



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

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



INTERIM REPORT **2013**

CONTENTS

- 2 Corporate Information
- 3 Condensed Consolidated Statement of Comprehensive Income
- 4 Condensed Consolidated Statement of Financial Position
- 5 Condensed Consolidated Statement of Changes in Equity
- 7 Condensed Consolidated Statement of Cash Flows
- 8 Notes to the Condensed Consolidated Interim Financial Information
- 19 Management Discussion and Analysis
- 22 Other Information



CORPORATE INFORMATION

Board of Directors

Executive Directors

Lo Fong Hung

(Chairperson & Managing Director)

Wang Xiangfei

Kwan Man Fai

Independent Non-Executive Directors

Lam Ka Wai, Graham

Wong Man Hin, Raymond

Chan Yiu Fai, Youdey

Audit Committee

Lam Ka Wai, Graham (Chairman)

Wong Man Hin, Raymond

Chan Yiu Fai, Youdey

Remuneration Committee

Wong Man Hin, Raymond (Chairman)

Kwan Man Fai

Lam Ka Wai, Graham

Chan Yiu Fai, Youdey

Nomination Committee

Lo Fong Hung (Chairperson)

Kwan Man Fai

Lam Ka Wai, Graham

Wong Man Hin, Raymond

Chan Yiu Fai, Youdey

Company Secretary

Hung Che Wan

Auditor

Crowe Horwath (HK) CPA Limited

9/F., Leighton Centre

77 Leighton Road

Causeway Bay, Hong Kong

Legal Adviser

Conyers Dill and Pearman

2901, One Exchange Square

8 Connaught Place

Central, Hong Kong

Principal Bankers

Hang Seng Bank Limited

Bank of Communications Co. Ltd.

Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Head Office and Principal Place of Business

Suites 1003-1006

10/F., Two Pacific Place

88 Queensway, Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Bermuda)
Limited

26 Burnaby Street

Hamilton HM11

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited

18/F., Fook Lee Commercial Centre

Town Place, 33 Lockhart Road

Wanchai, Hong Kong

Hong Kong Stock Exchange Stock Code

1229

Website

<http://www.nannanlisted.com>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2013

	Notes	Six months ended 30 September	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Turnover	3	64,323	94,052
Cost of sales		(54,225)	(69,907)
Gross profit		10,098	24,145
Other revenue		1,140	1,247
Selling and distribution expenses		(394)	(582)
Administrative expenses		(10,985)	(10,608)
Change in fair value of convertible loan notes	11	(2,139)	3,216
(Loss)/profit before tax		(2,280)	17,418
Income tax expense	4	(4,604)	(1,111)
(Loss)/profit for the period	5	(6,884)	16,307
Other comprehensive income			
Exchange difference on translation of functional currency to presentation currency		3,315	(1,230)
Other comprehensive income/(loss) for the period (net of nil tax)		3,315	(1,230)
Total comprehensive (loss)/income for the period		(3,569)	15,077
(Loss)/profit for the period attributable to:			
– Owners of the Company		(6,884)	16,307
Total comprehensive (loss)/income for the period attributable to:		(3,569)	15,077
– Owners of the Company		(3,569)	15,077
(Loss)/earnings per share (expressed in Hong Kong cents)			
– Basic	7	(0.90)	2.13
– Diluted	7	(0.90)	0.83

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 September 2013

	Notes	30 September 2013 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	21,735	21,215
Intangible assets		73,290	71,877
Goodwill		–	–
Security deposit		2,876	2,820
Deferred tax assets		2,925	3,786
		100,826	99,698
Current assets			
Inventories		39,670	68,277
Trade and other receivables	9	7,483	2,952
Cash and cash equivalents		288,345	255,620
		335,498	326,849
Current liabilities			
Trade and other payables	10	49,830	38,302
Tax payable		3,371	4,085
Convertible loan notes designated as financial liabilities at fair value through profit or loss	11	191,997	189,858
		245,198	232,245
Net current assets		90,300	94,604
Total assets less current liabilities		191,126	194,302
Capital and reserves			
Share capital	12	76,537	76,537
Reserves		94,268	97,837
Equity attributable to owners of the Company		170,805	174,374
Non-current liabilities			
Provision for close down, restoration and environmental costs		1,998	1,959
Deferred tax liabilities		18,323	17,969
		20,321	19,928
		191,126	194,302

