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

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

INTERIM REPORT 2017

CONTENTS

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

This interim report is printed on environmental friendly paper.

CORPORATE INFORMATION

Board of Directors

Executive Directors
Kwan Man Fai
(Chairman & Managing Director)
Lo Fong Hung
Wang Xiangfei

Independent Non-executive Directors
Lam Ka Wai Graham
(retired on 7 September 2017)
Wong Man Hin Raymond
Chan Yiu Fai Youdey
Pak Wai Keung Martin
(appointed on 19 September 2017)

Alternate Director
Wong Sze Wai
(alternate to Wang Xiangfei)
(appointed on 18 July 2017)

Audit Committee

Pak Wai Keung Martin (Chairman)
(appointed on 19 September 2017)
Lam Ka Wai Graham
(retired on 7 September 2017)
Wong Man Hin Raymond
Chan Yiu Fai Youdey

Remuneration Committee

Wong Man Hin Raymond (Chairman)
Kwan Man Fai
Lam Ka Wai Graham
(retired on 7 September 2017)
Chan Yiu Fai Youdey
Pak Wai Keung Martin
(appointed on 19 September 2017)

Nomination Committee

Kwan Man Fai (Chairman)
Lam Ka Wai Graham
(retired on 7 September 2017)
Wong Man Hin Raymond
Chan Yiu Fai Youdey
Pak Wai Keung Martin
(appointed on 19 September 2017)

Company Secretary

Li Chun Fung

Auditor

Mazars CPA Limited
42/F., Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Legal Adviser

Conyers Dill and Pearman
2901, One Exchange Square
8 Connaught Place
Central, Hong Kong

Principal Bankers

China CITIC Bank International Limited
Industrial and Commercial Bank of China
(Asia) Limited

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business

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

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08, Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301–04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

Hong Kong Stock Exchange Stock Code

1229

Website

http://www.nanganlisted.com

INDEPENDENT AUDITOR'S REVIEW REPORT

MAZARS

MAZARS CPA LIMITED
瑪澤會計師事務所有限公司
42nd Floor, Central Plaza,
18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道 18 號中環廣場 42 樓
Tel 電話: (852) 2909 5555
Fax 傳真: (852) 2810 0032
Email 電郵: info@mazars.hk
Website 網址: www.mazars.hk

REVIEW REPORT TO THE BOARD OF DIRECTORS OF NAN NAN RESOURCES ENTERPRISE LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 4 to 24 which comprises the condensed consolidated statement of financial position of Nan Nan Resources Enterprise Limited (the "Company") and its subsidiaries (together the "Group") at 30 September 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of the interim financial information in accordance with HKAS 34.

Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the interim financial information consists of making inquires primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information at 30 September 2017 is not prepared, in all material respects, in accordance with HKAS 34.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 21 November 2017

She Shing Pang
Practising Certificate number: P05510

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Notes	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Revenue	3	**72,832**	25,772
Cost of sales		**(54,264)**	(17,266)
Gross profit		**18,568**	8,506
Other revenue		**2,181**	2,961
Selling and distribution expenses		**(202)**	(303)
Administrative and other operating expenses		**(10,804)**	(10,521)
Exchange gain/(loss), net		**3,426**	(5,897)
Impairment loss on property, plant and equipment		**(3,511)**	–
Impairment loss on intangible assets		**(12,618)**	–
Finance costs		**–**	(6)
Change in fair value of convertible bond	12	**27,856**	34,186
Profit before tax		**24,896**	28,926
Income tax expense	4	**(1,314)**	(3,039)
Profit for the period	5	**23,582**	25,887
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of functional currency to presentation currency		**5,250**	(2,788)
Other comprehensive income/(loss) for the period (net of nil tax)		**5,250**	(2,788)
Total comprehensive income for the period		**28,832**	23,099
Profit for the period attributable to:			
– Owners of the Company		**23,582**	25,887
Total comprehensive income for the period attributable to:			
– Owners of the Company		**28,832**	23,099
Earnings/(loss) per share (expressed in Hong Kong cents)			
– Basic	7	**3.08**	3.38
– Diluted	7	**(0.79)**	0.10

