,000 as compared with last correspondence period. The decrease in profit was mainly due to (i) fair value loss of convertible bond designated as financial liabilities at FVPL approximately HK\$15,664,000, which was partially offset by (a) gain in fair value of contingent consideration receivables of approximately HK\$1,234,000 (2018: Nil); (b) the decrease of exchange loss approximately HK\$2,071,000; and (c) the increase of gross profit by approximately HK\$26,204,000 as explained above; (ii) the increase in the finance costs of approximately HK\$2,758,000 (2018: Nil); and (iii) the increase of administrative and other expenses by approximately HK\$7,292,000 as explained above.

Segment Information

Business segment

Information reported to the executive directors of the Company, being identified as the chief operating decision makers (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services rendered. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments are as follows:

- (1) Coal Mining Business segment: mining and sales of coal mine in the Xinjiang of Mainland China;
- (2) Renewable Energy Business segment: service income from renewable energy services in Malaysia; and
- (3) IT Services Business segment: provision of information technology outsourcing, consultancy and technical services in Hong Kong, Singapore, Malaysia and United Kingdom ("UK").

Segment revenue and results

Segment revenue represents revenue derived from (i) Coal Mining Business, (ii) Renewable Energy Business and (iii) IT Services Business.

(i) Coal Mining Business

Coal mining is the major business of the Group at present. It contributed a revenue of approximately HK\$38,166,000 for the Reporting Period (2018: approximately HK\$16,079,000), representing approximately a 137.37% increase as compared with last corresponding period.

Sales and Production of Coals

During the Reporting Period, the Group sold approximately 0.572 million tonnes of coals (2018: approximately 0.357 million tonnes) with total sales income of approximately HK\$38,166,000 (2018: approximately HK\$16,079,000). Details of sales of coals in tonnes are listed in the below table:

	Six months ended 30 September	
	2019	2018
Sales of coals	572,011 tonnes	357,372 tonnes

Coal Sales (tonnes) and Percentage of Coal Sales

	Coal Sales <i>(tonnes)</i>	Coal Sales <i>in %</i>
Slack Coal	440,934	77.10
Weathered Coal	<u>131,077</u>	<u>22.90</u>
Total	<u><u>572,011</u></u>	<u><u>100.00</u></u>

(ii) Renewable Energy Business

Service income from renewable energy business contributed a revenue of approximately HK\$388,000 for the Reporting Period (2018: Nil).

(iii) IT Services Business

Service income from IT services business contributed a revenue of approximately HK\$25,111,000 for the Reporting Period (2018: Nil).

Reserves and Resources

The Group owns a mining right, which is located in Xinjiang. The estimated remaining coal reserve in Kaiyuan Mine was approximately 5.11 million tonnes as at 30 September 2019 (31 March 2019: approximately 6.20 million tonnes). During the Reporting Period, there were approximately 1.09 million tonnes of coal being extracted (2018: approximately 0.67 million tonnes). The Group also owns an exploration permit, which is also located in Xinjiang. The original exploration permit had expired on 5 April 2017 and a renewal of the permit from 16 May 2017 to 16 May 2019 was granted by the Department of Land and Resources of Xinjiang Uygur Autonomous Region* (新疆維吾爾自治區國土資源廳) (the “Xinjiang Land Department”). Please refer to the paragraph headed “Progress of the Optimization and Upgrading Plan and the Updated Optimization and Upgrading Plan” below for the latest status.

Coal Reserve as at 30 September 2019 = Coal Reserve as at 31 March 2019 – Amount of coal extracted by the Group during the period from 1 April 2019 to 30 September 2019.

The mining right of Kaiyuan Mine was granted by the Xinjiang Land Department from 3 November 2018 to 3 November 2019.

Geographical segment

The geographical location of customers is determined based on the location where the goods are delivered or services are rendered. The Group's revenue and results from operations are mainly derived from activities in Mainland China, Hong Kong and Malaysia. Activities outside these three locations are insignificant. The principal assets of the Group are located in Mainland China, Hong Kong and Malaysia.