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2013

	Attributable to owners of the Company							
	Share capital HK\$'000	Share premium HK\$'000 <i>(Note i)</i>	Capital reserve HK\$'000 <i>(Note ii)</i>	Statutory reserves HK\$'000 <i>(Note iii)</i>	Exchange translation reserve HK\$'000 <i>(Note iv)</i>	Special reserve HK\$'000 <i>(Note v)</i>	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2013 (audited)	76,537	191,534	14,882	9,485	15,130	27,143	(160,337)	174,374
Loss for the period	-	-	-	-	-	-	(6,884)	(6,884)
Other comprehensive income for the period	-	-	-	-	3,315	-	-	3,315
Total comprehensive loss for the period	-	-	-	-	3,315	-	(6,884)	(3,569)
Appropriation of maintenance and production funds	-	-	-	-	-	-	-	-
Utilisation of maintenance and production funds	-	-	-	-	-	-	-	-
At 30 September 2013 (unaudited)	76,537	191,534	14,882	9,485	18,445	27,143	(167,221)	170,805
At 1 April 2012 (audited)	76,537	191,534	14,882	6,636	14,051	27,143	(147,308)	183,475
Profit for the period	-	-	-	-	-	-	16,307	16,307
Other comprehensive loss for the period	-	-	-	-	(1,230)	-	-	(1,230)
Total comprehensive income for the period	-	-	-	-	(1,230)	-	16,307	15,077
Appropriation of maintenance and production funds	-	-	-	34,230	-	-	(34,230)	-
Utilisation of maintenance and production funds	-	-	-	(34,230)	-	-	34,230	-
At 30 September 2012 (unaudited)	76,537	191,534	14,882	6,636	12,821	27,143	(131,001)	198,552

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

For the six months ended 30 September 2013

Notes:

i) Share premium

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

ii) Capital reserve

It represents negative goodwill from acquisitions of subsidiaries prior to 1 April 2001.

iii) Statutory reserves

Reserve and enterprise expansion funds

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

Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations for coal mining companies, provision for production maintenance, production safety and other related expenditures are accrued by the Group at fixed rates based on coal production volume (the "Maintenance and production funds"). The Group is required to make a transfer for the provision of maintenance and production funds from retained earnings of the subsidiary to a specific reserve. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilized would be transferred from the specific reserve back to retained earnings of the subsidiary.

iv) Exchange translation reserve

Exchange translation reserve comprises all foreign exchange differences arising from the translation of functional currency to presentation currency.

v) Special reserve

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2013

	Six months ended 30 September	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Net cash generated from/(used in) operating activities	36,683	(13,915)
Net cash (used in)/generated from investing activities	(1,275)	509
Net increase/(decrease) in cash and cash equivalents	35,408	(13,406)
Cash and cash equivalents at 1 April	255,620	257,246
Effect of foreign exchange rate changes	(2,683)	(1,743)
Cash and cash equivalents at 30 September	288,345	242,097

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2013

1. General Information and Basis of Preparation

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

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11 Bermuda and principal place of business is Suites 1003-6, 10th Floor, Two Pacific Place, 88 Queensway, Hong Kong. The functional currency of the Company is Renminbi ("RMB"). The condensed consolidated interim financial information is presented in Hong Kong dollars ("HK\$") for the convenience of the shareholders as the Company is listed in Hong Kong.

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

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

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

For the six months ended 30 September 2013

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial information for the six months ended 30 September 2013 consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2013.

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

HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle except for the amendments to HKAS 1
HKAS 1 (Amendments)	Presentation of items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

3. Turnover and Segment Information

The Group has only one single operating segment as the Group is principally engaged in mining and sales of coal. No geographical information is presented as the Group's customers and operations are located in Mainland China.

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

For the six months ended 30 September 2013

4. Income Tax Expense

The major components of income tax expense in the condensed consolidated statement of comprehensive income are:

	Six months ended 30 September	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Tax in other jurisdictions		
– current	3,673	4,190
Deferred tax	931	(3,079)
Income tax expense	4,604	1,111

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as there was no estimated assessable profit derived from Hong Kong for both periods ended 30 September 2013 and 30 September 2012.

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods ended 30 September 2013 and 30 September 2012.