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Notes	30 September 2017 HK$'000 (unaudited)	31 March 2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	8	7,003	11,070
Intangible assets	9	25,167	37,787
Goodwill		–	–
Non-refundable deposits		2,467	–
Security deposits		4,783	4,601
		39,420	53,458
Current assets			
Inventories		31,693	50,923
Trade and other receivables	10	6,132	12,517
Cash and cash equivalents		372,190	331,606
		410,015	395,046
Current liabilities			
Trade and other payables	11	59,090	56,524
Tax payable		6,843	4,278
		(65,933)	(60,802)
Net current assets		344,082	334,244
Total assets less current liabilities		383,502	387,702
Capital and reserves			
Share capital	14	76,537	76,537
Reserves		67,662	38,830
Equity attributable to owners of the Company		144,199	115,367
Non-current liabilities			
Convertible bond designated as financial liabilities at fair value through profit or loss	12	233,760	261,616
Provision for close down, restoration and environmental costs		2,914	2,802
Deferred tax liabilities		2,629	7,917
		239,303	272,335
		383,502	387,702

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000 (Note i)	Capital reserve HK$'000 (Note ii)	Statutory reserves HK$'000 (Note iii)	Exchange translation reserve HK$'000 (Note iv)	Special reserve HK$'000 (Note v)	Accumulated losses HK$'000	Total HK$'000
At 1 April 2017 (audited)	**76,537**	**191,534**	**14,882**	**16,598**	**6,439**	**27,143**	**(217,766)**	**115,367**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**23,582**	**23,582**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**5,250**	**–**	**–**	**5,250**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**5,250**	**–**	**23,582**	**28,832**
Appropriation of maintenance and production funds	**–**	**–**	**–**	**7,663**	**–**	**–**	**(7,663)**	**–**
Utilisation of maintenance and production funds	**–**	**–**	**–**	**(7,663)**	**–**	**–**	**7,663**	**–**
At 30 September 2017 (unaudited)	**76,537**	**191,534**	**14,882**	**16,598**	**11,689**	**27,143**	**(194,184)**	**144,199**
At 1 April 2016 (audited)	**76,537**	**191,534**	**14,882**	**14,730**	**12,226**	**27,143**	**(264,165)**	**72,887**
Profit for the period	–	–	–	–	–	–	25,887	25,887
Other comprehensive loss for the period	–	–	–	–	(2,788)	–	–	(2,788)
Total comprehensive (loss)/income for the period	–	–	–	–	(2,788)	–	25,887	23,099
Appropriation of maintenance and production funds	–	–	–	6,122	–	–	(6,122)	–
Utilisation of maintenance and production funds	–	–	–	(6,122)	–	–	6,122	–
At 30 September 2016 (unaudited)	**76,537**	**191,534**	**14,882**	**14,730**	**9,438**	**27,143**	**(238,278)**	**95,986**

Notes:

i) Share premium

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

ii) Capital reserve

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

iii) Statutory reserves

Statutory surplus reserve

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

Specific reserve for maintenance and production funds

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

iv) Exchange translation reserve

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

v) Special reserve

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2017

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Operating activities		
Cash generated from/(used in) operations	**36,575**	(1,262)
Income tax paid	**(4,518)**	(1,759)
Net cash generated from/(used in) operating activities	**32,057**	(3,021)
Investing activities		
Additions of property, plant and equipment	**(1,154)**	(19)
Proceeds from disposal of property, plant and equipment	**90**	–
Interest received	**1,665**	1,148
Net cash generated from investing activities	**601**	1,129
Net increase/(decrease) in cash and cash equivalents	**32,658**	(1,892)
Cash and cash equivalents at 1 April	**331,606**	343,587
Effect of foreign exchange rate changes	**7,926**	(11,510)
Cash and cash equivalents at 30 September, represented by bank balances and cash	**372,190**	330,185

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2017

1. General Information and Basis of Preparation

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

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is 8/F., Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong. The functional currency of the Company is Renminbi ("RMB"). The condensed consolidated interim financial information is presented in Hong Kong dollars ("HK$") for convenience of the shareholders as the Company is listed in Hong Kong.

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

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

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

1. General Information and Basis of Preparation *(Continued)*

In preparing these condensed consolidated interim financial information, significant judgements made by the directors of the Company in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied in the Group's annual consolidated financial statements for the year ended 31 March 2017 (the "2016/2017 Audited Financial Statements").