Major Events

(A) 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 Mainland China, the Xinjiang Land Department had to plan for a management restructuring of seven different coal mines (including the Zexu Open Pit Coal Mine (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 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 Open Pit Coal Mine (the "Kaiyuan Mine") and Zexu Mine have been submitted to the working group head office for coal industry structural upgrade work of Xinjiang for consideration and approval:

1. The Company's Kaiyuan Mine would be restructured and upgraded, and the Exploration Permit 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 km² to 4.12 km² ("Kaiyuan Extended Area"), with the estimated coal resources of approximately 131.18 million tonnes.

As stated in the Company's announcement dated 15 August 2017, as requested by the Department of Land and Resources of Changji Hui Autonomous Prefecture* (昌吉回族自治州國土資源局) (the "Changji Land Department"), with the aim of expediting the resources restructuring work and accelerating and completing the process to fix the mining area for each mining right owner inside Zhundong Meitian Xiheishan Coal Mining Area* (准東煤田西黑山煤炭礦區), where the Zexu Mine and Kaiyuan Mine of the Company are located, Qitai County Zexu Trading Company Limited* (奇台縣澤旭商貿有限責任公司) ("Zexu Company") and Mulei County Kai Yuan Coal Company Limited* (木壘縣凱源煤炭有限責任公司) ("Kaiyuan Company"), the subsidiaries of the Company, respectively entered into the following four undisputed agreements (the "Four Undisputed Agreements") with the relevant parties to dispose of Zexu Mine and acquire Kaiyuan Extended Area:

1. First Undisputed Agreement

On 15 August 2017, Zexu Company entered into an undisputed agreement (the "First Undisputed Agreement") with Xinjiang Jinneng Mining Company Limited ("Jinneng Company"), pursuant to which Jinneng Company should occupy an area of 0.297 km² within the Zexu Mine and could apply to the Xinjiang Land Department to fix such mining area. Jinneng Company should, within 10 working days upon signing the agreement, compensate Zexu Company with an amount of RMB505,197, which was calculated by multiplying the area of 0.297 km² with the agreed compensation amount of RMB486,000 per km² and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

2. Second Undisputed Agreement

On 15 August 2017, Zexu Company entered into an undisputed agreement (the "Second Undisputed Agreement") with Xinjiang Beishan Mining Company Limited ("Beishan Company"), pursuant to which Beishan Company should occupy an area of 2.582 km² within the Zexu Mine and could apply to the Xinjiang Land Department to fix such mining area. Beishan Company should, within 10 working days upon signing the agreement, compensate Zexu Company with an amount of RMB4,391,982, which was calculated by multiplying the area of 2.582 km² with the agreed compensation amount of RMB486,000 per km² and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

3. *Third Undisputed Agreement*

On 15 August 2017, Kaiyuan Company entered into an undisputed agreement (the “Third Undisputed Agreement”) with Jinneng Company, pursuant to which Kaiyuan Company should occupy an area of 1.292 km² within the exploration area of the mine of Jinneng Company (the “First Extended Area”) and could apply to the Xinjiang Land Department to fix such mining area. Kaiyuan Company should, within 10 working days upon signing the agreement, compensate Jinneng Company with an amount of RMB2,197,692, which was calculated by multiplying the area of 1.292 km² with the agreed compensation amount of RMB486,000 per km² and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

The First Extended Area to be occupied by Kaiyuan Company from Jinneng Company is located next to the Kaiyuan Mine currently operated by Kaiyuan Company.

4. *Fourth Undisputed Agreement*

On 15 August 2017, Kaiyuan Company entered into an undisputed agreement (the “Fourth Undisputed Agreement”) with Beishan Company, pursuant to which Kaiyuan Company should occupy an area of 0.016 km² within the mining area of the mine of Beishan Company (the “Second Extended Area”) and could apply to the Xinjiang Land Department to fix such mining area. Kaiyuan Company should, within 10 working days upon signing the agreement, compensate Beishan Company with an amount of RMB27,216, which was calculated by multiplying the area of 0.016 km² with the agreed compensation amount of RMB486,000 per km² and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

The Second Extended Area to be occupied by Kaiyuan Company from Beishan Company is located next to the Kaiyuan Mine currently operated by Kaiyuan Company.

