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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 2012

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 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

		Six months ended 30 September	
	<i>Notes</i>	2012	2011
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	3	94,052	90,174
Cost of sales		(69,907)	(81,131)
Gross profit		24,145	9,043
Other revenue		1,247	813
Selling and distribution expenses		(582)	(492)
Administrative expenses		(10,608)	(7,866)
Change in fair value of convertible loan notes		3,216	(2,981)
Profit/(loss) before tax		17,418	(1,483)
Income tax expense	4	(1,111)	(1,642)
Profit/(loss) for the period	5	16,307	(3,125)

		Six months ended	
		30 September	
		2012	2011
		HK\$'000	HK\$'000
<i>Notes</i>		(unaudited)	(unaudited)
Other comprehensive income			
Exchange difference on translation of functional currency to presentation currency		<u>(1,230)</u>	<u>6,179</u>
Other comprehensive (loss)/income for the period (net of tax)		<u>(1,230)</u>	<u>6,179</u>
Total comprehensive income for the period		<u>15,077</u>	<u>3,054</u>
Profit/(loss) for the period attributable to:			
– Owners of the Company		<u>16,307</u>	<u>(3,125)</u>
Total comprehensive income for the period attributable to:			
– Owners of the Company		<u>15,077</u>	<u>3,054</u>
Earnings/(loss) per share (expressed in Hong Kong cents)			
– Basic	7	<u>2.13</u>	<u>(0.41)</u>
– Diluted	7	<u>0.83</u>	<u>(0.41)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2012

		30 September 2012	31 March 2012
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment	8	23,066	24,229
Intangible assets		119,207	132,471
Goodwill		–	–
Security deposit		2,788	2,809
		145,061	159,509
Current assets			
Inventories		102,324	38,483
Trade and other receivables	9	9,508	5,054
Cash and cash equivalents		242,097	257,246
		353,929	300,783
Current liabilities			
Trade and other payables	10	55,207	26,743
Amount due to a fellow subsidiary		23	–
Amount due to an intermediate holding company		102	40
Tax payable		2,502	1,076
Obligation under finance lease		41	–
		57,875	27,859
Net current assets		296,054	272,924
Total assets less current liabilities		441,115	432,433
Capital and reserves			
Share capital	11	76,537	76,537
Reserves		122,015	106,938
Total equity		198,552	183,475

	30 September 2012 HK\$'000 (unaudited)	31 March 2012 HK\$'000 (audited)
Non-current liabilities		
Convertible loan notes designated as financial liabilities at fair value through profit or loss	210,673	213,889
Obligation under finance lease	152	–
Provision for close down, restoration and environmental costs	1,937	1,951
Deferred tax liabilities	29,801	33,118
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	242,563	248,958
	<hr/>	<hr/>
	441,115	432,433
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

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 Company’s parent company is Ascent Goal Investments Limited (“Ascent Goal”), a company incorporated in the British Virgin Islands with limited liability and the Company’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 condensed consolidated interim financial information is presented in Hong Kong dollars (“HK\$”). As the turnover and results are contributed by the mining and sales of coal business while the other segments remain inactive as a result of strategic shift in the business focus of the Group, the directors of the Company are of the view that the functional currency of the Company had been changed from HK\$ to Renmenbi (“RMB”) from 1 April 2010 onwards. The presentation currency of the Company and the Group would remain to be in HK\$ for consistent presentation and the use of investors.

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”).

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 September 2012 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2012.

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

Amendments to HKFRS 7	Financial Instruments: Disclosure – Transfer of Financial Assets
Amendments to HKFRS 12	Deferred Tax: Recovery of Underlying Assets

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

3. TURNOVER AND SEGMENT INFORMATION

The Group's operating segments based on information reported to the chief operating decision maker who are also the executive directors, for the purpose of resources allocation and performance assessment, is more specifically focused on the types of goods delivered and services provided by the Group's operating divisions. The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

- (i) coal mine business – engages in mining and sales of coal; and
- (ii) others – included provision of management services and sales of clocks and other office related products, which were not significant as a reportable segment of the Group since the year ended 31 March 2011. The operations of this segment were disposed of during the year ended 31 March 2012.

