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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Nan Nan Resources Enterprise Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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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)**

**CONNECTED TRANSACTION  
PROPOSED EXTENSION OF THE MATURITY DATE OF  
HK\$200,000,000 ZERO COUPON CONVERTIBLE BOND DUE 2020  
AND  
NOTICE OF SGM**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



A letter from the Board is set out on pages 7 to 20 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 21 of this circular. A letter from the Independent Financial Adviser, Lego Corporate Finance, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 48 of this circular.

A notice convening the SGM to be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Wednesday, 11 March 2020 at 11:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting thereof if you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

24 February 2020

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## DEFINITIONS

*In this circular, the following expressions have the following meanings unless the context requires otherwise.*

“1st Extension”	the extension of the Maturity Date of the Convertible Bond for 36 months, together with the Conversion Period which was also extended for 36 months to 13 March 2014 accordingly pursuant to the Deed of Amendment
“1st Extension Circular”	the Company’s circular dated 21 February 2011 in relation to, among other matters, the 1st Extension
“2nd Deed of Amendment”	the 2nd deed of amendment dated 21 January 2014 (as amended and supplemented by the Supplemental Deed) entered into between the Company and the Subscriber, whereby the Company and the Subscriber agreed to further extend the Maturity Date and Conversion Period of the Convertible Bond for 36 months to 13 March 2017
“2nd Extension”	the extension of the Maturity Date of the Convertible Bond for 36 months from the 1st Extension, together with the Conversion Period which was also extended for 36 months to 13 March 2017 pursuant to the 2nd Deed of Amendment
“2nd Extension Circular”	the Company’s circular dated 13 February 2014 in relation to, among other matters, the 2nd Extension
“3rd Deed of Amendment”	the 3rd deed of amendment dated 25 January 2017 entered into between the Company and the Subscriber, whereby the Company and the Subscriber agreed to further extend the Maturity Date and Conversion Period of the Convertible Bond for 36 months to 13 March 2020
“3rd Extension”	the further extension of the Maturity Date of the Convertible Bond for 36 months from the 2nd Extension, together with the Conversion Period which will also be further extended for 36 months to 13 March 2020 pursuant to the 3rd Deed of Amendment
“3rd Extension Circular”	the Company’s circular dated 17 February 2017 in relation to, among other matters, the 3rd Extension

## DEFINITIONS

“4th Deed of Amendment”	the 4th deed of amendment dated 3 February 2020 entered into between the Company and the Subscriber, whereby the Company and the Subscriber agreed to further extend the Maturity Date and Conversion Period of the Convertible Bond for 36 months to 13 March 2023
“4th Extension”	the further extension of the Maturity Date of the Convertible Bond for 36 months from the 3rd Extension, together with the Conversion Period which will also be further extended for 36 months to 13 March 2023 pursuant to the 4th Deed of Amendment
“Ascent Goal” or “Subscriber”	Ascent Goal Investments Limited, the controlling shareholder of the Company and the subscriber to the Convertible Bond, a company incorporated in British Virgin Islands with limited liability
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company
“Company”	Nan Nan Resources Enterprise Limited (stock code: 1229), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed thereto in the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules
“Conversion Period”	the period commencing from the date of issue of the Convertible Bond certificate and ending on the Maturity Date
“Conversion Price”	HK\$0.20 per Conversion Share, subject to adjustment provisions which are normal for convertible debt securities of this type
“Conversion Share(s)”	share(s) to be issued pursuant to exercise of the Convertible Bond

## DEFINITIONS

“Convertible Bond”	outstanding and exercisable zero per cent convertible bond issued by the Company to the Subscriber with an aggregate principal amount of HK\$200,000,000
“Deed of Amendment”	the deed of amendment dated 11 February 2011 entered into between the Company and the Subscriber, whereby the Company and the Subscriber agreed to extend the Maturity Date and Conversion Period of the Convertible Bond for 36 months to 13 March 2014
“Directors”	the directors of the Company
“Enlarged Kaiyuan Mine”	Kaiyuan Mine with an enlarged mining area (including the existing mining area) from an existing mining area of approximately 1.1596 km <sup>2</sup> to 4.1123 km <sup>2</sup> under the New Mining Right, the mining operations and sales at which are currently suspended after the expiry of the New Mining Permit on 21 December 2019 pending the grant of the Renewed Mining Permit by the Xinjiang Natural Resources Department
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors to advise the Independent Shareholders on the 4th Extension
“Independent Financial Adviser” or “Lego Corporate Finance”	Lego Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the 4th Extension
“Independent Shareholders”	the shareholders of the Company, other than the Subscriber and its associates

## DEFINITIONS

“Independent Third Party”	third party(ies) independent of and not connected with the Company and its connected persons
“Kaiyuan Company”	Mulei County Kai Yuan Coal Company Limited* (木壘縣凱源煤炭有限責任公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Kaiyuan Mine”	an open pit coal mine situated at Zhundong Economic and Technological Development Zone, Xinjiang, the PRC* (中國新疆准東經濟技術開發區), with an existing mining area of approximately 1.1596 km <sup>2</sup> , of which its mining right is owned by Kaiyuan Company
“km <sup>2</sup> ”	square kilometres
“Last Trading Day”	31 January 2020, being the last trading day of the Shares immediately before the date of the 4th Deed of Amendment
“Latest Practicable Date”	18 February 2020, being the latest practicable date for ascertaining certain information in this circular before printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date upon which the Convertible Bond will expire and the last day for the Company to repay the outstanding amount under the Convertible Bond being the date falling 180 months from the date of issue of the Convertible Bond certificate, unless previously converted, i.e. 13 March 2023, pursuant to the 4th Deed of Amendment
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“New Mining Permit”	the mining permit in respect of the New Mining Right issued to Kaiyuan Company with the validity period of one year from 21 December 2018 to 21 December 2019

## DEFINITIONS

“New Mining Right”	the new mining right of the Enlarged Kaiyuan Mine for 30 years from August 2019 to August 2049 to conduct mining activities at the Enlarged Kaiyuan Mine by Kaiyuan Company under the Transfer Agreement
“Nov 15 Announcement”	the announcement of the Company dated 15 November 2019 regarding, among others, the grant of the New Mining Permit
“PRC”	the People’s Republic of China (for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“Renewed Mining Permit”	the renewed mining permit to be granted by the Xinjiang Natural Resources Department in respect of Kaiyuan Company’s currently suspended mining operations and sale at the Enlarged Kaiyuan Mine after the expiry of the New Mining Permit on 21 December 2019
“Renewed Mining Permit Application”	the application to the Xinjiang Natural Resources Department for a renewal of the New Mining Permit by Kaiyuan Company on 10 December 2019
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve among other matters, the 4th Extension
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 15 January 2008 entered into between the Company and the Subscriber in respect of, among other things, the subscription of the Convertible Bond

## DEFINITIONS

“Subscription Circular”	the Company’s circular dated 21 February 2008 in relation to, among other matters, (i) proposed subscription of new shares and convertible bond and (ii) increase in authorized share capital
“Supplemental Deed”	the supplemental deed dated 28 January 2014 entered into between the Company and the Subscriber to amend and supplement the 2nd Deed of Amendment
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Updated Optimization and Upgrading Plan”	the letter dated 13 June 2012 issued by the Administrative Bureau of Coal Industry of Changji Prefecture on the updated status of the optimization and upgrading plan in respect of the plan for a management restructuring of seven different coal mines in the Zhundong Meitain Xiheishan Coal Mining Area* (准東煤田西黑山煤炭礦區), pursuant to which it was proposed that, among other things, (i) Kaiyuan Mine would be restructured and upgraded, and the exploration permit granted to the Company in relation to the Zexu Mine would be terminated; and (ii) the mining area of the Kaiyuan Mine was to be increased from 1.1596 km <sup>2</sup> to 4.12 km <sup>2</sup> , with the estimated coal resources of approximately 131.18 million tonnes, and where the context permits, includes the predecessing optimization and upgrading plan as disclosed in the announcement of the Company dated 11 November 2011
“Upgrading Plan Announcements”	the announcements published by the Company dated 11 November 2011, 12 March 2012, 21 March 2012, 15 June 2012, 21 March 2014, 15 August 2017, 28 March 2018, 14 December 2018, 31 December 2018, 15 May 2019, 31 May 2019, 4 November 2019, 15 November 2019, 6 December 2019 and 20 December 2019 respectively, in relation to, among other things, the progress update on the Updated Optimization and Upgrading Plan and the New Mining Right
“Xinjiang Natural Resources Department”	the Department of Natural Resources of Xinjiang Uygur Autonomous Region of the PRC* (中國新疆維吾爾自治區自然資源廳)
“Zexu Mine”	an open pit coal mine situated at Qitai County, Changji Hui Autonomous Prefecture, Xinjiang, the PRC* (中國新疆昌吉回族自治州奇台縣)

\* For identification purposes only



LETTER FROM THE BOARD



**NAN NAN RESOURCES ENTERPRISE LIMITED**

**南南資源實業有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1229)**

*Directors:*

Mr. Kwan Man Fai (*Chairman and Managing Director*)  
Mr. Wang Xiangfei (*With Mr. Wong Sze Wai as alternate*)  
Mr. Wong Sze Wai  
Dr. Wong Man Hin Raymond<sup>#</sup>  
Mr. Chan Yiu Fai Youdey<sup>#</sup>  
Mr. Pak Wai Keung Martin<sup>#</sup>

<sup>#</sup> *Independent non-executive Director*

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business  
in Hong Kong:*

8/F., Tower 2  
Admiralty Centre  
18 Harcourt Road  
Admiralty, Hong Kong

24 February 2020

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
PROPOSED EXTENSION OF THE MATURITY DATE OF  
HK\$200,000,000 ZERO COUPON CONVERTIBLE BOND DUE 2020**

**1. INTRODUCTION**

References are made to (i) the announcement of the Company dated 28 January 2008 in relation to the subscription of the Convertible Bond and the Subscription Circular; (ii) the announcement of the Company dated 11 February 2011 in relation to the 1st Extension and the 1st Extension Circular; (iii) the announcement of the Company dated 21 January 2014 and the clarification announcement of the Company dated 28 January 2014 both in relation to the 2nd Extension and the 2nd Extension Circular; (iv) the announcement of the Company dated 25 January 2017 in relation to the 3rd Extension and the 3rd Extension Circular; and (v) the announcement of the Company dated 3 February 2020 in relation to the 4th Extension.

## LETTER FROM THE BOARD

As mentioned in the Subscription Circular and the 1st Extension Circular, the Company entered into a conditional subscription agreement on 15 January 2008 with the Subscriber, pursuant to which the Company issued the Convertible Bond to the Subscriber in an aggregate principal amount of HK\$200,000,000. The Convertible Bond bears no interest and is convertible into Shares. All outstanding Convertible Bond should have matured on 13 March 2011 pursuant to the original terms and conditions of the Convertible Bond.

On 11 February 2011, the Company and the Subscriber entered into the Deed of Amendment to extend the Maturity Date and the Conversion Period for 36 months to 13 March 2014. Accordingly, the Maturity Date was extended to 13 March 2014.