The total area of 2.879 km² of Zexu Mine being occupied by Jinneng Company and Beishan Company under the First Undisputed Agreement and the Second Undisputed Agreement respectively represent the whole area of the Zexu Mine. Since the said two agreements had been completed, the Exploration Permit became invalid. Since the Zexu Mine has not commenced mining, it has not generated any revenue for the Group in the past years.

So far as the Company is aware, the First Extended Area and the Second Extended Area being occupied by Kaiyuan Company under the Third Undisputed Agreement and Fourth Undisputed Agreement respectively have not yet commenced mining. After having completed such agreements, the Company was required to go through official procedures with the relevant land and resources departments to obtain the exploration right and then the mining right in respect of these extended areas. When the related exploration right or mining right is obtained, the Company will appoint professional parties to evaluate possible coal reserves and perform valuation on the First Extended Area and Second Extended Area. For accounting purposes, these extended area were booked as “Non-refundable deposits” under non-current assets with value of approximately RMB2,099,000 (equivalent to approximately HK\$2,604,000) in the Group’s consolidated statement of financial position, which, if appropriate, would be transferred to the intangible assets after conclusion is reached with the government departments. Upon obtaining the exploration right or mining right, the Company will discuss again with professional parties (including its valuer and auditor) regarding the possible coal reserves, valuation and accounting treatment of the First Extended Area and Second Extended Area. The Company has not received any update from the relevant government departments since the completion of the Four Undisputed Agreements.

According to the Updated Optimization and Upgrading Plan, the mining area of the Kaiyuan Mine was proposed to be increased from 1.1596 km² to 4.12 km². For the First Extended Area and the Second Extended Area, since they were originally owned by Jinneng Company and Beishan Company respectively, the Third Undisputed Agreement and the Fourth Undisputed Agreement were required to be signed respectively for transfer of such area and as one of the important procedures for obtaining the exploration right and then the mining right. Upon completion of the Third Undisputed Agreement and Fourth Undisputed Agreement, the area of the Kaiyuan Mine will only increase to approximately 2.4676 km². Concerning the outstanding proposed increased area of approximately 1.6524 km² (the “Outstanding Mining Area”), so far as the Company is aware, such area is located next to the Kaiyuan Mine and is currently owned by the government. To obtain the exploration right and then the mining right of such area, the Company is still required to go through official procedures with the relevant land and resources departments.

By a letter dated 6 February 2018 from the Zhundong Economic and Technological Development Zone Division of the Ministry of Land and Resources of Changji Hui Autonomous Prefecture* (昌吉回族自治州國土資源局准東經濟技術開發區分局) (the “Zhundong Division of the Ministry of Land and Resources”), as part of the application, the Zhundong Division of the Ministry of Land and Resources required Kaiyuan Company to sign a deed of undertaking (the “Deed of Undertaking”).

Since the Outstanding Mining Area is a national resource of Mainland China government, the Deed of Undertaking requires Kaiyuan Company to undertake to (1) apply for a bid invitation, auction and listing (the “Bid, Auction and Listing”) for exploration right of the Outstanding Mining Area and to grant state-owned enterprises within the Zhundong Economic and Technological Development Zone* (准東經濟技術開發區) (the “State-Owned Enterprises”) a priority to participate in the Bid, Auction and Listing (the “Priority”); and (2) grant the State-Owned Enterprises who obtain exploration right in the Outstanding Mining Area a right to invest in the mining of the Outstanding Mining Area (the “Right to Invest”). As at the date of the Company’s announcement on 28 March 2018, no concrete terms of the Priority and the Right to Invest have been provided by the Zhundong Division of the Ministry of Land and Resources. Detailed terms and conditions of the possible business cooperation with the State-Owned Enterprises in the Outstanding Mining Area will be subject to further development on the Updated Optimization and Upgrading Plan and government policy.