Segment revenue and results

The following tables present the turnover, results and expenditure of the Group's reportable segments for the period under review:

	Coal mine business		Others		Total	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended						
30 September						
TURNOVER						
Sales to external customers	<u>94,052</u>	<u>90,174</u>	<u>–</u>	<u>–</u>	<u>94,052</u>	<u>90,174</u>
RESULT						
Segment results	<u>17,334</u>	<u>3,513</u>	<u>–</u>	<u>(323)</u>	<u>17,334</u>	<u>3,190</u>
Interest income					1,213	642
Change in fair value of convertible loan notes designated as financial liabilities at fair value through profit or loss ("FVTPL")					3,216	(2,981)
Central administration costs and other gains and losses					<u>(4,345)</u>	<u>(2,334)</u>
Profit/(loss) before taxation					<u>17,418</u>	<u>(1,483)</u>

Segment result represents the profit/(loss) of each segment without allocation of central administration costs including directors' emoluments, interest income, change in fair value of convertible loan notes designated as financial liabilities at FVTPL. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets

The following is an analysis of the Group's assets by reportable and operating segments:

	30 September 2012 HK\$'000 (unaudited)	31 March 2012 HK\$'000 (audited)
Coal mine business	252,643	201,439
Others	<u>—</u>	<u>—</u>
Total segment assets	252,643	201,439
Unallocated	246,347	258,853
Consolidated assets	<u>498,990</u>	<u>460,292</u>

All assets, other than cash and cash equivalents and other corporate assets, are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

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 2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Tax in other jurisdictions		
– current	4,190	2,204
Deferred tax	<u>(3,079)</u>	<u>(562)</u>
Income tax expense	<u>1,111</u>	<u>1,642</u>

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 2012 and 30 September 2011.

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 2012 and 30 September 2011.

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

Pursuant to the laws and regulations in the PRC, one of the Group's subsidiaries operating in the PRC is entitled to exemption from PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of PRC income tax for the following three years. The subsidiary was eligible to the above tax concession policy commencing from 1 January 2007 until 31 December 2011.

5. PROFIT/(LOSS) FOR THE PERIOD

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

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Amortisation of intangible assets (included in cost of sales)	2,583	4,500
Cost of inventories sold	69,907	81,131
Depreciation of property, plant and equipment	1,944	1,969
Staff costs (excluding directors' emoluments)		
– Basic salaries and allowances	3,914	2,448
– Retirement benefit scheme contributions	381	257
	<u>381</u>	<u>257</u>

6. INTERIM DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 September 2012. The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 September 2011: Nil).

7. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit/(Loss)		
Profit/(Loss) for the purposes of basic earnings/(loss) per share	<u>16,307</u>	<u>(3,125)</u>
	2012	2011
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	<u>765,373,584</u>	<u>765,373,584</u>

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

- i) *Profit/(loss) attributable to owners of the Company (diluted)*

	2012	2011
	HK\$'000	HK\$'000
Profit/(loss) attributable to owners	16,307	(3,125)
Fair value gain on convertible loan notes*	(3,216)	–
Exchange loss on convertible loan notes*	1,571	–
Profit/(loss) attributable to owners (diluted)	<u>14,662</u>	<u>(3,125)</u>

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

	2012	2011
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	765,373,584	765,373,584
Effect of conversion of convertible loan notes*	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Weighted average number of ordinary shares for the purpose of diluted of diluted earnings/(loss) per share	<u>1,765,373,584</u>	<u>1,765,373,584</u>

* The calculation of the diluted loss per share for the six months ended 30 September 2011 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.

8. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 September 2012, the Group acquired property, plant and equipment with a cost of HK\$958,000 (six months ended 30 September 2011: HK\$150,000).

During the six months ended 30 September 2012, the Group did not dispose of/write off any property, plant and equipment (six months ended 30 September 2011: wrote off of HK\$20,000 with no gain or loss resulted).

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 2012 HK\$'000 (unaudited)	31 March 2012 HK\$'000 (audited)
Within 90 days	5,531	1,977
91 days to 180 days	–	522
Trade and bills receivables	5,531	2,499
Prepayments, deposits and other receivables	3,977	2,555
Total trade and other receivables	<u>9,508</u>	<u>5,054</u>

10. TRADE AND OTHER PAYABLES

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

	30 September 2012 HK\$'000 (unaudited)	31 March 2012 HK\$'000 (audited)
Within 90 days	15,636	1,249
91-180 days	3,626	1,436
181-365 days	54	2,138
Over 1 year	28	12
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Trade payables	19,344	4,835
Receipt in advance	6,126	1,606
Value-added tax and non-income tax payable	3,708	2,333
Government levies payable	19,528	10,602
Accrued expenses	1,933	1,519
Other payables	4,568	5,848
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Total trade and other payables	55,207	26,743
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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. SHARE CAPITAL

	Number of ordinary shares of HK\$0.1 each	Amount HK\$'000
Ordinary Shares		
Authorised:		
At 1 April 2011, 31 March 2012 and 30 September 2012	5,000,000,000	500,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1 April 2011, 31 March 2012 and 30 September 2012	765,373,584	76,537
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MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a turnover of approximately HK\$94,052,000 during the six months ended 30 September 2012, increased by HK\$3,878,000 or 4% when compared with last corresponding period. Reasons for the increase were the increase in average selling price for coal per tonne. The average selling price for coal per tonne had been increased by 30% from RMB66 for the six months ended 30 September 2011 to RMB86 for the same period in 2012.