On 21 January 2014, the Company and the Subscriber entered into the 2nd Deed of Amendment, as amended and supplemented by the Supplemental Deed dated 28 January 2014, to further extend the Maturity Date and the Conversion Period for 36 months to 13 March 2017. Accordingly, the Maturity Date was extended to 13 March 2017.

On 25 January 2017, the Company and the Subscriber entered into the 3rd Deed of Amendment to extend the Maturity Date and the Conversion Period for 36 months to 13 March 2020. Accordingly, all outstanding Convertible Bond will mature on 13 March 2020 pursuant to the 3rd Deed of Amendment.

As at the Latest Practicable Date, the Convertible Bond with an aggregate amount of HK\$200,000,000 held by the Subscriber was still outstanding.

The purposes of this circular is to provide you with, among other things, (i) further information on the 4th Deed of Amendment and the 4th Extension; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the SGM to consider and, if thought fit, approve among other matters, the resolution in relation to the 4th Deed of Amendment and the 4th Extension.

## LETTER FROM THE BOARD

### 2. 4TH DEED OF AMENDMENT

On 3 February 2020, the Company and the Subscriber entered into the 4th Deed of Amendment, pursuant to which the Maturity Date will be extended for 36 months from the 3rd Extension and the Conversion Period will accordingly be extended for 36 months to 13 March 2023. Save for the Maturity Date and the Conversion Period, all terms of the Convertible Bond remain unchanged.

The 4th Deed of Amendment is subject to the fulfillment of the following conditions:

- (a) the passing by the Independent Shareholders at the SGM of the necessary resolutions to ratify and approve the 4th Deed of Amendment and the 4th Extension;
- (b) the Stock Exchange having approved the 4th Extension in accordance with Rule 28.05 of the Listing Rules; and
- (c) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the 4th Extension having been obtained.

None of the above conditions precedent could be waived by the parties to the 4th Deed of Amendment. The 4th Deed of Amendment shall have no effect unless and until all the conditions precedent set out above are fulfilled. The effective date of the 4th Deed of Amendment shall be on the date when all its conditions precedent are fulfilled. As at the Latest Practicable Date, none of the above conditions precedent had been fulfilled.

### 3. TERMS OF THE CONVERTIBLE BOND

The principal terms of the Convertible Bond (as amended by the Deed of Amendment, the 2nd Deed of Amendment, the 3rd Deed of Amendment and the 4th Deed of Amendment) will be as follows:

Principal amount	HK\$200,000,000
Coupon	Zero (0)% interest rate
Maturity Date	The Company shall repay the principal amount of the outstanding Convertible Bond to the then holder of the Convertible Bond in full on the maturity date, being the date falling 180 months from the date of issue of the Convertible Bond certificate, unless previously converted, i.e. 13 March 2023.

## LETTER FROM THE BOARD

- Conversion
- The holders of the Convertible Bond may convert the whole or part of the principal amount of the Convertible Bond (in multiples of HK\$1,000,000) into such number of Shares determined by dividing the principal amount of the Convertible Bond being converted by the Conversion Price then in effect on any business day during the Conversion Period.
- Conversion Price
- HK\$0.20 per Conversion Share, subject to adjustment provisions which are normal for convertible debt securities of this type.
- The Conversion Price, which was determined when the Subscription Agreement was entered into in January 2008, represents (assuming no adjustment to the Conversion Price is to be made):
- (a) a premium of approximately 65.29% to the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Last Trading Day;
  - (b) a premium of approximately 53.85% to the closing price of HK\$0.130 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
  - (c) a premium of approximately 26.58% to the average closing price of approximately HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day; and
  - (d) a premium of approximately 15.74% to the average closing price of approximately HK\$0.173 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to and including the Last Trading Day.

## LETTER FROM THE BOARD

Having principally taken into account that (i) the Conversion Price is at a considerable premium to the closing prices of the Share as quoted on the Stock Exchange for the period leading up to the Last Trading Day and on the Latest Practicable Date as shown above; (ii) the Conversion Price was determined when the Subscription Agreement was entered into in January 2008 with reference to primarily the then net asset value of the Group; (iii) the 4th Extension is in the interest of the Group and its Shareholders as a whole for reasons set forth in the section "Reason for the 4th Extension" below; and (iv) any renegotiations of the Conversion Price will likely significantly delay the 4th Extension, the Directors are of the view that the 4th Extension at the Conversion Price is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The issue of the Conversion Shares at the Conversion Price will not result in a theoretical dilution effect of 25% or more on its own as referred to under Rule 7.27B of the Listing Rules. The Company will continue to comply with Rule 7.27B of the Listing Rules after the 4th Extension.

### Adjustments to Conversion Price

The Conversion Price is subject to adjustment provisions which are normal for convertible debt securities of this type and, in summary, an adjustment may be made in the event of:

- (i) any consolidation or sub-division of the Shares, in which case the Conversion Price in force immediately before such consolidation or sub-division shall be adjusted by, in summary, multiplying it by the revised nominal amount and dividing the result by the former nominal amount;

## LETTER FROM THE BOARD

- (ii) any issue of Shares (other than in lieu of a cash dividend) by way of capitalization of profits or reserves, in which case the Conversion Price in force immediately before such issue shall be adjusted by, in summary, multiplying it by the aggregate nominal amount of the issued Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalization;
- (iii) any capital distribution to holders of the Shares or grant to such holders rights to acquire assets of the Group for cash, in which case the Conversion Price in force immediately before such distribution or grant shall be adjusted by, in summary, multiplying it by a formula taking into account the market price on the date of such distribution or grant, and the fair market value on the same day of the portion of the capital distribution or of such rights which is attributed to one Share;
- (iv) any offer to holders of the Shares for subscription by way of rights or grant to holders of the Shares any options or warrants to subscribe for new Shares at a price which is less than 90% of the market price as at the date of the related announcement, in which case the Conversion Price shall be adjusted by, in summary, multiplying the Conversion Price in force immediately before the date of announcement of such offer or grant, by a formula taking into account the number of Shares in issue immediately before the date of such announcement, the number of Shares which the aggregate of the amount payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price, and the aggregate number of Shares for subscription or comprised in the options or warrants;

## LETTER FROM THE BOARD

- (v) the issue by the Company wholly for cash of any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 90% of the market price as at the date of the related announcement, in which case the Conversion Price shall be adjusted by, in summary, multiplying the Conversion Price in force immediately before such issue, by a formula taking into account the number of Shares in issue immediately before the date of such issue, the number of Shares which the total effective consideration receivable for the securities issued would purchase at such market price, and the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price;
  
- (vi) the rights of conversion or exchange or subscription attached to such securities mentioned in (v) above are modified so that the total effective consideration per Share initially received for such securities shall be less than 90% of the market price at the date of the related announcement, in which case the Conversion Price shall be adjusted by, in summary, multiplying the Conversion Price in force immediately before such modification, by a formula taking into account the number of Shares in issue immediately before the date of such modification, the number of Shares which the total effective consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price, and the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified price; or





## LETTER FROM THE BOARD

Ranking of Conversion Shares	The Conversion Shares issued upon the exercise by the holder of Convertible Bond the conversion rights attaching to the Convertible Bond will, when issued, rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares, including the right to receive all future dividends and distributions.
Listing of the Convertible Shares	<p>No application has been nor will be made for the listing of the Convertible Bond on the Stock Exchange or any other recognized stock or securities exchanges.</p> <p>Application had been made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Bond.</p>

#### 4. REASONS FOR THE 4TH EXTENSION

##### **Capital needs for facilitating the progression of the Updated Optimization and Upgrading Plan**

The Group has been actively proceeding with the Updated Optimization and Upgrading Plan since 2011 as part of the government restructuring proposals to consolidate smaller mines as well as an expansion and development of the Group's business of coal mining and sales. As disclosed in the Upgrading Plan Announcements, while Kaiyuan Company's application for the New Mining Right in respect of the Enlarged Kaiyuan Mine with the Xinjiang Natural Resources Department was approved on 21 December 2018, the New Mining Right has not yet been formally granted to Kaiyuan Company pending, among other things, the entering into of a formal transfer agreement in respect of the New Mining Right between Kaiyuan Company and the Xinjiang Natural Resources Department. In addition, the estimated coal resources of the approved New Mining Right for the mining life of 30 years are 41.6433 million tonnes, and the assessed value of the New Mining Right (the "**Assessed Value**") by the Xinjiang Natural Resources Department is RMB160,978,000.

Meanwhile, as disclosed in the Nov 15 Announcement, while the New Mining Permit was granted to Kaiyuan Company, which is valid for 1 year from 21 December 2018 to 21 December 2019 and covers a mining area of approximately 4.1123 km<sup>2</sup> 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), the Xinjiang Natural Resources Department had issued a payment notice to Kaiyuan Company on 1 November 2019 requesting for a one-off payment (the "**Payment**") of a total sum of RMB108,702,500, representing (i) a deposit (the "**Deposit**") in the sum of RMB32,200,000 as the deposit for the Assessed Value and (ii) the supplemental resources fee (the "**Supplemental Resources Fee**") of RMB76,502,500 being the resources fee payable for the output of the original Kaiyuan Mine in the previous years, before 20 November 2019. In light of the prescribed payment timeframe, as well as the Group's commitment to pursue and facilitate the progression of the Updated Optimization and Upgrading Plan, the Group had elected to use certain part of its cash and cash equivalent to settle the above Payment, which crucially comprises, among other things, the Deposit in relation to the acquisition of the New Mining Right.

## LETTER FROM THE BOARD

The relevant duly executed formal transfer agreement in respect of the New Mining Right (the “**Transfer Agreement**”) was eventually received by Kaiyuan Company from the Xinjiang Natural Resources Department on 6 December 2019, pursuant to which the Xinjiang Natural Resources Department agreed to sell, and Kaiyuan Company agreed to purchase, the New Mining Right for a term of 30 years from August 2019 to August 2049 in consideration of the same amount as the Assessed Value. The Board is of the view that the 4th Extension will enable the Group to apply the retained funds to pay for the outstanding amount of the consideration under the Transfer Agreement, which is payable in fifteen instalments to be made by November of every year from 2019 to 2033 (the first of which amounting to RMB32,200,000 had been settled by the Deposit in 2019). As at the Latest Practicable Date, the total outstanding amount of consideration under the Transfer Agreement is RMB128,770,000, and Kaiyuan Company is required to pay an aggregate amount of RMB27,600,000 to Xinjiang Natural Resources Department for the forthcoming three instalments (each instalment being RMB9,200,000) from 2020 to 2022. In addition, the Board considers that the retained funds enabled by the 4th Extension will afford the Group resources to set up new production facilities and processing plants to meet the increase in the production capacity and capital expenditure of the Enlarged Kaiyuan Mine.