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

5. (Loss)/profit for the Period

(Loss)/profit for the period has been arrived at after charging:

	Six months ended 30 September	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Amortisation of intangible assets (included in cost of sales)	–	2,583
Cost of inventories sold	54,225	69,907
Depreciation of property, plant and equipment	2,164	1,944
Staff costs (excluding directors' emoluments)		
– Basic salaries and allowances	3,880	3,914
– Retirement benefit scheme contributions	453	381

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

For the six months ended 30 September 2013

6. Interim Dividend

No dividends were paid, declared or proposed during the six months ended 30 September 2013. The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 September 2012: Nil).

7. (Loss)/earnings Per Share

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

	Six months ended 30 September	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
(Loss)/profit		
(Loss)/profit for the purposes of basic (loss)/earnings per share		
((Loss)/profit for the period attributable to owners of the Company)	(6,884)	16,307
	2013	2012
Weighted average number of ordinary shares		
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	765,373,584	765,373,584

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

For the six months ended 30 September 2013

7. (Loss)/Earnings Per Share *(Continued)*

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

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

	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
(Loss)/profit for the period attributable to owners	(6,884)	16,307
Fair value gain on convertible loan notes*	–	(3,216)
Exchange loss on convertible loan notes*	–	1,571
(Loss)/profit attributable to owners (diluted)	(6,884)	14,662

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

	2013	2012
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	765,373,584	765,373,584
Effect of conversion of convertible loan notes*	–	1,000,000,000
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	765,373,584	1,765,373,584

- * The calculation of the diluted loss per share for the six months ended 30 September 2013 did not assume the conversion of the convertible loan notes since its conversion would result in a decrease in loss per share. The basic and diluted loss per share are the same.

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

For the six months ended 30 September 2013

8. Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 30 September 2013, the Group acquired property, plant and equipment with a cost of HK\$2,734,000 (six months ended 30 September 2012: HK\$958,000).

During the six months ended 30 September 2013, the Group disposed of cost of property, plant and equipment of HK\$900,784 with loss of HK\$20,722 (six months ended 30 September 2012: HK\$Nil.)

9. Trade and Other Receivables

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

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

	30 September 2013 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (audited)
Within 90 days	2,360	684
91 days to 180 days	1,332	–
181 days to 365 days	–	–
Over 1 year	52	51
Trade and bills receivables	3,744	735
Prepayments, deposits and other receivables	3,739	2,217
Total trade and other receivables	7,483	2,952

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

For the six months ended 30 September 2013

10. Trade and Other Payables

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

	30 September 2013 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (audited)
Within 90 days	2,444	658
91-180 days	312	337
181-365 days	15	546
Over 1 year	30	29
Trade payables	2,801	1,570
Receipt in advance	4,820	2,152
Value-added tax and non-income tax payable	3,332	1,524
Government levies payable	28,397	26,110
Accrued expenses	949	1,694
Other payables	9,531	5,252
Total trade and other payables	49,830	38,302

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

11. Convertible Loan Notes

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

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

For the six months ended 30 September 2013

11. Convertible Loan Notes *(Continued)*

On 11 February 2011, the Company entered into a deed of amendment with Ascent Goal, to extend the maturity date of the convertible loan notes 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 loan notes 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 loan notes upon extension of maturity date was no longer convertible at a fixed for fixed relationship. Accordingly, the convertible loan notes was designated as a financial liability at fair value through profit or loss and was classified as a current liability in the consolidated statement of financial position as at 30 September 2013 and 31 March 2013.

The convertible loan notes was valued by the directors of the Company with reference to a valuation report issued by Asset Appraisal Limited, an independent qualified valuer not connected to the Group. The increase in fair value of the convertible note of approximately HK\$2,139,000 have been recognised in the profit or loss for the six months ended 30 September 2013 (six months ended 30 September 2012: decrease by HK\$3,216,000).