The condensed consolidated interim financial information includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 March 2017, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA. They shall be read in conjunction with the 2016/2017 Audited Financial Statements.

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

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 September 2017 are consistent with those followed in the preparation of the 2016/2017 Audited Financial Statements.

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA.

- *Amendments to HKAS 7, Disclosure Initiative*
- *Amendments to HKAS 12, Recognition of Deferred Tax Assets for Unrealised Losses*
- *Annual Improvements to HKFRSs 2014 – 2016 Cycle*

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

3. Revenue and Segment Information

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

4. Income Tax Expense

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

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Tax in other jurisdictions		
– current	**6,823**	1,734
Deferred tax	**(5,509)**	1,305
Income tax expense	**1,314**	3,039

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as there was no estimated assessable profits being derived from Hong Kong for both six months ended 30 September 2017 and 2016. Where there is Hong Kong assessable profits, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both six months ended 30 September 2017 and 2016.

5. Profit for the Period

Profit for the period has been arrived at after charging:

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Amortisation of intangible assets	**1,473**	1,878
Less: Amounts capitalised in inventories	**–**	(582)
Amounts included in cost of sales	**1,473**	1,296
Amount of inventories recognised as cost of sales	**54,264**	17,266
Depreciation of property, plant and equipment	**2,083**	2,154
Staff costs (excluding directors' remuneration)		
– Basic salaries and allowances	**4,357**	4,167
– Contributions to defined contribution retirement plan	**490**	517

6. Interim Dividend

No dividends were paid, declared or proposed during the six months ended 30 September 2017 (six months ended 30 September 2016: Nil). The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 September 2016: Nil).

7. Earnings/(Loss) Per Share

a) *Basic earnings per share*

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

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit		
Profit for the purpose of basic earnings per share		
Profit for the period attributable to owners of the Company	**23,582**	25,887
Weighted average number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**765,373,584**	765,373,584

b) *Diluted (loss)/earnings per share*

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

i) (Loss)/profit for the period attributable to owners of the Company (diluted)

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period attributable to owners	**23,582**	25,887
Fair value gain of convertible bond	**(27,856)**	(34,186)
Exchange (gain)/loss on convertible bond	**(9,716)**	10,024
(Loss)/profit attributable to owners (diluted)	**(13,990)**	1,725

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

b) Diluted (loss)/earnings per share (Continued)

ii) Weighted average number of ordinary shares (diluted)

	Six months ended 30 September	
	2017 (unaudited)	2016 (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**765,373,584**	765,373,584
Effect of conversion of convertible bond	**1,000,000,000**	1,000,000,000
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**1,765,373,584**	1,765,373,584

8. Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 30 September 2017, the Group acquired property, plant and equipment with a cost of approximately HK$1,154,000 (six months ended 30 September 2016: approximately HK$19,000).

During the six months ended 30 September 2017, the Group disposed property, plant and equipment with a total carrying amount of approximately HK$22,000 resulted in a gain of approximately HK$68,000 (six months ended 30 September 2016: disposal of approximately HK$1,000 resulted in a loss of approximately HK$1,000).

During the six months ended 30 September 2017, impairment loss of approximately HK$3,511,000 (six months ended 30 September 2016: Nil) was made on property, plant and equipment.

9. Intangible assets

During the six months ended 30 September 2017, impairment loss of approximately HK$12,618,000 (six months ended 30 September 2016: Nil) was made on the intangible assets.

10. Trade and Other Receivables

The Group's coal sales to customers are largely on cash basis or with payment in advance. For certain well-established customers, the Group allows an average credit period of 180 days.

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

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 90 days	**2,615**	6,421
91 days to 180 days	**1,175**	4,170
Trade and bills receivables	**3,790**	10,591
Prepayments, deposits and other receivables	**2,342**	1,926
Total trade and other receivables	**6,132**	12,517

11. Trade and Other Payables

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

	30 September 2017 *HK$'000* (unaudited)	31 March 2017 *HK$'000* (audited)
Within 90 days	**7,032**	8,649
91-180 days	**1,433**	4,057
181-365 days	**91**	1,243
Over 1 year	**8**	27
Trade payables	**8,564**	13,976
Receipt in advance	**2,897**	2,261
Other taxes payable	**3,533**	1,357
Government levies payable		
– Economic development fees in coal resources areas	**27,704**	26,651
– Others	**4,420**	4,177
Accrued expenses	**4,816**	2,162
Other payables	**7,156**	5,940
Total trade and other payables	**59,090**	56,524