The Group wishes to retain sufficient working capital for its current business operations as well as the operations at the Enlarged Kaiyuan Mine once Kaiyuan Company is granted with the Renewed Mining Permit of which, according to the legal opinion of the Company’s legal adviser as to PRC laws, the relevant requirements in relation to the Renewed Mining Permit Application have been complied with, and there is no legal impediment for Kaiyuan Company to renew the New Mining Permit. The Board is of the view that the 4th Extension will enable the Group to retain the funds for replenishing the Company’s working capital for such purposes, as the 4th Extension effectively allows the Group to refinance the debts under the Convertible Bond under the same terms at zero interest rate for a further 36 months. Further, the 4th Extension will provide the Group flexibility for potential investments or opportunities. Save as disclosed above, the Group did not have any concrete plans regarding any investments or opportunities as at the Latest Practicable Date. The Group will continue to identify potential investments and opportunities.

### **Other financing alternatives not desirable to the Group**

The Board has considered other financing alternatives to raise funds to repay the Convertible Bond over the 4th Extension, including but not limited to, bank borrowing and equity financing. The Board is of the view that any bank borrowing, which will incur interest expenses, will further burden the Group given that the Group has committed itself for the one-off Payment as mentioned above. In addition, any equity financing such as placement of Shares or rights issue will result in dilution on the shareholding of the existing Shareholders. As such, the Board considered that other financing alternatives are not the most appropriate means to refinance the Convertible Bonds at the moment.

## LETTER FROM THE BOARD

In addition, according to the latest unaudited management accounts of the Group, the Group's cash and cash equivalents only amounted to approximately HK\$171,400,000 as at 31 December 2019, principally due to the Group's commitment to the one-off Payment as mentioned above. As such, the Company may not have sufficient cash resources to fully repay the outstanding principal amount of the Convertible Bond of HK\$200,000,000 under the latest financial position of the Group. The 4th Extension allows the Company to retain cash flow and liquidity of the Group to develop its business by relieving its imminent need to repay the Convertible Bond over a relatively short period.

Having principally taken into account that (i) the Group has considerable and genuine capital needs in order to facilitate the progression of the Updated Optimization and Upgrading Plan as well as for current business operations; (ii) the 4th Extension is the most appropriate means to refinance the Convertible Bond at the moment; (iii) the 4th Extension will relieve the Company's imminent need to repay the Convertible Bond over a relatively short period in light of the Group's latest cash position; (iv) the Convertible Bond is zero coupon and will not incur any interest burden for the Group for the next 3 years; and (v) all terms and conditions of the Convertible Bond remain unchanged save for the Maturity Date and the Conversion Period under the 4th Extension thus it will effectively allow the Company to refinance its debts under the Convertible Bond under the same terms for a further three years, the Board considers that refinancing the debts under the Convertible Bond by way of the 4th Extension instead of repayment of the same is in the interest of the Company and the Shareholders as a whole.

Accordingly, the Board<sup>Note 1</sup> (excluding the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" in this circular) considers that the terms and conditions of the 4th Deed of Amendment are fair and reasonable and the 4th Extension is in the interests of the Company and the Shareholders as a whole. The Directors are of the view that the 4th Extension will not pose any significant impact on the operations of the Group.

*Note 1:* As Mr. Wang Xiangfei and Mr. Wong Sze Wai have material interest in the transaction, they have abstained from voting on the board resolution in relation to the 4th Extension.

### 5. INFORMATION ON THE GROUP AND THE SUBSCRIBER

The Group is principally engaged in (i) mining and sales of coal; (ii) the provision of renewable energy solutions and services; and (iii) the provision of information technology outsourcing, consultancy and technical services.

The Subscriber is an investment holding company. Save for holding the 569,616,589 issued Shares, representing approximately 74.42% current shareholding interest in the Company and the Convertible Bond, the Subscriber does not have any other significant business activities.

## LETTER FROM THE BOARD

### 6. LISTING RULES IMPLICATIONS

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company has applied to the Stock Exchange for its approval of the proposed amendments contemplated by the 4th Deed of Amendment pursuant to Rule 28.05 of the Listing Rules.

As at the Latest Practicable Date, the Subscriber holds 569,616,589 issued Shares, representing approximately 74.42% of the issued share capital of the Company and hence a controlling shareholder of the Company. Accordingly, the Subscriber is a connected person of the Company under the Listing Rules. The 4th Extension to be effected by the 4th Deed of Amendment entered into between the Company and the Subscriber constitutes a connected transaction of the Company, and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The executive Directors of the Company, Mr. Wang Xiangfei and Mr. Wong Sze Wai, both having material interest in the transaction, have abstained from voting on the board resolution in relation to the 4th Extension. Mr. Wang Xiangfei is considered to be materially interested in the transaction by virtue of him being the spouse of Ms. Lo Fong Hung who holds 30% equity interest in New Bright International Development Limited ("**New Bright**"), which in turn holds 70% equity interest in China Sonangol International Limited ("**China Sonangol**"), which is a holding company of the Subscriber. Mr. Wang Xiangfei is also a director of the Subscriber. Mr. Wong Sze Wai has a material interest in the transaction by virtue of him being the son of Mr. Wang Xiangfei and Ms. Lo Fong Hung, and a director (and an alternate director to Mr. Wang Xiangfei) of the Subscriber.

### 7. GENERAL

The Independent Board Committee (comprising all independent non-executive Directors) has been formed to advise the Independent Shareholders and Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the 4th Deed of Amendment and the 4th Extension.

## LETTER FROM THE BOARD

### 8. SGM AND PROXY ARRANGEMENT

The SGM will be held for the Independent Shareholders to consider and, if thought fit, approve among other things, the 4th Deed of Amendment and the transactions contemplated thereunder (including the 4th Extension). The SGM will be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Wednesday, 11 March 2020 at 11:30 a.m.. The notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular.

According to bye-law 66 of the Bye-laws, at any general meeting, a resolution put to the vote shall be decided on a show of hands unless (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by, among others, the chairman of such meeting. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands. In order to comply with the Listing Rules and bye-law 66 of the Bye-laws, all votes at the SGM will be taken by poll and the Company will announce the poll results after the SGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

As at the Latest Practicable Date, since the Subscriber has a material interest in the transaction contemplated under the 4th Deed of Amendment, the Subscriber and its associates will abstain from voting on the resolution to approve the 4th Deed of Amendment and the 4th Extension.

A form of proxy for use at the SGM is enclosed with this circular and such form is also published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk). Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instruction printed thereon and return the same to the Company's Hong Kong branch share registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

The register of members of the Company will be closed from Monday, 9 March 2020 to Wednesday 11, March 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to attend the SGM to be held on Wednesday, 11 March 2020, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Friday, 6 March 2020.

## LETTER FROM THE BOARD

### 9. RECOMMENDATION

The Directors (excluding the independent non-executive Directors whose views are set out in the section headed “Letter from the Independent Board Committee” in this circular), consider that the terms of the 4th Extension are fair and reasonable and in the interests of the Shareholders and the Company as a whole, therefore they recommend the Independent Shareholders to vote in favour of the proposed ordinary resolution as set out in the notice of the SGM to approve and/or ratify the 4th Deed of Amendment and the transactions contemplated thereunder (including the 4th Extension).

### 10. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on page 21 of this circular which contains recommendations of the Independent Board Committee to the Independent Shareholders regarding the resolution to approve the transaction; and (ii) the letter from the Independent Financial Adviser as set out on pages 22 to 48 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in respect of the transaction and the principal factors and reasons considered by Lego Corporate Finance in arriving at its recommendations.

Yours faithfully,  
For and on behalf of the Board  
**Nan Nan Resources Enterprise Limited**  
**Kwan Man Fai**  
*Chairman and Managing Director*



**NAN NAN RESOURCES ENTERPRISE LIMITED**

**南南資源實業有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1229)**

24 February 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
PROPOSED EXTENSION OF THE MATURITY DATE OF  
HK\$200,000,000 ZERO COUPON CONVERTIBLE BOND DUE 2020**

**INTRODUCTION**

We refer to the circular of the Company of even date (the “**Circular**”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the terms of the 4th Deed of Amendment and the transactions contemplated thereunder (including the 4th Extension). Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 22 to 48 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendix thereto.

**RECOMMENDATION**

Having considered the terms of the 4th Deed of Amendment, the transactions contemplated thereunder and taking into account the independent advice of Lego Corporate Finance and the relevant information contained in the letter from the Board, we are of the opinion that the 4th Deed of Amendment and the transactions contemplated thereunder (including the 4th Extension) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that you vote in favour of the ordinary resolution to be proposed at the SGM to approve and/or ratify the 4th Deed of Amendment and the transactions contemplated thereunder (including the 4th Extension).

Yours faithfully,  
For and on behalf of  
Independent Board Committee

**Dr. Wong Man Hin**  
**Raymond**

**Mr. Chan Yiu Fai**  
**Youdey**  
*Independent Non-Executive Directors*

**Mr. Pak Wai Keung**  
**Martin**

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter of advice from Lego Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in respect of the terms of the 4<sup>th</sup> Deed of Amendment and the 4<sup>th</sup> Extension of the maturity date of the Convertible Bond which have been prepared for the purpose of inclusion in this circular.*



24 February 2020

*To the independent Board Committee and the Independent Shareholders of  
Nan Nan Resources Enterprise Limited*

Dear Sirs or Madams,

### **CONNECTED TRANSACTION PROPOSED EXTENSION OF THE MATURITY DATE OF HK\$200,000,000 ZERO COUPON CONVERTIBLE BOND DUE 2020**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of whether the 4<sup>th</sup> Extension is in the interests of the Company and the Shareholders as a whole and whether the terms of the 4<sup>th</sup> Deed of Amendment are fair and reasonable so far as the Independent Shareholders are concerned. Details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 24 February 2020 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 3 February 2020, the Company and the Subscriber entered into the 4<sup>th</sup> Deed of Amendment to further extend the maturity date of the Convertible Bond for 36 months to 13 March 2023, subject to the fulfillment of the conditions precedent under the 4<sup>th</sup> Deed of Amendment. Save for the Maturity Date and the Conversion Period, all other terms and conditions of the Convertible Bond remain unchanged.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Subscriber holds 569,616,589 issued Shares, representing approximately 74.42% of the issued share capital of the Company and is therefore a Controlling Shareholder and a connected person of the Company under the Listing Rules. The 4<sup>th</sup> Extension to be effected by the 4<sup>th</sup> Deed of Amendment entered into between the Company and the Subscriber constitutes a connected transaction of the Company under the Listing Rules and therefore, the 4<sup>th</sup> Extension is subject to the reporting, announcement and the Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The Subscriber and its associates, will abstain from voting in respect of the relevant resolution(s) approving the 4<sup>th</sup> Deed of Amendment and the transactions contemplated thereunder (including the 4<sup>th</sup> Extension) at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Pak Wai Keung, Martin, Dr. Wong Man Hin, Raymond and Mr. Chan Yiu Fai, Youdey, have been established to advise the Independent Shareholders as to whether the 4<sup>th</sup> Extension and the terms of the 4<sup>th</sup> Deed of Amendment and the transactions contemplated thereunder are fair and reasonable so far as the Company and Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the relevant resolution(s) to be proposed at the SGM to approve the 4<sup>th</sup> Deed of Amendment and the transactions contemplated thereunder (including the 4<sup>th</sup> Extension). As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. As such, the Company has applied to the Stock Exchange for its approval of the proposed amendments contemplated by the 4<sup>th</sup> Deed of Amendment pursuant to Rule 28.05 of the Listing Rules.