Upon receiving the Deed of Undertaking, the Company proactively contacted the Zhundong Division of the Ministry of Land and Resources in order to understand or obtain the concrete terms of the Priority and the Right to Invest as stated in the Deed of Undertaking. However, after a few weeks of contact and communication, with the intervening Chinese New Year holiday from 13 February 2018 to 8 March 2018 in Xinjiang, the Zhundong Division of the Ministry of Land and Resources confirmed that it was not able to provide any concrete terms of the Priority and the Right to Invest. In light of these circumstances, the Company sought legal opinion from a Mainland China lawyer in Xinjiang. According to Mainland China legal opinion obtained by the Company:

1. three out of the four companies with mines in the Xiheishan Mining Area had executed the Deed of Undertaking;

2. if Kaiyuan Company did not execute the Deed of Undertaking, the Zhundong Division of the Ministry of Land and Resources will cease to process Kaiyuan Company's application for exploration right and mining right in the Kaiyuan Extended Area; and
3. no concrete terms of the Priority and the Right to Invest had been provided by the Zhundong Division of the Ministry of Land and Resources.

To further facilitate the Updated Optimization and Upgrading Plan and to enable Kaiyuan Company to continue to apply for exploration right and mining right in the Kaiyuan Extended Area, Kaiyuan Company had executed the Deed of Undertaking within 7 days of the date of the Company's announcement on 28 March 2018. The Priority and the Right to Invest may or may not be exercised by the State-Owned Enterprises. The Board considers that any possible business cooperation with the State-Owned Enterprises in the Outstanding Mining Area is to comply with the execution of the Updated Optimization and Upgrading Plan. In the event that the Right to Invest is exercised by the State-Owned Enterprises, the Company will negotiate for fair and reasonable terms taking into account the interests of the Company and shareholders as a whole.

The management of Kaiyuan Company has been communicating and negotiating with the Zhundong Division of the Ministry of Land and Resources in order to protect the Company's best interest in the Outstanding Mining Area.

The application for exploration right and mining right of the Outstanding Mining Area was irrelevant to the renewal of the mining right in the Kaiyuan Mine (the "Mining Right") as stated in the announcement of the Company dated 27 December 2017.

On 30 November 2018 and 5 December 2018, Kaiyuan Company obtained notices and approvals (the "Notices and Approvals") from the Management Committee of Xinjiang Zhundong Economic and Technological Development Zone* (新疆准東經濟技術開發區管理委員會) and Zhundong Division of the Ministry of Land and Resources respectively in respect of the application for the mining right of an annual production volume of 0.9 million tonnes of the Kaiyuan Extended Area ("Kaiyuan Extended Area Mining Right Application") and Kaiyuan Company subsequently submitted the Notices and Approvals to the Changji Land Department on 10 December 2018 for approval.

According to the legal opinion from Mainland China lawyer, Kaiyuan Company was required to go through certain official procedures for the grant of the Kaiyuan Extended Area Mining Right Application, namely, upon obtaining the approval from the Ministry of Land and Resources of Changji Hui Autonomous Prefecture, Kaiyuan Company would need to submit the Kaiyuan Extended Area Mining Right Application to the Xinjiang Land Department for such approval.

As disclosed in the announcement of the Company on 31 December 2018, the Kaiyuan Extended Area Mining Right Application was approved by the Xinjiang Natural Resources Department on 21 December 2018 and the Company was informed that the Xinjiang Natural Resources Department was in the process of approving the grant of new mining permit (the “New Mining Permit”) in respect of the Kaiyuan Extended Area Mining Right.

On 10 May 2019, the Company received a notification dated 8 April 2019 regarding the grant of exploration right for the Outstanding Mining Area with an area of 1.68 km² by the Department of Natural Resources of Xinjiang Uygur Autonomous Region* (新疆维吾尔自治区自然资源厅) (the “Xinjiang Natural Resources Department”) for a period of 3 years from 8 April 2019 to 8 April 2022. Having obtained the Exploration Permit, the Company proceeded to fulfill all the necessary requirements and procedures to obtain the relevant mining permit.