The assumptions adopted for the valuation of the convertible loan notes are as follows:

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

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

For the six months ended 30 September 2013

11. Convertible Loan Notes *(Continued)*

The fair value of the convertible loan notes was calculated using the binomial model. Major parameters adopted in the calculation of the fair value are summarised below:

	30 September 2013	31 March 2013
Stock price	HK\$0.33	HK\$0.64
Exercise price	HK\$0.20	HK\$0.20
Risk free-rate	0.06%	0.116%
Discount rate	9.789%	8.499%
Dividend yield	0%	0%
Time to expiration	0.45 years	0.95 year
Stock price volatility	46.16%	54.88%
Borrowing rate of issuer	9.79%	8.5%
	HK\$'000	HK\$'000
The movement of the convertible loan notes for the period/year is set out below:		
Balance as at 1 April 2013/2012	189,858	213,889
Fair value change charged/(credited) to the profit or loss	2,139	(24,031)
Gain on translation of convertible loan notes denominated in a foreign currency into the functional currency	(3,726)	(725)
Exchange adjustment arising on translation of functional currency to presentation currency and charged to other comprehensive income	3,726	725
Carrying amount at 30 September 2013/ 31 March 2013	191,997	189,858

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

For the six months ended 30 September 2013

12. Share Capital

	Number of ordinary shares of HK\$0.1 each	Amount HK\$'000
Ordinary Shares		
Authorised:		
At 1 April 2012, 31 March 2013 and 30 September 2013	5,000,000,000	500,000
Issued and fully paid:		
At 1 April 2012, 31 March 2013 and 30 September 2013	765,373,584	76,537

13. Related Party Transactions

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

	Six months ended 30 September	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
China Sonangol International Limited ("CSI") <i>(Note a)</i> – rental expenses <i>(Note b)</i>	300	240

Notes:

- a) CSI is an intermediate holding company of the Company.
- b) Operating lease commitment for future minimum lease payments under non-cancellable operating lease with CSI was amounted to HK\$150,000 (31 March 2013: HK\$450,000).

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

For the six months ended 30 September 2013

13. Related Party Transactions *(Continued)*

b) Compensation of key management personnel

The remuneration of the directors and other members of key management for the six months ended 30 September 2013 and 2012 were as follows:

	Six months ended 30 September	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Short-term benefits	1,287	1,272
Post-employment benefits	15	8
	1,302	1,280

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

14. Operating Lease Commitments

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

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

	30 September 2013 HK\$'000 (unaudited)	31 March 2013 HK\$'000 (audited)
Within one year	1,941	2,062
In the second to fifth years inclusive	1,415	2,146
	3,356	4,208

15. Capital Commitments

During the six months ended 30 September 2013, capital expenditure of HK\$1,587,000 in respect of the acquisition of property, plant and equipment was contracted for but not provided in the unaudited consolidated financial information (31 March 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a turnover of approximately HK\$64,323,000 during the six months ended 30 September 2013, decreased by approximately HK\$29,729,000 or 32% compared to the corresponding period in last year.

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

Decrease in sales in the period was due to weak demand for coal in Xinjiang area of Mainland China. The Group sold approximately 712,915 tonnes (2012: 890,000 tonnes) of coal, decreased by 20% in volume compared to the corresponding period.

The Group recorded a significant loss amounted to some HK\$6,884,000 (last year was HK\$16,307,000 profit during the six months ended 30 September 2012). Cause for the Loss was mainly due to the decrease in both sales volume and average selling price, together with loss on change in fair value of convertible loan notes of approximately HK\$2,139,000.

Mine Sales and Production

During the period, the Group sold 0.7 million tonnes to have the total sales income HK\$64,323,000. Details of coal sales in tonnes are listed in the below tables.

	Coal Sales <i>(tonnes)</i>	Coal Sales in %
Large Coal (大塊煤)	67,790	10
Middle Coal (中塊煤)	92,064	13
Nucleus Coal (煤核)	145,824	20
Slack Coal (沫煤)	407,237	57
Total Sales	712,915	100

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Reserves and Resources

The Group owns one mining right and one exploration right in the Xinjiang, PRC including Kaiyuan Open Pit Coal Mine and Zexu Open Pit Coal Mine. The coal reserve remaining of Kaiyuan Mine was 13.96 million tonnes as at 30 September 2013 (Coal reserve as at 31 March 2013 was 13.96 million tonnes). The coal reserve was calculated by using the following formula, which was in line with the market practice:

Coal Reserve as at 30 September 2013 = Coal Reserve as at 31 March 2013 – amount of coal extracted (the “Coal Extracts”) by the Group during April 2013 to September 2013.