As at the Latest Practicable Date, Lego Corporate Finance did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance. In the last two years, there was no engagement between the Group and Lego Corporate Finance. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the 4<sup>th</sup> Extension and the terms of the 4<sup>th</sup> Deed of Amendment and the transactions contemplated thereunder.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by the management of the Company; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the SGM and all such statements of belief, opinions and intentions of the management of the Company and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company, and/or the advisers of the Company. We have also sought and received confirmation from the management of the Company that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the management of the Company are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM.

We consider that we have reviewed the sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the management of the Company, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or the Subscriber or any of their respective subsidiaries and associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation in respect of the 4<sup>th</sup> Extension and the terms of the 4<sup>th</sup> Deed of Amendment, we have considered the following principal factors and reasons:

#### **1. Background information**

The Group is an investment holding company whose securities are listed and traded on the main board of the Stock Exchange. The Group is principally engaged in (i) mining and sales of coal; (ii) renewable energy solution; and (iii) provision of information technology outsourcing, consultancy and technical services.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 14 March 2008, the Company issued zero coupon Convertible Bond with an aggregate principal amount of HK\$200,000,000 to the Subscriber due 13 March 2011 pursuant to the Subscription Agreement dated 15 January 2008 entered into between the Company and the Subscriber, pursuant to which the Company (i) had conditionally agreed to allot and issue to the Subscriber, and the Subscriber had conditionally agreed to subscribe in cash consideration of HK\$80,000,000 for a total of 400,000,000 subscription shares at the subscription price of HK\$0.20 per subscription share; and (ii) had conditionally agreed to issue the Convertible Bond to the Subscriber in an aggregate principal amount of HK\$200,000,000 for a term of three years. The Convertible Bond bears no interest and is convertible into Shares. All outstanding Convertible Bond should have matured on 13 March 2011 pursuant to the original terms and conditions of the Convertible Bond.

On 11 February 2011, the Company and the Subscriber entered into the Deed of Amendment to extend the maturity date and the conversion period of the Convertible Bond for 36 months to 13 March 2014, which was approved by the independent Shareholders in the special general meeting on 11 March 2011. Accordingly, the maturity date and the conversion period of the Convertible Bond was extended to 13 March 2014.

On 21 January 2014, the Company and the Subscriber entered into the 2<sup>nd</sup> Deed of Amendment (as amended and supplemented by the Supplemental Deed) to further extend the maturity date and the conversion period of the Convertible Bond for 36 months to 13 March 2017, which was approved by the independent Shareholders in the special general meeting on 10 March 2014. As such, the maturity date and the conversion period of the Convertible Bond further extended for 36 months to 13 March 2017.

On 25 January 2017, the Company and the Subscriber entered into the 3<sup>rd</sup> Deed of Amendment to further extend the maturity date and the conversion period of the Convertible Bond for 36 months to 13 March 2020, which was approved by the independent Shareholders in the special general meeting on 7 March 2017. Correspondingly, the maturity date and the conversion period of the Convertible Bond further extended for 36 months to 13 March 2020. As at the Latest Practicable Date, the Convertible Bond with an aggregate amount of HK\$200,000,000 held by the Subscriber was still outstanding.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table summarises the financial information of the Group for the years ended 31 March 2018 and 2019 and the six months ended 30 September 2018 and 2019 as extracted from the annual report of the Company for the year ended 31 March 2019 (the “**2019 Annual Report**”) and the interim report of the Company for the six months ended 30 September 2019 (the “**2019 Interim Report**”) respectively.

	For the years ended		For the six months ended	
	31 March		30 September	
	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	182,445	75,625	16,079	63,665
– Coal mining business	182,445	75,234	16,079	38,166
– Renewable energy business	–	391	–	388
– IT services business	–	–	–	25,111
Gross profit	52,047	31,083	4,255	30,459
Profit before tax	42,620	34,593	34,864	36,294
Profit for the year/period	36,678	28,843	34,573	32,425

	As at 31 March		As at
			30 September
	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)
Non-current assets	41,853	103,685	149,685
Current assets	451,867	432,459	410,361
Current liabilities	77,688	348,204	342,270
Non-current liabilities	250,316	3,257	8,244
Net current assets	374,179	84,255	68,091
Net assets	165,716	184,683	209,532
Cash and cash equivalents	440,437	278,814	312,385

### *For the years ended 31 March 2018 and 2019*

The revenue of the Group decreased from approximately HK\$182.4 million for the year ended 31 March 2018 to approximately HK\$75.6 million for the year ended 31 March 2019. As stated in the 2019 Annual Report, such decrease was mainly attributable to the decrease in sales volume of coal (from approximately 3,183,450 tonnes in 2018 to approximately 1,764,591 tonnes in 2019) as the market demand for coal had been persistently decreasing due to decrease in large scale industrial and infrastructure projects and the promotion of the use of clean energy by the government of the PRC, which led to high pressure on the operation of the Group and had negative impact on selling prices of coal generally. In addition, the decrease in revenue was also due to (i) the suspension of production at the Kaiyuan Mine from 11 April 2018 to 29 August 2018; and (ii) the construction of a coal sifting

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

machine at the Kaiyuan Mine during the year ended 31 March 2019 as required by the Ministry of Ecology and Environment which resulted negative impact on the normal production at the Kaiyuan Mine. Profit for the year ended 31 March 2019 decreased to approximately HK\$28.8 million from approximately HK\$36.7 million for the year ended 31 March 2018. The decrease in profit was mainly due to (i) the decrease in gross profit of approximately HK\$21.0 million as a result of the decrease in revenue as discussed above; and (ii) the turnaround from exchange gain to exchange loss of approximately HK\$15.0 million during the year ended 31 March 2018. The Group has recorded net current assets of approximately HK\$84.2 million and net assets of approximately HK\$184.7 million respectively as at 31 March 2019.

### *For the six months ended 30 September 2018 and 2019*

The revenue of the Group increased from approximately HK\$16.1 million for the six months ended 30 September 2018 to approximately HK\$63.7 million for the six months ended 30 September 2019. According to the 2019 Interim Report, such increase in revenue was mainly attributable to the increase in revenue generated from the coal mining business by approximately HK\$22.1 million or 137.4% for the six months ended 30 September 2019 as compared to approximately HK\$16.1 million in the corresponding period in 2018, 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 did not reoccur in 2019; and (ii) the increase in sales volume of coal by approximately 60.1% during the six months ended 30 September 2019 as compared to the previous corresponding period in 2018. In addition, the Group also recognised revenue of approximately HK\$0.4 million and HK\$25.1 million under the renewable energy business and IT services business, respectively during the six months ended 30 September 2019, whereas there were no such business segments in the corresponding period in 2018. For the six months ended 30 September 2019, the Group recorded profit of approximately HK\$32.4 million, representing a decrease of approximately HK\$2.2 million as compared with the profit of approximately HK\$34.6 million for the six months ended 30 September 2018. Such decrease in profit was mainly due to (i) fair value loss of convertible bond designated as financial liabilities at FVPL of approximately HK\$15.7 million; (ii) the increase in the finance costs of approximately HK\$2.8 million; and (iii) the increase in administrative and other expenses by approximately HK\$7.3 million due to additional salaries and bonus of approximately HK\$5.4 million derived from the newly acquired IT services business during the period. Further, the Group recorded net current assets of approximately HK\$68.1 million (with cash and cash equivalent of approximately HK\$312.4 million) and net assets of approximately HK\$209.5 million as at 30 September 2019.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Coal mining business*

As disclosed in the 2019 Interim Report, the Group owns one mining right in Xinjiang in respect of the Kaiyuan Mine. As disclosed in the Letter from the Board, the Group has been actively proceeding with the Updated Optimization and Upgrading Plan since 2011 as part of the government restructuring proposals to consolidate smaller mines as well as an expansion and development of the Group's coal mining business. The Updated Optimization and Upgrading Plan included (i) restructuring and upgrading the Kaiyuan Mine and terminating the exploration right in the Zexu Mine; and (ii) increasing the mining area of the Kaiyuan Mine, where the Company is now conducting mining activities, from 1.1596 square kilometers to 4.12 square kilometers (the "**Kaiyuan Extended Area**"), with the estimated coal resources of approximately 131.18 million tonnes. On 15 August 2017, the Group entered into undisputed agreements with the relevant parties in relation to the Updated Optimization and Upgrading Plan to dispose of Zexu Mine and acquire Kaiyuan Extended Area under the Kaiyuan Mine. Within the of Kaiyuan Extended Area, Kaiyuan Company occupies a total area of 1.308 square kilometers (the "**Extended Area**"), which is located next to the Kaiyuan Mine currently operated by Kaiyuan Company and has not yet commenced mining as at the Latest Practicable Date.

As mentioned above, the mining area of Kaiyuan Mine was proposed to be increased from 1.1596 square kilometers to 4.12 square kilometers under the Updated Optimization and Upgrading Plan, and the completion of the Extended Area will only increase the area of Kaiyuan Mine to approximately 2.4676 square kilometers. The outstanding mining area of approximately 1.6524 square kilometers located next to Kaiyuan Mine is owned by the Chinese government and the Group is required to go through official procedures with the relevant land and resources departments to obtain the mining right of such area. In this regard, Kaiyuan Company filed an application for the New Mining Right of the Kaiyuan Extended Area on 17 December 2018 with the Xinjiang Natural Resources Department and such application was approved on 21 December 2018 together with the New Mining Permit in respect of the New Mining Right issued to Kaiyuan Company for a term of 1 year from 21 December 2018 to 21 December 2019, which covers a mining area of approximately 4.1123 square kilometers with designed capacity of 0.9 million tonnes per annum. According to the New Mining Permit, the estimated coal resources of the approved New Mining Right for the mining life of 30 years are 41.6433 million tonnes and the assessed value of the New Mining Right by the Xinjiang Natural Resources Department is RMB160,978,000. A formal transfer agreement (the "**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 New Mining Right, after the official approval of the Transfer Agreement has been granted by Xinjiang Natural Resources Department.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the announcement of the Company dated 6 December 2019, Kaiyuan Company received the duly executed Transfer Agreement from the Xinjiang Natural Resources Department on 6 December 2019, pursuant to which Xinjiang Natural Resources Department has agreed to sell, and Kaiyuan Company has agreed to purchase, the New Mining Right for a consideration (the “**Consideration**”) of RMB160,978,000, which shall be settled in cash and paid by Kaiyuan Company to Xinjiang Natural Resources Department in fifteen instalments: (i) the first instalment in an amount of RMB32,200,000 which was paid by Kaiyuan Company in November 2019; (ii) the second to fourteenth instalments in an amount of RMB9,200,000 each shall be paid before 20 November of every year from 2020 to 2032; and (iii) the last instalment in an amount of RMB9,178,000 shall be paid before 20 November 2033. The Consideration was determined by Xinjiang Natural Resources Department based on the valuation assessment (the “**Valuation Assessment**”) prepared by the designated valuer engaged by Xinjiang Natural Resources Department with reference to, among others, the estimated coal resources stated in the mineral resources verification report (the “**Verification Report**”). Based on the Verification Report and the Valuation Assessment, the accumulated output of Kaiyuan Mine was 23.65 million tonnes as at the end of 2017, of which resources fee of 3.8819 million tonnes of coal was paid by Kaiyuan Company. As part of the Transfer Agreement, Kaiyuan Company is required to pay a supplemental resources fee of RMB76,502,500 (the “**Supplemental Resources Fee**”) to Xinjiang Natural Resources Department within 30 days from signing of the Transfer Agreement for the unpaid output of 19.8 million tonnes of coal of Kaiyuan Mine. Such amount was paid by Kaiyuan Company in November 2019.