As disclosed in the announcement of the Company on 15 November 2019:

1. Kaiyuan Company has been granted the New Mining Permit in respect of the Kaiyuan Extended Area Mining Right for the Kaiyuan Mine with an enlarged mining area (including the original mining area) from the original mining area of approximately 1.1596 km² (the “Original Kaiyuan Mine”) to 4.1123 km² (the “Enlarged Kaiyuan Mine”). The New Mining Permit is valid for 1 year from 21 December 2018 to 21 December 2019, which covers a mining area of approximately 4.1123 km² with designed capacity of 0.9 million tonnes per annum, representing ten times of the designed annual capacity of 90,000 tonnes of the Original Kaiyuan Mine;
2. according to the New Mining Permit, the estimated coal resources of the approved Kaiyuan Extended Area Mining Right for the mining life of 30 years are 41.6433 million tonnes. The assessed value of the Kaiyuan Extended Area Mining Right by the Xinjiang Natural Resources Department is RMB160,978,000;

3. the New Mining Permit is valid for 1 year and the Kaiyuan Extended Area Mining Right is valid for 30 years. The Company's legal adviser as to Chinese laws was informed that, in practice, the mining term is usually 1 year and is subject to annual renewal for the mining permit(s) granted in Xinjiang area and Kaiyuan Company has the right to apply for the renewal of New Mining Permit for the remaining period of the Kaiyuan Extended Area Mining Right; and
 4. a formal transfer agreement is requested to be entered into between Kaiyuan Company and the Xinjiang Natural Resources Department, which sets out the rights and obligations of the respective parties in respect of the Kaiyuan Extended Area Mining Right, including but not limited to, the amount payable (i.e. the Assessed Value) by the Kaiyuan Company to the Xinjiang Natural Resources Department for the transfer of the Kaiyuan Extended Area Mining Right, the Supplemental Resources Fee and the relevant payment schedule. Such agreement is now placed under the official approval process of the Xinjiang Natural Resources Department.
- # “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.

(B) Suspension of Production at Kaiyuan Mine

On 1 November 2019, Kaiyuan Company received a reminder notice issued by Production Safety Supervision and Administration Bureau of Xinjiang Zhundong Economic and Technological Development Zone* (新疆准東經濟技術開發區安全生產監督管理局), pursuant to which, Kaiyuan Company suspended the mining operations and sale of Kaiyuan Mine after the expiry of the Mining Right on 3 November 2019 if Kaiyuan Company fails to extend the Existing Mining Permit. The operation of Kaiyuan Mine was suspended following the expiry of the Mining Right on 3 November 2019 (the “Suspension of the Operation”).

As disclosed in the announcement of the Company on 15 November 2019, Kaiyuan Company has been granted the New Mining Permit and accordingly Kaiyuan Company has commenced the mining operations of the Enlarged Kaiyuan Mine.

(C) Acquisition of 90% of the issued share capital of NEFIN Leasing Technologies Limited and the loans

On 10 August 2018, Radiant Day Holdings Limited (“Radiant Day”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with NEFIN Holding Limited and Mr. Lim Hong Teo (together referred to as the “Vendors of NEFIN Group”), pursuant to which Radiant Day agreed to purchase, and the Vendors agreed to sell 90% equity interest in NEFIN Group, at an aggregate consideration of US\$1,350,000 (equivalent to approximately HK\$10,530,000). The Vendors of NEFIN Group have jointly and severally guaranteed that the annual result of NEFIN Technologies for the years ending 30 September 2019, 2020, 2021, 2022 and 2023 would not be less than 5% of the consideration, i.e. approximately HK\$527,000 per annum. The transaction completed on 8 October 2018 as all conditions in the sale and purchase agreement were fulfilled.

NEFIN Group is principally engaged in renewable energy solutions in Malaysia. The directors of the Company are of the view that the acquisition will further enhance the Group’s expansion of innovative and renewable energy business. The acquisition constituted a business combination and had been accounted for using the acquisition method under HKFRS 3 Business Combinations.