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

12. Convertible Bond

On 14 March 2008, the Company issued zero-coupon convertible bond with an aggregate principal amount of HK$200,000,000 to Ascent Goal simultaneously upon completion of the issue and allotment of 400,000,000 ordinary shares of HK$0.10 each. The bond is denominated in HK$ and entitles the holders to convert them into ordinary shares of the Company at any time between the date of issue of the bond and its settlement date on 13 March 2011 in multiples of HK$1,000,000 at a conversion price HK$0.20 (subject to adjustments) per share. The shares to be issued and allotted upon conversions shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. If the convertible bond has not been converted, the Company shall repay the principal amount of the outstanding convertible bond to Ascent Goal at 13 March 2011.

12. Convertible Bond *(Continued)*

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

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

On 21 January 2014, the Company entered into a second deed of amendment with Ascent Goal ("2nd extended Convertible Bond") to extend the maturity date of the Convertible Bond for 36 months and the conversion period will accordingly be extended for 36 months from 14 March 2014 (date of extension) to 13 March 2017 ("2nd extended Maturity Date"). Apart from the extension of maturity date and the conversion period, all terms of the 2nd extended Convertible Bond remain unchanged from the original terms.

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

On 25 January 2017, the Company entered into a third deed of amendment with Ascent Goal ("3rd extended Convertible Bond"), to further extend the maturity date of the 2nd extended Convertible Bond for 36 months and the conversion period will accordingly be extended for 36 months from 14 March 2017 (date of extension) to 13 March 2020 ("3rd extended Maturity Date"). Apart from the extension of maturity date and the conversion period, all terms of the convertible bond remain unchanged from the original terms.

The 3rd extended Maturity Date is considered to be a substantial modification of terms of the 2nd extended Convertible Bond as the discounted present value of the cash flows of the 3rd extended Convertible Bond is more than 10% different from the discounted present value of the cash flows of the 2nd extended Convertible Bond prior to the extension of maturity date. As such, the 2nd extended Convertible Bond was derecognised and the 3rd extended Convertible Bond was recognised. The fair value of the 3rd extended Convertible Bond at 14 March 2017 amounted to approximately HK$264,904,000. An extinguishment loss of approximately HK$5,941,000 has been recognised in profit or loss.

12. Convertible Bond *(Continued)*

The 3rd extended Convertible Bond was valued by the directors of the Company with reference to valuation report issued by an independent qualified valuer not connected to the Group. The fair value changes during the six months ended 30 September 2017 and 2016 have been recognised in profit or loss.

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

	30 September 2017 *HK$'000* **(unaudited)**	31 March 2017 *HK$'000* (audited)
Balance at beginning of the period/year	**261,616**	264,904
Fair value change credited to the profit or loss	**(27,856)**	(3,288)
(Gain)/loss on translation of 3rd extended Convertible Bond denominated in a foreign currency into the functional currency	**(9,716)**	6,209
Exchange adjustment arising on translation of functional currency to presentation currency and charged/(credited) to other comprehensive income	**9,716**	(6,209)
Balance at end of the period/year	**233,760**	261,616
Analysed for reporting as:		
Non-current liabilities	**233,760**	261,616
Difference between carrying amount and maturity amount:		
3rd extended Convertible Bond at fair value	**233,760**	261,616
Amount payable on maturity	**(200,000)**	(200,000)
	33,760	61,616

None of the 3rd extended Convertible Bond had been converted into ordinary shares of the Company during the six months ended 30 September 2017 and the year ended 31 March 2017.

13. Fair Value Measurement of Financial Instruments

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values at 30 September 2017 and 31 March 2017.

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group uses an independent valuer to perform valuations of financial instruments which are categorised into Level 3 of the fair value hierarchy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent valuer at each interim and annual reporting date.