### *Renewable energy business*

In addition to the coal mining business which is the main business of the Group, in August 2018, the Group acquired 90% equity interests in NEFIN Leasing Technologies Limited (“**NEFIN Leasing**”) and its subsidiary, NEFIN Technologies (Malaysia) Sdn. Bhd. (“**NEFIN Technologies**”, together with NEFIN Leasing, the “**NEFIN Group**”) in which it is principally engaged in renewable energy solutions in Malaysia, with a view to extend its business to the renewable energy sector in the Southeast Asian markets. During the six months ended 30 September 2019, the Group further allocated resources into the solar energy projects so as to enable higher efficiency together with the existing solar assets.

### *IT services business*

Apart from the coal mining business and renewable energy business mentioned above, the Group also explored other business opportunities with a view to broaden the Group’ revenue base and benefit from the diversified return in future. In March 2019, the Group acquired 80.86% of the issued share capital of Harbour Group Holdings Limited and its subsidiaries (the “**Harbour Group**”) where 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. Such acquisition was completed in April 2019.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Prospects*

As mentioned in the 2019 Interim Report, regarding the Updated Optimization and Upgrading Plan under the Group's coal mining business, the Company is currently going through official procedures to apply for the mining right in respect of the extended areas. In addition, 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 NFFIN Group and Harbour Group will further enhance the Group's expansion of innovation 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.

### **2. Reasons for and benefits of the 4<sup>th</sup> Extension**

As stated in the Letter from the Board, the Convertible Bond will be due on 13 March 2020. According to the terms of the Convertible Bond, the Company shall redeem all outstanding Convertible Bond on the maturity date (i.e. 13 March 2020), which amounted to HK\$200,000,000 as at the Latest Practicable Date. By entering into of the 4<sup>th</sup> Deed of Amendment, the 4<sup>th</sup> Extension can relieve the imminent need of the Company to repay the Convertible Bond over a relatively short period in light of the Group's latest cash position, which in turn, can enable the Company to retain the funds for replenishing the Company's working capital to support its current business operations including its coal mining business operation at the Enlarged Kaiyuan Mine once Kaiyuan Company is granted with the Renewed Mining Permit, as the 4<sup>th</sup> Extension effectively allows the Group to refinance the debts under the Convertible Bond under the same terms for a further 36 months. In addition, as the Convertible Bond is zero coupon, it will not incur any interest burden for the Group for the next three years. Save for the Maturity Date and the Conversion Period, all terms and conditions of the Convertible Bond remain unchanged.

### *Financial position of the Group*

We noted that the Group had cash and cash equivalents of approximately HK\$312.4 million as at 30 September 2019 according to the 2019 Interim Report, which shall be sufficient to fully repay the outstanding principal amount of the Convertible Bond (being HK\$200 million). However, according to the latest management accounts of the Group, the cash and cash equivalents is only amounted to approximately HK\$171.4 million as at 31 December 2019. As advised by the management of the Group, such substantial decrease in cash balance of approximately HK\$141.0 million was mainly due to the payment made by Kaiyuan Company to the Xinjiang Natural Resources Department of a total amount of RMB108,702,500 in November 2019 in order to settle the Assessed Value of RMB32,200,000 and the Supplemental Resources Fee of RMB76,502,500.



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In light of the above, we noted that the Company may not have sufficient cash to fully repay the outstanding principal amount of the Convertible Bond of HK\$200 million under the latest financial position of the Group and will negatively affect on the Group's liquidity. The 4<sup>th</sup> Extension can relieve the imminent need of the Company to repay the Convertible Bond, which in turn, enables the Company to retain cash flow and liquidity of the Group and have more financial flexibility to have additional time to develop its business instead of repaying the Convertible Bond within a relatively short period.

### *Expected cash outflow and capital expenditure*

As mentioned in the section headed "Background information" above, Kaiyuan Company received the duly executed Transfer Agreement from the Xinjiang Natural Resources Department on 6 December 2019, pursuant to which Xinjiang Natural Resources Department has agreed to sell, and Kaiyuan Company has agreed to purchase, the New Mining Right for the Consideration of RMB160,978,000, which shall be settled in cash and paid by Kaiyuan Company to Xinjiang Natural Resources Department in fifteen instalments. The first instalment amounting to RMB32,200,000 had been paid by Kaiyuan Company in November 2019, and the second to fourteenth instalments of RMB9,200,000 each shall be paid before 20 November of every year from 2020 to 2032; and the last instalment in an amount of RMB9,178,000 shall be paid before 20 November 2033. In light of the above, the Company is required to pay an aggregate amount of approximately RMB27.6 million (the "2<sup>nd</sup> to 4<sup>th</sup> Instalments") to Xinjiang Natural Resources Department for the forthcoming three instalments from 2020 to 2022.

Apart from the expected cash outflow in relation to the 2<sup>nd</sup> to 4<sup>th</sup> Instalments as mentioned above, as advised by the management of the Company, the Group requires capital to facilitate the increased production capacity of the Enlarged Kaiyuan Mine. In addition, as mentioned in the section headed "Background information" above, it is expected that 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 in relation to the coal mining business operation. The Company has been granted the one-year New Mining Permit in respect of the New Mining Right for the Enlarged Kaiyuan Mine which covers a mining area of approximately 4.1123 square kilometers 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. In order to cope with such expected increase in coal resources and hence the production capacity of Kaiyuan Mine as well as to fulfill the requirements of conducting the environmental protection remedial works as requested by the relevant government departments, since 2018, the Group has engaged certain contractors to set up some ancillary facilities for the production such as sewage treatment facilities, road works construction, facilities relating to the production and high voltage electrical facilities so as to facilitate the production process and/or procedure to meet the increase in production capacity and to implement the environmental protection remedial works. Furthermore, the Group is planning to purchase some machines and vehicles which are designed for coal mining purpose as well as other relevant

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equipment for coal mining. Based on the payment schedule under the signed contracts for setting up ancillary facilities together with the additional vehicles to be purchased as mentioned above, it is expected that an aggregate amount of approximately RMB9.1 million (equivalent to approximately HK\$10.2 million) of capital expenditure will be incurred and paid for the year ending 31 March 2021. According to the announcement of the Company dated 20 December 2019, we noted that on 10 December 2019, Kaiyuan Company applied to the Xinjiang Natural Resources Department for a renewal of the New Mining Permit as the mining term under the New Mining Permit is only for one year from 21 December 2018 to 21 December 2019. As additional time is required to process of the renewal application, Kaiyuan Company temporarily suspended its mining operations and sales at the Enlarged Kaiyuan Mine after the expiry of the New Mining Permit on 21 December 2019 until the grant of the Renewed Mining Permit. Nevertheless, according to the Company's legal adviser as to the law of the PRC, Kaiyuan Company has complied with the relevant requirements in relation to the renewal application and there is no legal impediment for Kaiyuan Company to renew the New Mining Permit.

In addition, as mentioned in the section headed "Background information" above, the Group has allocated resources into the solar energy project during the six months ended 30 September 2019 so as to enable higher efficiency together with the existing solar assets. In this regard, we have discussed with the management of the Company and understand that the Group has been providing solar energy business solutions to its customer in Malaysia over the past few months, in which the Group is responsible for construction and operation of solar energy system including but not limited to set up and installation of solar panels on the rooftop of certain buildings and open areas such as car park spaces under its existing solar energy project. As advised by the management of the Company, approximately Malaysian Ringgit ("RM") 7.7 million (equivalent to approximately HK\$14.5 million) was incurred in respect of the capital expenditure relating to the establishment of the solar energy system and it is estimated that a further amount of approximately RM7.3 million (equivalent to approximately HK\$13.9 million) is expected to be incurred for the two years ending 31 March 2021.

Should the Company repay the Convertible Bond in full, not only the Company may have insufficient cash resources for its current business operations as well as the operations at the Enlarged Kaiyuan Mine once Kaiyuan Company is granted with the Renewed Mining Permit, but also to pay the 2<sup>nd</sup> to 4<sup>th</sup> Instalments and to fund the expected capital expenditure under the Group's coal mining business and renewable energy business as discussed above. Given the funding needs of the payment of the 2<sup>nd</sup> to 4<sup>th</sup> Instalments and the operations of the Group's coal mining business and renewable energy business as discussed above, we are of the view that the 4<sup>th</sup> Extension would allow the Group to delay the cash repayment obligation for the redemption of the Convertible Bond and hence provide the flexibility for the deployment of its financial resources to settle part of the Consideration and to fund its operations and development, as well as to plan its working capital requirements.

*Other financing alternatives*

Upon enquiry with the management of the Company, we were given to understand that the Company has considered other financing alternatives for the Group to raise funds to repay the Convertible Bond rather than the extension of the Convertible Bond, including but not limited to, bank borrowing and equity financing. However, as bank borrowing may incur interest burden and finance cost on the Group and in turn incur cash outflow and liability on the Group which has negative impact on the financial position of the Group. With regard to equity financing, in view of the generally low liquidity of the Shares as further discuss in the section headed "Principal terms of the Convertible Bond" below as well as the recent volatile market condition, the procurement of commercial underwriting would be difficult and a private placement of Shares will inevitably cause immediate dilution effect on the shareholding of the existing Shareholders. Also, substantial cost and time may involve in equity financing. Based on the above and the fact that the outstanding Convertible Bond is non-interest bearing, we concur with the view of the management of the Group that the 4<sup>th</sup> Extension is the most appropriate means to refinance the Convertible Bond.

Having considered that (i) the 4<sup>th</sup> Extension would effectively allow the Group to refinance its debts under the Convertible Bond under the same terms for a further three years; (ii) full repayment of the Convertible Bond will substantially decrease the cash balance of the Group which may impose negative impact on the Group's liquidity; (iii) the 4<sup>th</sup> Extension would delay the cash outflow for the redemption of the Convertible Bond on maturity and hence provide the Group with flexibility in deploying its resources to fund its business development, taking into account the funding needs of the 2<sup>nd</sup> to 4<sup>th</sup> Instalments to settle part of the Consideration and the Group's coal mining business and renewable energy business in respect of the respective estimated capital expenditure to be incurred; (iv) the 4<sup>th</sup> Extension is the most appropriate means to refinance the Convertible Bond; and (v) the Convertible Bond is zero coupon and will not incur any interest burden for the Group for the next three years, we are of the view that the 4<sup>th</sup> Extension and the entering into of the 4<sup>th</sup> Deed of Amendment is in the interests of the Company and the Shareholders as a whole.