(D) Acquisition of 80.86% of the issued share capital of Harbour Group Holdings Limited

On 11 March 2019, (i) Ample Talent Ventures Limited (“Ample Talent”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, pursuant to which the Vendor has conditionally agreed to sell, and Ample Talent has conditionally agreed to purchase 80% equity interest in Harbour Group Holdings at an aggregate consideration of HK\$35,712,000; and (ii) Ample Talent and Harbour Group Holdings entered into a subscription agreement, pursuant to which Harbour Group Holdings has conditionally agreed to issue and allot to Ample Talent, and Ample Talent conditionally agreed to subscribe for 450 ordinary shares of Harbour Group Holdings, representing approximately 4.5% of the total number of shares of Harbour Group Holdings in issue as at the date of subscription agreement at an aggregate subscription price of HK\$2,008,800. Upon completion of the above transactions, Ample Talent held 80.86% equity interest in Harbour Group Holdings.

Pursuant to the sale and purchase agreement, the Vendor agreed to guarantee that the audited consolidated net profit generated from operating activities of the Harbour Group in its ordinary and usual course of business, prepared in accordance with HKFRSs (the “Net Profit”), for the years ended or ending 31 December 2018, 31 December 2019 and 31 December 2020 (the “PG Period”) shall be no less than HK\$7,200,000 per annum (the “Guaranteed Profit”). In the event that the Net Profit during the each of the PG Period is less than the Guaranteed Profit, the Vendor unconditionally and irrevocably undertakes and guarantees, as a continuing obligation, to pay the shortfall to the Group under the terms as stipulated in the sale and purchase agreement. The transaction completed on 23 April 2019 as all conditions in the sale and purchase agreement were fulfilled.

Harbour Group consists of Harbour Group Holdings, Harbour Group (Singapore) Pte. Limited, Harbour Group Consulting (UK) Limited, HGH Technology Sdn. Bhd., Mountain Managed Cloud Consulting Limited and Vanguard Business Services Limited. Harbour Group is principally engaged in the provision of information technology outsourcing, consultancy and technical services mainly in Hong Kong with expanding business in United Kingdom, Malaysia and Singapore. The directors of the Company are of the view that the acquisition can broaden the Group’s revenue base and benefit from the diversified return in future. The acquisition constituted a business combination and had been accounted for using the acquisition method under HKFRS 3 Business Combinations.

Prospects

Regarding the Updated Optimization and Upgrading Plan, as explained above, Kaiyuan Company and Zexu Company have already followed the request from the Changji Land Department to enter into the Four Undisputed Agreements respectively to dispose of Zexu Mine and acquire the Kaiyuan Extended Area. The Company is now going through official procedures to apply for the mining right in respect of the extended areas. The Company will make further announcement(s) as and when appropriate to keep shareholders posted of any further development of the Updated Optimization and Upgrading Plan.

The Group has been exploring new markets and seeking to extend its business coverage on technological and renewable energy sectors. The Board is of the view that the acquisition of NEFIN Group and Harbour Group will further enhance the Group's expansion of innovative and renewable energy business. There will be a reasonable expected amount of expenditure in capital assets, in particular for the new plants and machines for the environmental protection remedial works. Sources of funding are expected to come primarily from the coal sales revenue and also external banking facilities of the Group.

Due to the recent social and political instability in Hong Kong, we foresee the growth on the IT services business would experience a more fluctuating development. The Board would closely monitor the business performance of such segment.

Significant Investments held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Save as otherwise disclosed, there were neither significant investments held as at 30 September 2019 nor material acquisitions and disposals of subsidiaries during the Reporting Period.

Save as otherwise disclosed, the Group does not have any future plans for material investments. There will, however, be a reasonable expected amount of expenditure in capital assets, in particular for the new plants and machines for the environmental protection remedial works. Sources of funding are expected to come primarily from the coal sales revenue and also external banking facilities of the Group.