	Unaudited			
	Fair value at 30 September 2017	Fair value measurements at 30 September 2017 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Liabilities:				
Convertible bond designated as financial liabilities at fair value through profit or loss	**233,760**	**–**	**–**	**233,760**

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

Fair value hierarchy (Continued)

	Audited			
	Fair value at 31 March 2017	Fair value measurements at 31 March 2017 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Liabilities:				
Convertible bond designated as financial liabilities at fair value through profit or loss	261,616	–	–	261,616

During the year ended 31 March 2017 and six months ended 30 September 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

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

i) The estimation of risk free rate has been made with reference to the yield of Exchange Fund Bill with same duration as the convertible bond;

ii) The estimation of volatility for the underlying share price has considered the historical price movements of those companies engaged in similar industry;

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

Information about Level 3 fair value measurements (Continued)

iii) The discount rate was arrived at based on the Company's credit rating and selected comparable corporate bonds with similar maturity and credit risk to derive the range of comparable yield to maturity as of date of valuation and the median range has been adopted; and

iv) The estimation of dividend yield is based on historical dividend payment of the Company.

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

	30 September 2017	31 March 2017
Stock price	HK$0.40	HK$0.48
Exercise price	HK$0.20	HK$0.20
Risk free rate	0.950%	1.071%
Discount rate	13.53%	9.35%
Dividend yield	0%	0%
Time to expiration	2.45 years	2.95 years
Stock price volatility	81.09%	76.25%

The significant unobservable input used in the fair value measurement is expected stock price volatility. The fair value measurement is positively correlated to the expected stock price volatility. If the expected stock price volatility has been 5% higher with all other variables held constant, the Group's profit for the six months ended 30 September 2017 and accumulated losses would (decrease)/increase by approximately HK$1,081,000 (2016: the Group's profit for the period and accumulated losses would (decrease)/increase by approximately HK$212,000). If the expected stock price volatility has been 5% lower with all other variables held constant, the Group's profit for the six months ended 30 September 2017 and accumulated losses would increase/(decrease) by approximately HK$533,000 (2016: the Group's profit for the period and accumulated losses would increase/(decrease) by approximately HK$144,000).

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

Reconciliation of Level 3 fair value measurements

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

Convertible bond (note 12):	**30 September 2017** *HK$'000* **(unaudited)**	30 September 2016 *HK$'000* (unaudited)
At beginning of the period	**261,616**	317,650
Total gain recognised in profit or loss:		
Fair value change credited to the profit or loss, included in a line item of condensed consolidated statement of profit or loss and other comprehensive income	**(27,856)**	(34,186)
(Gain)/loss on translation of convertible bond denominated in a foreign currency into the functional currency, included in administrative and other operating expenses	**(9,716)**	10,024
Total gain included in profit or loss for the period	**(37,572)**	(24,162)
Total (gain)/loss recognised in other comprehensive income:		
Exchange difference on translation of functional currency to presentation currency	**9,716**	(10,024)
At end of the period	**233,760**	283,464

14. Share Capital

	Number of ordinary shares of HK$0.1 each	Amount *HK$'000*
Ordinary Shares		
Authorised:		
At 1 April 2016 (audited), 31 March 2017 (audited) and 30 September 2017 (unaudited)	5,000,000,000	500,000
Issued and fully paid:		
At 1 April 2016 (audited), 31 March 2017 (audited) and 30 September 2017 (unaudited)	765,373,584	76,537

15. Related Party Transactions

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

	Six months ended 30 September	
	2017 ***HK$'000*** **(unaudited)**	2016 *HK$'000* (unaudited)
China Sonangol International Limited ("China Sonangol") *(Note a)* – rental expenses *(Note b)*	**420**	390

Notes:

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

b) Operating lease commitment for future minimum lease payments under non-cancellable operating lease with China Sonangol was amounted to approximately HK$210,000 (31 March 2017: approximately HK$630,000).

15. Related Party Transactions *(Continued)*

b) *Compensation of key management personnel*

The remuneration of directors and other members of key management for the six months ended 30 September 2017 and 2016 were as follows:

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term employee benefits	**1,430**	1,272
Post-employment benefits	**18**	18
	1,448	1,290

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

16. Operating Lease Commitments

The Group as lessee

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

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

	30 September	31 March
	2017	2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within one year	**1,523**	1,076
In the second to fifth years, inclusive	**121**	–
	1,644	1,075

Financial Review

Revenue

For the six months ended 30 September 2017 (the "Reporting Period"), the Group recorded a revenue of approximately HK$72,832,000, which was an increase of approximately 183% or approximately HK$47,060,000 as compared with approximately HK$25,772,000 achieved in the corresponding period in 2016.