**3. Principal terms of the Convertible Bond**

On 3 February 2020, the Company and the Subscriber entered into the 4<sup>th</sup> Deed of Amendment, pursuant to which the maturity date of the Convertible Bond will be extended for 36 months from the 3<sup>rd</sup> Extension and the conversion period will accordingly be extended for 36 months to 13 March 2023. Save for the maturity date and the conversion period, all terms of the Convertible Bond remain unchanged.

The 4<sup>th</sup> Deed of Amendment is subject to the fulfillment of the following conditions:

- (a) the passing by the Independent Shareholders at the SGM of the necessary resolutions to ratify and approve the 4<sup>th</sup> Deed of Amendment and the 4<sup>th</sup> Extension;

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- (b) the Stock Exchange having approved the 4<sup>th</sup> Extension in accordance with Rule 28.05 of the Listing Rules; and
- (c) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the 4<sup>th</sup> Extension having been obtained.

None of the above conditions precedent could be waived by the parties to the 4<sup>th</sup> Deed of Amendment. The 4<sup>th</sup> Deed of Amendment shall have no effect unless and until all the conditions precedents set out above are fulfilled. The effective date of the 4<sup>th</sup> Deed of Amendment shall be on the date when all its conditions precedents are fulfilled. As at the Latest Practicable Date, none of the above conditions precedent had been fulfilled.

The principal terms of the Convertible Bond were set out in the circular of the Company dated 21 February 2008. Save for the maturity date and the conversion period, all terms of the Convertible Bond remain unchanged. The principal terms of the Convertible Bond (as amended by the Deed of Amendment, the 2<sup>nd</sup> Deed of Amendment, the 3<sup>rd</sup> Deed of Amendment and the 4<sup>th</sup> Deed of Amendment) are included in the Letter from the Board under the section headed "Terms of the Convertible Bond", the key terms of which are summarised as below:

- Principal amount : HK\$200,000,000.
- Coupon : Zero (0)% interest rate.
- Maturity Date : the Company shall repay the principal amount of the outstanding Convertible Bond to the then holder of the Convertible Bond in full on the maturity date, being the date falling 180 months from the date of issue of the Convertible Bond certificate, unless previously converted, i.e. 13 March 2023.
- Conversion : The holders of the Convertible Bond may convert the whole or part of the principal amount of the Convertible Bond (in multiples of HK\$1,000,000) into such number of Shares determined by dividing the principal amount of the Convertible Bond being converted by the Conversion Price then in effect on any business day during the Conversion Period.
- Conversion Price : HK\$0.20 per Conversion Share, subject to adjustment provisions which are normal for convertible debt securities of this type.

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The Conversion Price, which was determined when the Subscription Agreement was entered into in January 2008, represents (assuming no adjustment to the Conversion Price is to be made):

- (a) a premium of approximately 65.29% to the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 53.85% to the closing price of HK\$0.130 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (c) a premium of approximately 26.58% to the average closing price of approximately HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day; and
- (d) a premium of approximately 15.74% to the average closing price of approximately HK\$0.173 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to and including the Last Trading Day.

Having principally taken into account that (i) the Conversion Price is at a considerable premium to the closing prices of the Share as quoted on the Stock Exchange for the period leading up to the Last Trading Day and on the Latest Practicable Date as shown above; (ii) the Conversion Price was determined when the Subscription Agreement was entered into in January 2008 with reference to the then market prices of the Shares and the then financial position of the Group; (iii) the 4th Extension is in the interest of the Group and its Shareholders as a whole for reasons set forth in the section "Reason for the 4th Extension" in the Letter from the Board; and (iv) any renegotiations of the Conversion Price will likely significantly delay the 4th Extension, the Directors are of the view that the 4th Extension at the Conversion Price is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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The issue of the Conversion Shares at the Conversion Price will not result in a theoretical dilution effect of 25% or more on its own as referred to under Rule 7.27B of the Listing Rules. The Company will continue to comply with Rule 7.27B of the Listing Rules after the 4th Extension.

Adjustments to Conversion Price : The Conversion Price is subject to adjustment provisions which are normal for convertible debt securities of this type and, in summary, an adjustment may be made in the event of:

- (i) any consolidation or sub-division of the Shares, in which case the Conversion Price in force immediately before such consolidation or sub-division shall be adjusted by, in summary, multiplying it by the revised nominal amount and dividing the result by the former nominal amount;
- (ii) any issue of Shares (other than in lieu of a cash dividend) by way of capitalization of profits or reserves, in which case the Conversion Price in force immediately before such issue shall be adjusted by, in summary, multiplying it by the aggregate nominal amount of the issued Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalization;
- (iii) any capital distribution to holders of the Shares or grant to such holders rights to acquire assets of the Group for cash, in which case the Conversion Price in force immediately before such distribution or grant shall be adjusted by, in summary, multiplying it by a formula taking into account the market price on the date of such distribution or grant, and the fair market value on the same day of the portion of the capital distribution or of such rights which is attributed to one Share;

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- (iv) any offer to holders of the Shares for subscription by way of rights or grant to holders of the Shares any options or warrants to subscribe for new Shares at a price which is less than 90% of the market price as at the date of the related announcement, in which case the Conversion Price shall be adjusted by, in summary, multiplying the Conversion Price in force immediately before the date of announcement of such offer or grant, by a formula taking into account the number of Shares in issue immediately before the date of such announcement, the number of Shares which the aggregate of the amount payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price, and the aggregate number of Shares for subscription or comprised in the options or warrants;
  
- (v) the issue by the Company wholly for cash of any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 90% of the market price as at the date of the related announcement, in which case the Conversion Price shall be adjusted by, in summary, multiplying the Conversion Price in force immediately before such issue, by a formula taking into account the number of Shares in issue immediately before the date of such issue, the number of Shares which the total effective consideration receivable for the securities issued would purchase at such market price, and the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price;

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- (vi) the rights of conversion or exchange or subscription attached to such securities mentioned in (v) above are modified so that the total effective consideration per Share initially received for such securities shall be less than 90% of the market price at the date of the related announcement, in which case the Conversion Price shall be adjusted by, in summary, multiplying the Conversion Price in force immediately before such modification, by a formula taking into account the number of Shares in issue immediately before the date of such modification, the number of Shares which the total effective consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price, and the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified price; or
- (vii) any issue of Shares wholly for cash at a price per Share which is less than 90% of the market price at the date of the related announcement, in which case the Conversion Price shall be adjusted by, in summary, multiplying the Conversion Price in force immediately before the related announcement, by a formula taking into account the number of Shares in issue immediately before the date of such announcement, the number of Shares which the aggregate amount payable for the issue would purchase at such market price, and the number of Shares so issued.

- Conversion Period : The Conversion Period is a period commencing from the date of issue of the Convertible Bond certificate and ending on the Maturity Date.
- Redemption : Neither the Company nor the holder of Convertible Bond shall at any time redeem (all or part of) the principal amount of the Convertible Bond outstanding prior to the Maturity Date.



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Transferability : The Convertible Bond may be assigned or transferred (in whole or in part) with the execution of a transfer instrument in a form approved by the Board. Subject thereto, there is no restriction on the transfer of the Convertible Bond.

Conversion restrictions : The conversion rights attaching to the Convertible Bond will not be exercised by the holder of the Convertible Bond 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.

There is no restriction on the exercise of the conversion rights attaching to the Convertible Bond in relation to the mandatory offer obligations under Rule 26 of the Takeovers Code. As at the Latest Practicable Date, in light of the Subscriber's approximate 74.42% shareholding interest in the Company, the exercise of such conversion rights (in whole or in part) by the Subscriber will not give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code. In the event that the Convertible Bond were to be transferred to a third party, such third party transferee would be bound by the Takeovers Code and any implications thereof in exercising such conversion rights.

Ranking of Conversion Shares : The Conversion Shares issued upon the exercise by the holder of Convertible Bond the conversion rights attaching to the Convertible Bond will, when issued, rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares, including the right to receive all future dividends and distributions.

Listing of the Convertible Shares : No application has been nor will be made for the listing of the Convertible Bond on the Stock Exchange or any other recognized stock or securities exchanges.

Application have been made by the Company to the Listing Committee of the Stock Exchange, for the listing of, and permission to deal in, the Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Bond.

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### (i) *Conversion Price*

In order to assess the fairness and reasonableness of the Conversion Price, we have performed (i) a review on the average monthly closing prices of the Shares with volume traded on the Stock Exchange from 1 January 2019 to the Latest Practicable Date (the “**Review Period**”) and compared with the Conversion Price; and (ii) a comparison with other issue and subscription of convertible bonds/notes exercises. Presented below are our relevant findings:

#### *Closing prices of the Shares with volume traded during Review Period*

	Average closing price per share (HK\$)	Average daily trading volume (Shares)	Premium/ (discount) of the Conversion Price over/to the average closing price per Share (%)
<b>2019</b>			
January	\$0.229	9,736	(12.77)
February	\$0.226	28,000	(11.39)
March	\$0.232	137,238	(13.90)
April	\$0.238	139,516	(15.85)
May	\$0.218	36,381	(8.26)
June	\$0.204	39,368	(2.19)
July	\$0.208	20,273	(3.95)
August	\$0.210	8,463	(4.58)
September	\$0.192	19,143	4.40
October	\$0.181	41,429	10.44
November	\$0.193	79,381	3.68
December	\$0.206	25,400	(2.79)
<b>2020</b>			
January	0.186	514,400	7.76
February (up to and including the Latest Practicable Date)	0.130	246,333	54.34
<b>Average</b>	0.204	96,076	(0.35)

Source: *the website of the Stock Exchange (www.hkex.com.hk)*

As illustrated in the table above, the average monthly closing price per Share ranged from HK\$0.130 to HK\$0.238 during the Review Period. As such, the Conversion price of HK\$0.20 per Conversion Share represents a premium of approximately 54.34% over the lowest average monthly closing price of HK\$0.130 and a discount of approximately 15.85% to the highest average monthly closing price of HK\$0.238. The Conversion Price was generally lower

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than the average closing price of the Shares over the first eight months (i.e. from January 2019 to August 2019) of the Review Period and the Share prices fluctuated afterwards at around the Conversion Price and showing a generally downward trend for the following five-months period (i.e. from September 2019 to January 2020) with the average monthly closing price ranging from approximately HK\$0.181 to HK\$0.206. The Share prices then fell recently resulting an average monthly closing price of approximately HK\$0.130 in February 2020 (i.e. from 1 February 2020 and up to the Latest Practicable Date).