Liquidity and Financial Resources

As at 30 September 2019, the Group had:

- net current assets of approximately HK\$68,091,000 (31 March 2019: approximately HK\$84,255,000).
- cash and cash equivalents of approximately HK\$386,273,000 (31 March 2019: approximately HK\$416,662,000) which comprised restricted bank balances of approximately HK\$73,888,000 and the bank balances were the major components of the Group's current assets of approximately HK\$410,361,000 (31 March 2019: approximately HK\$432,459,000).
- current liabilities of approximately HK\$342,270,000 (31 March 2019: approximately HK\$348,204,000) which comprised mainly trade and other payables of approximately HK\$75,547,000 (31 March 2019: approximately HK\$58,794,000), interest-bearing borrowings of approximately HK\$67,302,000 (31 March 2019: approximately HK\$68,345,000) and convertible bond designated as financial liabilities at fair value through profit or loss of approximately HK\$189,385,000 (31 March 2019: approximately HK\$217,869,000).
- non-current liabilities of approximately HK\$8,244,000 (31 March 2019: approximately HK\$3,257,000).

The Group's gearing ratio was approximately 1.23 (31 March 2019: approximately 1.55). The computation is based on total debt (convertible bond designated as financial liabilities at fair value through profit or loss and interest-bearing borrowings) divided by total equity.

Capital Structure

The capital of the Group comprises only ordinary shares.

As at 30 September 2019, there were 765,373,584 ordinary shares of the Company in issue.

Zero coupon convertible bonds of the Company with an aggregate principal amount of HK\$200,000,000 were issued on 14 March 2008 the maturity date of which was approved to be further extended for 36 months to 13 March 2020 by the shareholders of the Company on 7 March 2017.

Charges on Group's Assets

As at 30 September 2019, the Group had pledged restricted bank balances with carrying amount of approximately HK\$73,888,000 (31 March 2019: approximately HK\$77,612,000) to the bank as a security for interest-bearing borrowings.

Foreign Exchange Exposure

The Group mainly earns revenue in RMB and Hong Kong dollars 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 Mainland China. The currency exchange risk for the Reporting Period is mainly derived from the net exchange gain on convertible bond designated as financial liabilities at fair value through profit or loss, which is a result from the sustained depreciation of RMB against Hong Kong dollars. In order to minimise 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' operating cash flows requirements of the Group.

Treasury Policies

Apart from the issuance of convertible bond at their face value of HK\$200,000,000, the Group finances its operation mainly by internal generated resources.

Contingent Liabilities

As at 30 September 2019, the Group did not have any material contingent liabilities.

Employees

As at 30 September 2019, the Group had 180 employees (31 March 2019: 82) spreading amongst Hong Kong, Malaysia, Singapore, UK and Mainland China. Total staff costs (excluding directors' emoluments) for the Reporting Period amounted to approximately HK\$24,274,000 (31 March 2019: approximately HK\$10,913,000). 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 an interim dividend for the Reporting Period (2018: Nil).

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 Reporting Period.

CORPORATE GOVERNANCE

In the opinion of the directors of the Company, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Reporting Period, save for the deviation from code provision A.2.1 as disclosed below:

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive (the "CE") should be separate and should not be performed by the same individual. During the Reporting Period, the Company did not have any officer with CE title. Mr. Kwan Man Fai, the chairman and managing director of the Company, also carried out the responsibility of CE during the Reporting 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to 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 Reporting Period.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive directors, namely Mr. Pak Wai Keung Martin as the chairman of the Audit Committee, Dr. Wong Man Hin Raymond and Mr. Chan Yiu Fai Youdey. The Audit Committee together with the management and external auditor 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 Reporting Period. The review conducted by the external auditor of the Company was in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of The Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.nannanlisted.com. The interim report will be dispatched to the shareholders of the Company and will be published on the above websites in due course.

By Order of the Board
Nan Nan Resources Enterprise Limited
Kwan Man Fai
Chairman and Managing Director

Hong Kong, 20 November 2019

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Kwan Man Fai, Mr. Wang Xiangfei (with Mr. Wong Sze Wai as alternate) and Mr. Wong Sze Wai; three independent non-executive directors, namely Dr. Wong Man Hin Raymond, Mr. Chan Yiu Fai Youdey and Mr. Pak Wai Keung Martin.

* *English translation for identification purposes only.*