Geographically, Xinjiang Uygur Autonomous Region ("Xinjiang") is remote from major industrial cities in the PRC. Coal produced in Xinjiang is mainly consumed locally due to the reason of logistic and transportation costs.

Increase in sales was mainly due to increase demand for small-medium sized, middle and slack coals since more sales effort has been put by the senior management of the Xinjiang office of the Group. The Group sold approximately 1,246,391 tonnes (2016: approximately 388,122 tonnes) of coal, increased by approximately 221% in volume from a year ago.

Cost of sales

The cost of sales for the Reporting Period was approximately HK$54,264,000 (2016: approximately HK$17,266,000). The cost mainly comprises direct labor cost, cost for explosive works, depreciation, amortisation etc. The increase in cost of sales was largely in line with the increase in sales volume during the Reporting Period as compared with the previous corresponding period.

Gross profit

Due to the factors explained above, the gross profit of the Group for the Reporting Period increased to approximately HK$18,568,000 from approximately HK$8,506,000 for the six months ended 30 September 2016, representing an increase of approximately 118% but gross profit margin decreased by approximately 7.51% for the Reporting Period to approximately 25.49%. It is mainly due to the high sales volume of slack coals which generated lower gross profit margin compared with the piece coals.

Other revenue

The Group's other revenue for the Reporting Period was approximately HK$2,181,000, representing a decrease of approximately HK$780,000 or approximately 26% as compared with the corresponding period in the last year. This was mainly due to decrease in net income from selling coal gangue (煤矸石) by approximately HK$1,679,000 but compensated by the increase of interest income and other revenue by approximately HK$924,000.

Administrative and operating expenses

The Group's administrative and operating expenses for the Reporting Period was approximately HK$10,804,000, representing an increase of approximately HK$283,000 or approximately 2.7% as compared with the previous corresponding period.

Financial Review *(Continued)*

Profit for the period

Profit of the Group for the Reporting Period was approximately HK$23,582,000 (2016: profit of approximately HK$25,887,000), representing an decrease of approximately HK$2,305,000 as compared with the corresponding period in the last year. Although there was a significant increase in the gross profit from operation, the decrease in profit was mainly due to a decrease in profit arising from change in fair value of convertible bond of approximately HK$27,856,000 as compared with a profit of approximately HK$34,186,000 in the previous corresponding period, and the recognition of an impairment loss on intangible asset and property, plant and equipment of approximately HK$16,129,000.

Segment Information

Business segment

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

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

Coal mining business

Coal mining is the sole business of the Group at present. It contributed a revenue of approximately HK$72,832,000 for the Reporting Period (2016: approximately HK$25,772,000), an increase of approximately 183% as compared with the corresponding period in 2016. The increase in revenue was mainly resulted from increase in sales volume during the Reporting Period.

Sales and production of coals

During the Reporting Period, the Group sold approximately 1.246 million tonnes of coals with total sales income of approximately HK$72,832,000. Details of coal sales in tonnes are listed in the below table:

	Period ended 30 September	
	2017	2016
Coal sales	**1,246,391 tonnes**	388,122 tonnes

Segment Information *(Continued)*

Coal sales in tonnes and percentage

	Coal Sales *(tonnes)*	**Coal Sales** *in %*
Large Coal	15,112	1.21
Middle Coal	42,749	3.43
Three Six Coal	93,395	7.49
Three Eight Coal	74,037	5.94
Small-medium sized Coal	74,178	5.95
Slack Coal	516,258	41.42
Weathered Coal	430,662	34.56
Total	1,246,391	100

Reserves and resources

The Group owns a mining right in Xinjiang, which is Kaiyuan Open Pit Coal Mine ("Kaiyuan Mine"). The estimated remaining coal reserve in Kaiyuan Mine was approximately 9.34 million tonnes as at 30 September 2017 (2016: approximately 10.01 million tonnes). The coal reserve was calculated by using the following formula, which was in line with the market practice:

Coal reserve as at 30 September 2017 = Coal reserve as at 31 March 2017 – Amount of coal extracted by the Group during 1 April 2017 to 30 September 2017.