Despite that the Conversion Price was generally lower than the average closing price of the Shares over the first eight months of the Review Period, it is noted that the Conversion Price (i) falls within the range of the average monthly closing price per Share during the Review Period; (ii) represents premiums ranging from approximately 3.68% to 54.34% over the recent average closing prices of the Shares (save for December 2019 which represents a slight discount of approximately 2.79% to the Conversion Price) from September 2019 to February 2020 (i.e. up to and including the Latest Practicable Date) during the Review Period; and (iii) represents a very slight discount of approximately 0.35% to the average closing price of the Shares during the Review Period. In view of the above, we are of the view that the Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, we noted that the average trading volume of the Shares ranged from approximately 8,463 Shares to 514,400 Shares during the Review Period, representing approximately 0.001% to 0.07% of a total of 765,373,584 Shares in issued as at the Latest Practicable Date. Due to the generally low liquidity of the Shares, we consider that it might not be possible for the Subscriber to realise his shareholdings in the market after the conversion of the Convertible Bond. In addition, given the trading volume of the Shares is insufficient, the disposal of large number of Shares within a short period in the market might generate substantial downward pressure on the market price of the Shares, which in turn might have negative impact on the funding ability and credibility of the Group.

### *Comparison with other issue and subscription of convertible bonds/notes exercises*

As part of our analysis, we have further reviewed the relevant issues and subscriptions of convertible bonds/notes exercises by companies listed on the Stock Exchange (the “**Comparables**”) as announced during the last three months prior to and including 3 February 2020 being the date of the 4<sup>th</sup> Deed of Amendment (the “**Comparable Period**”) and identified an exhaustive and complete list of 16 Comparables. We consider that the abovementioned period adopted is appropriate to capture the recent market practice because the Comparables are considered for the purpose of taking a general reference for the recent market practice in relation to the issue of convertible bonds/notes for fund raising purposes (and excluding any acquisition involving issuance of convertible bonds/notes as fully or partial settlement of

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consideration) under the recent market condition and sentiment. In addition, in view that similarity of the nature of the convertible bonds/notes exercises, we consider that the Comparables are fair and representative samples. Independent Shareholders should, however, note that the businesses, operations and prospects of the Group are not the same as the Comparables, and accordingly the Comparables are only used to provide a general reference for the common market practice in recent issuance of convertible bonds/notes by the companies listed on the Stock Exchange. Set out below is the summary of the Comparables:

**Table 1: A summary of the Comparables**

No.	Company name	Stock code	Date of relevant announcement	Conversion price premium over/(discount to) the closing price on the last trading day prior to the date of agreement (Approximate %)	Conversion price premium over/(discount to) the closing price on the last five trading day prior to the date of agreement (Approximate %)	Interest rate (% p.a.)	Term to maturity (Number of years)	Remarks
1	Sino Biopharmaceutical Limited	1177	23-Jan-2020	57.51	60.56	0.00	5	
2	Wai Chun Bio-Technology Limited	660	23-Jan-2020	(7.43)	(9.50)	4.00	3	
3	Huajun International Group Limited	377	22-Jan-2020	192.31	204.49	0.00	5	
4	ANTA Sports Products Limited	2020	14-Jan-2020	39.96	42.66	0.00	5	
5	Best Food Holding Company Limited	1488	13-Jan-2020	7.27	9.87	0.00	7	
6	Merdeka Financial Group Limited	8163	12-Jan-2020	(8.33)	0.00	0.00	3	
7	Dafy Holding Limited	1826	9-Jan-2020	12.96	14.15	6.00	1.01	Note
8	Bosideng International Holdings Limited	3998	4-Dec-2019	27.50	29.55	1.00	5	
9	China Yuhua Education Corporation Limited	6169	4-Dec-2019	38.18	33.94	0.90	5	

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No.	Company name	Stock code	Date of relevant announcement	Conversion price premium over/(discount to) the closing price on the last trading day prior to the date of agreement (Approximate %)	Conversion price premium over/(discount to) the closing price on the last five trading day prior to the date of agreement (Approximate %)	Interest rate (% p.a.)	Term to maturity (Number of years)	Remarks
10	Shougang Concord International Enterprises Company Limited	697	29-Nov-2019	(13.04)	(15.25)	0.00	2	
11	Mongolia Energy Corporation Limited	276	28-Nov-2019	11.11	15.38	3.00	5	
12	iDreamSky Technology Holdings Limited	1119	26 Nov 2019	2.40	5.16	2.50	3	
13	Spring Real Estate Investment Trust	1426	25-Nov-2019	14.17	12.48	1.75	3	
14	Semiconductor Manufacturing International Corporation	981	19-Nov-2019	1.23	4.68	0.00	6	
15	BC Technology Group Limited	863	10-Nov-2019	17.10	43.33	1.00	2	
16	Pacific Basin Shipping Limited	2343	31-Oct-2019	31.87	36.36	3.00	6	
			<b>Min</b>	<b>(13.04)</b>	<b>(15.25)</b>	<b>0.00</b>	<b>1.01</b>	
			<b>Max</b>	<b>192.31</b>	<b>204.49</b>	<b>6.00</b>	<b>7.00</b>	
			<b>Mean</b>	<b>26.55</b>	<b>30.51</b>	<b>1.45</b>	<b>4.13</b>	
			<b>Median</b>	<b>13.57</b>	<b>14.92</b>	<b>0.95</b>	<b>5.00</b>	
			<b>The Company</b>	<b>65.29</b>	<b>26.58</b>	<b>0.00</b>	<b>3.00</b>	

*Source:* the announcement of relevant companies published on the Stock Exchange's website

*Note:* The term to maturity of 1.01 years is estimated based on the maturity of 364 days.

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Among the Comparables, we noted that the range of the conversion price of the Comparables during the Comparable Period ranged from a discount of approximately 13.04% to a premium of approximately 192.31% to/over the respective closing price per share on the last trading day prior to the date of the corresponding announcement in relation to the respective issue of convertible bonds/notes (the “**Discount/Premium Range**”), with the average and median of approximately 26.55% and 13.57%, respectively. The Conversion Price, which represents a premium of approximately 65.29% over the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Last Trading Day, falls within the Discount/Premium range and is higher than the average premium and the median premium of the Comparables. Moreover, the conversion price of the convertible bonds/notes of the Comparables ranged from a discount of approximately 15.25% to a premium of approximately 204.49% over/to the closing price per share on the last five trading days prior to the date of the corresponding announcement or up to and including the date of the corresponding announcement (the “**5 Days Discount/Premium Range**”), with the average and median premium of approximately 30.51% and 14.92%, respectively. The Conversion Price, which represents a premium of approximately 26.58% over the average closing price of approximately HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day, falls within the 5 Days Discount/Premium Range and is lower than the average premium and higher than the median premium of the Comparables.

We note that the range of the Discount/Premium Range and the 5 Days Discount/Premium Range are wide. This might be due to specific circumstances facing each of the Comparables. Despite such wide ranges, having considered that the Conversion Price is within the range of the Discount/Premium Range and the 5 Days Discount/Premium Range, we are of the view that the Conversion Price is in line with the prevailing market sentiment.

Although the above analysis relating to Comparables may not be useful as a direct reference to the fairness and reasonableness of the terms of the Convertible Bond due to the wide ranges of the Discount/Premium Range and the 5 Days Discount/Premium Range, it should be noted that, in forming our opinion, we have considered the results of the above analysis together with all other factors stated in this letter as a whole.

*(i) Interest rate*

As shown in Table 1 above, the interest rates of the Comparables range from nil to 6.00, with an average of approximately 1.45. The Convertible Bond is non-interest bearing and at the bottom of the range of interest rates of the Comparables.

*(ii) Term to maturity*

The terms to maturity of the Comparables range from a minimum of 1.01 year and up to 7.00, with an average term of approximately 4.13 years. The 4<sup>th</sup> Extension pursuant to the 4<sup>th</sup> Deed of Amendment of 3.00 years therefore falls within the range of the terms to maturity of the Comparables and is in line with the recent market practice.

In view of the above and taking into account the reasons for and benefits of the 4<sup>th</sup> Extension as described above, we are of the view that the principal terms of the 4<sup>th</sup> Deed of Amendment including the Conversion Price, the interest rate and the extended term to maturity of the Convertible Bond are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**4. Financial impacts of the entering into of the 4<sup>th</sup> Deed of Amendment**

When assessing the financial impacts of entering into of the 4<sup>th</sup> Deed of Amendment, we have taken into account the following four main aspects:

*Net asset value*

According to the 2019 Interim Report, the net assets of the Group was approximately HK\$209.5 million as at 30 September 2019. Upon the completion of the 4<sup>th</sup> Deed of Amendment, there may be result in changes in the fair value of the Convertible Bond which will be subject to the valuation from independent valuers and the review of the independent auditors of the Company in the Group's subsequent financial statements.

*Liquidity*

According to the 2019 Interim Report, the net current assets and the cash and cash equivalents of the Group as at 30 September 2019 were approximately HK\$68.1 million and HK\$312.4 million respectively. In addition, according to the latest management accounts of the Group, the cash and cash equivalents of the Group as at 31 December 2019 was approximately HK\$171.4 million. If the 4<sup>th</sup> Extension does not proceed and the Subscriber choose to redeem the Convertible Bond to fully settle the Convertible Bond, cash outflow of approximately HK\$200 million would be incurred which the Company may not have sufficient cash to fully repay the Convertible Bond and will negatively affect on the Group's liquidity. As such, the entering into of the 4<sup>th</sup> Deed of Amendment is expected to maintain the liquidity and working capital of the Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Earning*

Upon the 4<sup>th</sup> Deed of Amendment becoming effective, the outstanding Convertible Bond will remain as non-interest bearing. The Company will not be required to pay any interest to the Subscriber.

### *Gearing ratio*

Upon the completion of the 4<sup>th</sup> Deed of Amendment, both the total borrowings and total equity of the Group would remain unchanged assuming no other factors affecting the financial position of the Group. As such, it is expected that the 4<sup>th</sup> Extension will not have any immediate material changes to the gearing position of the Group. It should be noted that, however, the full repayment of the Convertible Bond would improve the gearing position of the Group as the Group's overall indebtedness would be reduced by the liability component of the Convertible Bond, but in turn it will substantially decrease the cash balance of the Group which may impose negative impact on the Group's liquidity as discussed above. Based on the aforesaid, although the 4<sup>th</sup> Extension will not have any immediate material change to the gearing position of the Group, after taking into consideration of the liquidity position of the Group as discussed above, we are of the view that the 4<sup>th</sup> Extension and the entering into of the 4<sup>th</sup> Deed of Amendment is in the interests of the Company and the Shareholders as a whole.

The aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be after the entering into the 4<sup>th</sup> Deed of Amendment.

### 5. Dilution effect on the shareholding interests of the existing public Shareholders

The table below illustrates the possible shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon full conversion of the Convertible Bond:

Shareholders	As at the Latest Practicable Date		Immediately upon full conversion of the Convertible Bond (Note)	
	No. of Shares	%	No. of Shares	%
Ascent Goal Investments Limited	569,616,589	74.42	569,616,589	32.26
Subscriber	-	-	1,000,000,000	56.65
<b>Sub-total</b>	<b>569,616,589</b>	<b>74.42</b>	<b>1,569,616,589</b>	<b>88.91</b>
Existing public Shareholders	195,756,995	25.58	195,756,995	11.09
<b>Total</b>	<b>765,373,584</b>	<b>100.00</b>	<b>1,765,373,584</b>	<b>100.00</b>



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Note:* Full conversion of the Convertible Bond is based on a hypothetical basis and in no way implies or indicates that Ascent Goal Investments Limited could or will exercise such conversion rights of the Convertible Bond to reduce the interest of public Shareholders to below 25%.