During the period from 1 April 2013 to 30 September 2013, no coal was extracted, which was verified by Xinjiang Jiangwei Survey Company Limited (新疆江緯測繪有限責任公司), a PRC professional survey company, by using a GPS based 3-D modeling computer program.

The exploration permit of Zexu Mine will expire on 20 February 2014, full impairment of this intangible asset has been made in 2013 financial year.

Cost of Sales

The cost of sales for the period was approximately HK\$54,225,000 (2012: HK\$69,907,000). The cost mainly comprise machine rental cost, direct labor cost, cost for explosive works and etc. The decrease in cost of sales during the period was mainly due to decrease in production during the period as compared with last period.

Prospects

The Board believes that the coal business is full of challenges and is confident our investments can add value for our shareholders.

Liquidity and Financial Resources

As at 30 September 2013, the Group had net current asset of approximately HK\$90,300,000 (31 March 2013: HK\$94,604,000) and its current ratio, being the proportion of total current assets against total current liabilities, was 1.37 times (31 March 2013: 1.41 times). The Group continued to maintain a strong financial position. At 30 September 2013, the Group had cash and bank balances of approximately HK\$288,345,000 (31 March 2013: approximately HK\$255,620,000).

As at 30 September 2013, there was no bank and other borrowing in the Group (31 March 2013: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Exposure to Fluctuations in Exchange Rates (and Related Hedges)

The Group mainly earns revenue in RMB and incurs cost in RMB and Hong Kong dollars. The Group is exposed to foreign exchange risk based on fluctuations between the Hong Kong dollars and the RMB arising from its operation in the PRC. In order to limit this foreign currency risk exposure, the Group maintained cash balance that approximate three to four months' of operating cash flows.

Charges on Assets

As at 30 September 2013, no trade receivable was pledged to secure the borrowing, and no assets or fund of the Group were pledged to secure general banking facilities granted to the Group (2012: HK\$Nil).

Capital Structure

There was no change in the capital structure of the Company during the six months ended 30 September 2013.

Contingent Liabilities and Capital Commitments

During the six months ended 30 September 2013, capital expenditure of HK\$1,587,000 in respect of the acquisition of property, plant and equipment was contracted for but not provided in the unaudited consolidated financial statements (31 March 2013: HK\$Nil).

Human Resources

The Group had approximately 101 employees as at 30 September 2013 (31 March 2013: 114).

Apart from the basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. A share option scheme, which is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations, has been expired on 27 August 2013.

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2013 (2012: Nil).

OTHER INFORMATION

Disclosure of Interests

Directors' and chief executives' interests and short positions

As at 30 September 2013, the interests and short positions of the directors and chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Interests in an associated corporation of the Company

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

(L) denotes as long position

Notes:

1. Ms. Lo Fong Hung ("Ms. Lo") is interested in 3,000 shares in New Bright International Development Limited ("New Bright"), representing 30% of the issued share capital of New Bright, which currently owns 70% shareholding interests in China Sonangol International Limited ("China Sonangol"). China Sonangol is the holding company of Ascent Goal Investments Limited ("Ascent Goal"), the controlling shareholder of the Company. The shareholding interests of Ascent Goal in the Company is set out in the section headed "Substantial shareholders' interests" of this report.
2. Mr. Wang Xiangfei is the husband of Ms. Lo and is deemed to be interested in 3,000 shares of New Bright under the SFO.
3. Ms. Lo, an executive director of the Company, owns 30% of the issued share capital of New Bright which in turn is interested in 70% of China Sonangol. China Sonangol is the holding company of Ascent Goal. Thus, Ms. Lo has an attributable interest in 569,616,589 shares of the Company and a HK\$200,000,000 convertible bond at the conversion price of HK\$0.20 (the "Convertible Bond") giving rise to an interest in 1,000,000,000 underlying shares of the Company.

OTHER INFORMATION *(Continued)*

Save for those disclosed above, as at 30 September 2013, none of the directors or chief executives of the Company or their respective associates, had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' rights to acquire shares or debentures

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

Share option scheme

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

The Company did not grant any share option under the Share Option Scheme during the six months ended 30 September 2013 and there was no outstanding share option under the Share Option Scheme as at 30 September 2013.