The mining right of Kaiyuan Mine was granted by the Department of Land and Resources of Xinjiang Uygur Autonomous Region (the "Xinjiang Land Department") from 26 December 2015 to 26 December 2017.

Cost of sales

The cost of sales for the Reporting Period was approximately HK$54,264,000 (2016: approximately HK$17,266,000). The cost mainly comprises direct labor cost, cost for explosive works, depreciation, amortisation etc. The increase in cost of sales was largely in line with the increase in sales volume.

Geographical segment

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

Major Events

(A) *Progress of the Optimization and Upgrading Plan# and the Updated Optimization and Upgrading Plan##*

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

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

1. The Company's Kaiyuan Mine would be restructured and upgraded, and the Exploration Permit granted to the Company would be terminated; and

2. The mining area of the Kaiyuan Mine, where the Company is now conducting mining activities, was proposed to be increased from 1.1596 square kilometers to 4.12 square kilometers ("Kaiyuan Extended Area"), with the estimated coal resources of approximately 131.18 million tonnes.

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

Major Events *(Continued)*

(A) *Progress of the Optimization and Upgrading Plan# and the Updated Optimization and Upgrading Plan## (Continued)*

1. *First Undisputed Agreement*

   On 15 August 2017, Zexu Company entered into an undisputed agreement (the "First Undisputed Agreement") with Xinjiang Jinneng Mining Company Limited ("Jinneng Company"), pursuant to which Jinneng Company should occupy an area of 0.297 km^2 within the Zexu Mine and could apply to the Xinjiang Land Department to fix such mining area. Jinneng Company should, within 10 working days upon signing the agreement, compensate Zexu Company with an amount of RMB505,197, which was calculated by multiplying the area of 0.297 km^2 with the agreed compensation amount of RMB486,000 per km^2 and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

2. *Second Undisputed Agreement*

   On 15 August 2017, Zexu Company entered into an undisputed agreement (the "Second Undisputed Agreement") with Xinjiang Beishan Mining Company Limited ("Beishan Company"), pursuant to which Beishan Company should occupy an area of 2.582 km^2 within the Zexu Mine and could apply to the Xinjiang Land Department to fix such mining area. Beishan Company should, within 10 working days upon signing the agreement, compensate Zexu Company with an amount of RMB4,391,982, which was calculated by multiplying the area of 2.582 km^2 with the agreed compensation amount of RMB486,000 per km^2 and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

3. *Third Undisputed Agreement*

   On 15 August 2017, Kaiyuan Company entered into an undisputed agreement (the "Third Undisputed Agreement") with Jinneng Company, pursuant to which Kaiyuan Company should occupy an area of 1.292 km^2 within the exploration area of the mine of Jinneng Company (the "First Extended Area")_and could apply to the Xinjiang Land Department to fix such mining area. Kaiyuan Company should, within 10 working days upon signing the agreement, compensate Jinneng Company with an amount of RMB2,197,692, which was calculated by multiplying the area of 1.292 km^2 with the agreed compensation amount of RMB486,000 per km^2 and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

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

Major Events *(Continued)*

(A) Progress of the Optimization and Upgrading Plan# and the Updated Optimization and Upgrading Plan## (Continued)

4. Fourth Undisputed Agreement

On 15 August 2017, Kaiyuan Company entered into an undisputed agreement (the "Fourth Undisputed Agreement") with Beishan Company, pursuant to which Kaiyuan Company should occupy an area of 0.016 km^2 within the mining area of the mine of Beishan Company (the "Second Extended Area") and could apply to the Xinjiang Land Department to fix such mining area. Kaiyuan Company should, within 10 working days upon signing the agreement, compensate Beishan Company with an amount of RMB27,216, which was calculated by multiplying the area of 0.016 km^2 with the agreed compensation amount of RMB486,000 per km^2 and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

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

The total area of 2.879 km^2 of Zexu Mine being occupied by Jinneng Company and Beishan Company under the First Undisputed Agreement and the Second Undisputed Agreement respectively represent the whole area of the Zexu Mine. Since the said two agreements had been completed, the Exploration Permit became invalid. Since the Zexu Mine has not commenced mining, it has not generated any revenue for the Group in the past years.