As illustrates in the above table, upon full conversion of the Convertible Bond, the aggregate shareholding of the existing public Shareholders will decrease from approximately 25.58% as at the Latest Practicable Date to approximately 11.09%, which will fall below the 25% minimum public float requirement under the Listing Rules. Pursuant to the terms of the Convertible Bond, the exercise of the conversion rights attaching to the Convertible Bond by the bondholders will be subject to the provisions of the Listing Rules in which the Company shall ensure that no less than 25% shareholdings will be held by the public at all times in compliance with the minimum public float requirement of the Listing Rules. In particular, the conversion rights attaching to the Convertible Bond will not be exercised by the bondholders 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.

Based on the aforesaid, although the Subscriber is unable to fully exercise the conversion rights attached to the Convertible Bond in view of the dilution effect as illustrated in the table above as a result of possible breach of the minimum public float requirement under the Listing Rules, the Subscriber may alternatively sell a portion of the existing interest in the Company in the market prior to exercising the conversion rights attaching to the Convertible Bond in order to comply with the minimum public float requirement under the Listing Rules.

Based on the above analysis on the market price and the trading volume of the Shares during the Review Period, in the event that the Subscriber decides to sell a portion of the existing interest in the Company, it could put substantial downward pressure on the price of the Shares due to the low liquidity of the Shares, which in turn might have negative impact on the funding ability and credibility of the Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### RECOMMENDATION

Having considered the principal factors and reasons described above, we are of the opinion that the terms of the 4<sup>th</sup> Deed of Amendment and the 4<sup>th</sup> Extension are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the 4<sup>th</sup> Deed of Amendment and the transactions contemplated thereunder (including the 4<sup>th</sup> Extension).

Yours faithfully,  
For and on behalf of  
**Lego Corporate Finance Limited**  
**Kristie Ho**  
*Managing Director*

*Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 16 years of experience in the securities and investment banking industries.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' and chief executives' interests and short positions

As at the Latest Practicable Date, 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 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 been 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, were as follows:

#### *Interests in shares of an associated corporation of the Company*

Name of director	Name of associated corporation	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the associated corporation
Mr. Wang Xiangfei	New Bright	Interests of controlled corporation	3,000 (L)	30%

(L) denotes as long position

*Note:* Mr. Wang Xiangfei is deemed to be interested in 3,000 shares of New Bright under the SFO, as he is the husband of Ms. Lo Fong Hung, who is interested in 3,000 shares in New Bright, representing 30% of the issued share capital of New Bright, which currently owns 70% shareholding interests in China Sonangol. China Sonangol is the holding company of 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" below.

Save as disclosed above, as at the Latest Practicable Date, 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 been 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.

**(b) Interests in Share Options of the Company**

The Group has not adopted any share option scheme after the expiration of the old share option scheme on 27 August 2013. There was no outstanding share option under the share option scheme as at the Latest Practicable Date.

**(c) Substantial Shareholders' interests**

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

*Long positions in shares or underlying shares of the Company*

Name of Shareholder	Notes	Nature of Interest	Number of shares held	Number of underlying shares held	Total number of shares and underlying shares held	Approximate percentage of the total number of shares of the Company in issue (Note 7)
Ascent Goal	1, 5	Beneficial owner	569,616,589	1,000,000,000	1,569,616,589	205.08%
China Sonangol	2, 5	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
New Bright	2, 5	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Ms. Fung Yuen Kwan Veronica	3, 5	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%

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 total number of shares of the Company in issue (Note 7)
Ms. Lo Fong Hung	4, 5	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Mr. Lev Leviev	6	Beneficial owner	1,000,000	-	1,000,000	0.13%
	6	Interests of controlled corporation	65,808,000	-	65,808,000	8.60%

## Notes:

- Ascent Goal was directly interested in 569,616,589 shares and further 1,000,000,000 underlying shares which may be fully allotted and issued if the Convertible Bond are converted at the conversion price of HK\$0.20 per share. These 1,569,616,589 shares were held by Ascent Goal directly as beneficial owner. It includes (i) interests in 569,616,589 shares and (ii) the Convertible Bond giving rise to an interest in 1,000,000,000 underlying shares.
- 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.
- Ms. Fung Yuen Kwan Veronica is deemed to have interests in the shares and underlying shares through her 70% interests in New Bright.
- Ms. Lo Fong Hung is deemed to have interests in the shares and underlying shares through her 30% interests in New Bright.
- The 569,616,589 shares and 1,000,000,000 underlying shares under the Convertible Bond represent approximately 74.42% and approximately 130.66% of the total number of issued shares of the Company respectively, thus the total of 569,616,589 shares and 1,000,000,000 underlying shares represent approximately 205.08% of the total number of issued shares 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.
- For the shares held by Mr. Lev Leviev, of these shares, 36,866,000 shares were held by Africa Israel Investments Ltd., a company controlled by Mr. Lev Leviev through his approximately 48.13% interests in Africa Israel Investments Ltd.; 28,942,000 shares were held by Memorand Management (1998) Ltd., a company controlled by Mr. Lev Leviev through his 100% interests in Memorand Ltd. which holds 100% interest in Memorand Management (1998) Ltd.; and 1,000,000 shares were held by Mr. Lev Leviev directly.
- The approximate percentage of shareholdings is based on 765,373,584 Shares as at the Latest Practicable Date, not the enlarged issued share capital of the Company upon full conversion of the Convertible Bond.

Save as disclosed above, so far as is known to the Directors and the chief executives of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executives of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

Save for Mr. Wang Xiangfei and Mr. Wong Sze Wai, who are the executive Directors and the directors of the Subscriber, and Mr. Wang Xiangfei who is an alternate director to Ms. Lo Fong Hung of China Sonangol and New Bright respectively, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which has an interest or short position in the Shares or underlying Shares of the Company which should fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. MATERIAL ADVERSE CHANGES

As disclosed in the Nov 15 Announcement, Kaiyuan Company made an one-off Payment of a total sum of RMB108,702,500, representing (i) the Deposit of RMB32,200,000 and (ii) the Supplemental Resources Fee of RMB76,502,500, to the Xinjiang Natural Resources Department. The Board is of the view that that the one-off Payment would have a negative impact on the financial results of the Group for the year ending 31 March 2020.

In addition, as disclosed in the announcement of the Company dated 20 December 2019, Kaiyuan Company had effected a temporary suspension of its mining operations and sale at the Enlarged Kaiyuan Mine (the “**Suspension**”) after the expiry of the New Mining Permit on 21 December 2019 pending the grant of the Renewed Mining Permit by the Xinjiang Natural Resources Department, in compliance with the relevant PRC laws and regulations and pursuant to the legal opinion of the Company’s PRC legal adviser. As at the Latest Practicable Date, the Renewed Mining Permit was yet to be granted by the government authority and as a result, the Suspension was still subsisting.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Group were made up.

### 4. INTERESTS OF DIRECTORS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors and their respective close associates had any interest in a business which competes or is likely to compete, whether directly or indirectly, with the business of the Group.

## 5. INTERESTS OF DIRECTORS IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Group were made up, or were proposed to be acquired or disposed of by or leased to any member of the Group. None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant to the business of the Group taken as a whole.

## 6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## 7. LITIGATION

As at the Latest Practicable Date, as far as the Directors were aware, none of the members of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

## 8. QUALIFICATION AND CONSENT OF EXPERTS

The following is the qualifications of the expert who has given opinions or advice which are contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Lego Corporate Finance	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO

Lego Corporate Finance has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name included herein in the form and context in which it is included.

**9. EXPERTS' INTERESTS**

Lego Corporate Finance confirmed that as at the Latest Practicable Date, it did not have any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 March 2019, being the date to which the latest published audited financial statements of the Group were made up, and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**10. GENERAL**

- (a) The company secretary of the Company is Mr. Li Chun Fung, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.
- (c) The head office and principal place of business of the Company in Hong Kong is at 8/F., Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (e) The English text of this circular, the accompanying form of proxy and the notice of SGM shall prevail over the Chinese translation in case of any inconsistency.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during 9:00 a.m. to 5:00 p.m. on any weekday (except Saturdays, Sundays and public holidays) at the office of the Company at 8/F., Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong for a period of 14 days from the date of this circular:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 21 of this circular;
- (c) the letter from the Independent Financial Adviser, the text of which is set out on pages 22 to 48 of this circular;
- (d) the written consent of Lego Corporate Finance;



- (e) the Subscription Agreement dated 15 January 2008 and the terms and conditions of the Convertible Bond;
- (f) the Deed of Amendment dated 11 February 2011;
- (g) the 2nd Deed of Amendment dated 21 January 2014 (as amended and supplemented by the Supplemental Deed dated 28 January 2014);
- (h) the 3rd Deed of Amendment dated 25 January 2017;
- (i) the 4th Deed of Amendment dated 3 February 2020; and
- (j) this circular.

## NOTICE OF SGM



# NAN NAN RESOURCES ENTERPRISE LIMITED

## 南南資源實業有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1229)**

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “**SGM**”) of Nan Nan Resources Enterprise Limited (the “**Company**”) will be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Wednesday, 11 March 2020 at 11:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company. Unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 24 February 2020 (the “**Circular**”).

### ORDINARY RESOLUTION

**“THAT:**

the entry into of the 4th Deed of Amendment (as defined in the Circular), a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for identification purpose, the transactions contemplated thereunder (including the 4th Extension) and the execution of the 4th Deed of Amendment and any documents and agreements incidental thereto under the common seal of the Company by any director of the Company on behalf of the Company, be and are hereby confirmed, approved, authorised and ratified in all respect; and

any director of the Company (under hand or under seal) be and is/are hereby authorised for and on behalf of the Company to execute (and, if necessary, affix the common seal of the Company to) any such other documents, instruments and agreements and to do all such acts or things as may be deemed by him/her/them in his/her/their absolute discretion to be necessary or incidental to, ancillary to or in connection with the matters contemplated in the 4th Deed of Amendment and the transactions contemplated thereunder (including the 4th Extension) or otherwise in relation to the 4th Deed of Amendment and the matters and the transactions contemplated thereunder (including the 4th Extension).”

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

Hong Kong, 24 February 2020

## NOTICE OF SGM

*Notes:*

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice (the "Meeting") is entitled to appoint a proxy or, if he is a holder of more than one share, proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share of the Company, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the Meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority, must be deposited at the Company's Hong Kong branch share registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time for the holding of the Meeting or adjourned meeting.
4. In order to attend the Meeting to be held on Wednesday, 11 March 2020, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Friday, 6 March 2020.
5. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Meeting (or any adjournment thereof) if you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. The ordinary resolution as set out above will be voted by way of poll.
7. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 8:30 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the website of the Company at [www.nannanlisted.com](http://www.nannanlisted.com) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) to notify its Shareholders of the date, time and place of the rescheduled meeting.

*As at the date of this notice, 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; and three independent non-executive directors, namely Dr. Wong Man Hin Raymond, Mr. Chan Yiu Fai Youdey and Mr. Pak Wai Keung Martin.*