Geographically, Xinjiang province is remote from the rest of the country. Coal produced in Xinjiang was mainly consumed locally due to logistic reason. The coal price in Xinjiang province was substantially lower than the average China market rate.

The Group recorded a significant improvement by HK\$19,432,000 or 622% from the loss of HK\$3,125,000 as at 30 September 2011 to the profit of HK\$16,307,000 as at 30 September 2012. It was mainly due to the increase in gross profit of approximately HK\$15,102,000 and the gain on fair value change of convertible loan notes of approximately HK\$3,216,000.

During the period, the Group sold approximately 890,000 tonnes (2011: 1,211,000 tonnes) of coal with 27% decrease in tonnes. However, the gross margin of coal mine business improved to 26% (2011: 10%). The increase in gross margin was mainly due to the increase in average selling price of coal.

On the other hand, the operating profit for coal mine business was approximately HK\$17,334,000 (2011: HK\$3,513,000) which represents the increase by HK\$13,821,000 or 393% by comparing with six months period ended 30 September 2011. The increase in operating profit of coal mine business was mainly due to increase in gross profits.

The Board was positive about the whole year business result with cautions thinking in mind.

MINE SALES AND PRODUCTION

During the period, the Group sold 0.89 million tonnes to have the total sales income HK\$94,052,000. Details of coal sales in tonnes are listed in the below tables.

	Coal Sales <i>(tonnes)</i>	Coal Sales in <i>%</i>
Large Coal (大塊煤)	142,000	15.96
Middle Coal (中塊煤)	148,000	16.63
Nucleus Coal (煤核)	204,000	22.92
Slack Coal (沫煤)	396,000	44.49
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Total Sales	890,000	100

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 14.0 million tonnes as at 30 September 2012. The coal reserve was calculated by using the following formula, which was in line with the market practice:

Coal Reserve as at 30 September 2012 = Coal Reserve as at 31 March 2012 – amount of coal extracted (the “Coal Extracts”) by the Group during April 2012 to September 2012.

The Coal Extracts during the period from 1 April 2012 to 30 September 2012 amounted to 2.4 million tonnes, 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 of Zexu Mine was in progress, no development or production activity has taken place at this stage and the production will be commenced in year 2015.

COST OF SALES

The cost of sales for the period was approximately HK\$69,907,000 (2011: HK\$81,131,000). The cost mainly comprise machine rental cost, direct labor cost, cost for explosive works, amortization of mining right 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 demand for coal from various industries will continue to be robust and is confident our investments can add value for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2012, the Group had working capital of approximately HK\$296,054,000 (31 March 2012: HK\$272,924,000) and its current ratio, being the proportion of total current assets against total current liabilities, was 6.12 times (31 March 2012: 10.80 times). The Group continued to maintain a strong financial position. At 30 September 2012, the Group had cash and bank balances of approximately HK\$242,097,000 (31 March 2012: approximately HK\$257,246,000).

As at 30 September 2012, there was no bank and other borrowing in the Group (31 March 2012: HK\$Nil).

The gearing ratio of the Group was 12.04% (31 March 2012: Nil). The computation is based on total debt (trade and other payables, amount due to a fellow subsidiary, amount due to an intermediate holding company and convertible loan notes designed at fair value through profit or loss) less cash and cash equivalents divided by total equity.

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 2012, 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 (2011: HK\$Nil).

CAPITAL STRUCTURE

There was no change in the capital structure of the Company during the six months ended 30 September 2012.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Group did not have any significant contingent liabilities and capital commitments as at 30 September 2012.

HUMAN RESOURCES

The Group had approximately 116 employees as at 30 September 2012 (31 March 2012: 117).

Apart from the basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2012 (2011: 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 six months ended 30 September 2012.

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 on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules during the six months ended 30 September 2012 except for the following deviation:

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.

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 2012.

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 2012.

PUBLICATION OF INTERIM REPORT

The interim results 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 and will be available at the websites of The Hong Kong Exchanges and Clearing Limited and the Company in due course.

By order of the Board
Wang Xiangfei
Executive Director

Hong Kong, 27 November 2012

As at the date of this announcement, the Board comprises three executive directors, namely Ms. Lo Fong Hung, Mr. Wang Xiangfei and Mr. Kwan Man Fai; and three independent non-executive directors, namely Mr. Lam Ka Wai, Graham, Mr. Wong Man Hin, Raymond and Mr. Chan Yiu Fai, Youdey.