OTHER INFORMATION *(Continued)*

Substantial shareholders' interests

As at 30 September 2013, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares or underlying shares of the Company

Name of shareholder	Notes	Nature of interest	Number of shares held	Number of underlying shares held	Total number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
						<i>(Note 6)</i>
Ascent Goal	1,4	Beneficial owner	569,616,589	1,000,000,000	1,569,616,589	205.08%
China Sonangol	2,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
New Bright	2,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Ms. Fung Yuen Kwan, Veronica	3,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Africa Israel Investments Ltd	5	Beneficial owner	45,000,000	-	45,000,000	5.88%
Mr. Lev Leviev	5	Beneficial owner	1,000,000	-	1,000,000	0.13%
	5	Interests of controlled corporation	74,000,000	-	74,000,000	9.67%

Notes:

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

OTHER INFORMATION *(Continued)*

3. *Ms. Fung Yuen Kwan, Veronica is deemed to have interests in the shares and underlying shares through her 70% interests in New Bright.*
4. *The 569,616,589 shares and 1,000,000,000 underlying shares under the Convertible Bond represent 74.42% and 130.66% of the existing issued share capital of the Company respectively, thus the total of 569,616,589 shares and 1,000,000,000 underlying shares represent 205.08% of the existing issued share capital of the Company. The conversion rights attaching to the Convertible Bond will not be exercised and the Company will not issue the conversion shares if, immediately following the conversion, the Company would be unable to meet the public float requirement under the Listing Rules.*
5. *For the shares held by Mr. Lev Leviev, of these shares, 45,000,000 shares were held by Africa Israel Investments Ltd, a company controlled by Mr. Lev Leviev through his 74.89% interests in Africa Israel Investments Ltd; 29,000,000 shares were held by Memorand Management (1998) Ltd, a company controlled by Mr. Lev Leviev through his 99% interests in Memorand Ltd; and 1,000,000 shares were held by Mr. Lev Leviev directly.*
6. *The approximate percentage of shareholdings is based on 765,373,584 shares as at 30 September 2013, not the enlarged issued share capital of the Company upon full conversion of the Convertible Bond.*

Save as disclosed above, the directors of the Company are not aware of any other persons who, as at 30 September 2013, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2013.

Corporate Governance

To the best knowledge and belief of the directors of the Company, the Company has complied with the applicable code provisions of the code under the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 September 2013 except for the Code provision A.2.1, A.6.7 and E.1.2 which are summarized below:

Code Provision A.2.1

Under the Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The Company did not have any officer with CEO title. Ms. Lo Fong Hung is currently the Chairperson and Managing Director of the Company. The duties of CEO were carried out by Ms. Lo Fong Hung. In view of the size of operation of the Company, 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.

OTHER INFORMATION *(Continued)*

Code Provisions A.6.7 and E.1.2

In respect of Code provision A.6.7 of the Code, one of the independent non-executive directors of the Company was unable to attend the annual general meeting of the Company held on 23 August 2013 (the "AGM") due to his other business commitments.

Code provision E.1.2 of the Code provides that the chairman of the board should attend the annual general meeting. Due to other business commitments, Ms. Lo Fong Hung, the Chairperson of the Board, was unable to attend the AGM and has delegated Mr. Kwan Man Fai, the executive director, to attend the AGM on her behalf.

Change in Directors' Information

Mr. Wang Xiangfei, an executive director of the Company, ceased to be an independent non-executive director of Shandong Chenming Paper Holdings Limited with effect from 15 May 2013, a company listed on the Stock Exchange of Hong Kong Limited, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Mr. Lam Ka Wai, Graham, an independent non-executive director of the Company, was appointed as an independent non-executive director of CT Environmental Group Limited on 14 June 2011, a company listed on the Stock Exchange of Hong Kong Limited on 25 September 2013.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since the date of the 2013 annual report of the Company.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. All directors of the Company have confirmed, following specific enquiry made by the Company, that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2013.

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive directors, namely Mr. Lam Ka Wai, Graham, Mr. Wong Man Hin, Raymond and Mr. Chan Yiu Fai, Youdey. The Audit Committee together with the management of the Company have reviewed the accounting principles and practices adopted by the Group and discussed and reviewed the unaudited condensed consolidated interim financial information of the Company for the six months ended 30 September 2013.

By Order of the Board
Wang Xiangfei
Executive Director

Hong Kong, 22 November 2013