So far as the Company is aware, the First Extended Area and the Second Extended Area being occupied by Kaiyuan Company under the Third Undisputed Agreement and Fourth Undisputed Agreement respectively have not yet commenced mining. After having completed of such agreements, the Company was required to go through official procedures with the relevant land and resources departments to obtain the exploration right and then the mining right in respect of these extended areas. When the related exploration right or mining right is obtained, the Company will appoint professional parties to evaluate possible coal reserves and perform valuation on the First Extended Area and Second Extended Area. For accounting purposes, these extended area were booked as "Non-refundable deposits for occupying the extended area" under non-current assets with value of approximately RMB2,098,970 (equivalent to approximately HK$2,467,000) in the Company's accounts, which, if appropriate, would be transferred to the intangible assets under the Statement of Financial Position after conclusion is reached with the government departments. Upon obtaining the exploration right or mining right, the Company will discuss again with professional parties (including its valuer and auditor) regarding the possible coal reserves, valuation and accounting treatment of the First Extended Area and Second Extended Area. The Company has not received any update from the relevant government departments since the completion of the Four Undisputed Agreements.

Major Events *(Continued)*

(A) Progress of the Optimization and Upgrading Plan# and the Updated Optimization and Upgrading Plan## (Continued)

According to the Updated Optimization and Upgrading Plan, the mining area of the Kaiyuan Mine was proposed to be increased from 1.1596 km^2 to 4.12 km^2. For the First Extended Area and the Second Extended Area, since they were originally owned by Jinneng Company and Beishan Company respectively, the Third Undisputed Agreement and the Fourth Undisputed Agreement were required to be signed respectively for transfer of such area and as one of the important procedures for obtaining the exploration right and then the mining right. Upon completion of the Third Undisputed Agreement and Fourth Undisputed Agreement, the area of the Kaiyuan Mine will only increase to approximately 2.4676 km^2. Concerning the outstanding proposed increased area of approximately 1.6524 km^2, so far as the Company is aware, such area is located next to the Kaiyuan Mine and is currently owned by the government. To obtain the exploration right and then the mining right of such area, the Company is still required to go through official procedures with the relevant land and resources departments.

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

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

(B) Suspension of Production and Production Resumption at Kaiyuan Mine and Demolishment of Gas Station

As stated in the Company's announcement dated 25 September 2017, Kaiyuan Company received notices from the relevant government departments requesting for suspension of the production at Kaiyuan Mine and demolishment of gas station therein.

1. *Suspension of Production at Kaiyuan Mine*

   At the night of 19 September 2017, Kaiyuan Company received a notice dated 16 September 2017 from the Environmental Protection Bureau of Xinjiang Zhundong Economy and Technology Development Area* (新疆准東經濟技術開發區環境保護局) and a notice dated 19 September 2017 from the Environmental Protection Committee of Xinjiang Zhundong Economy and Technology Development Area* (新疆准東經濟技術開發區環境保護委員會), requesting Kaiyuan Company to suspend production at its Kaiyuan Mine since Kaiyuan Company has yet to implement the coal mine environmental comprehensive remediation proposal in accordance with the requirements of, among other things, the "Implementation Opinion on Environmental Protection Specific Remediation in Zhundong Development Area* (准東開發區環境保護專項整治實施意見)".

Major Events *(Continued)*

(B) Suspension of Production and Production Resumption at Kaiyuan Mine and Demolishment of Gas Station (Continued)

2. Production Resumption at Kaiyuan Mine

As stated in the Company's announcement dated 26 October 2017, Kaiyuan Company received notices from the relevant government departments to resume the production at Kaiyuan Mine.

At the night of 23 October 2017, Kaiyuan Company received a notice (the "Notice") dated 23 October 2017 from the Party and Government Office of Xinjiang Zhundong Economy and Technology Development Area* (新疆准東經濟技術開發區黨政辦公室) requesting the relevant enterprises in the development area, including Kaiyuan Company, to thoroughly implement the requirements of the "Emergency notice to better implement the work to safeguard supply of coal* (關於做好保障煤炭供應工作的緊急通知)" (the "Emergency Notice") issued by the Office of the People's Government of Changji Hui Autonomous Prefecture* (昌吉回族自治州人民政府辦公室). According to the Emergency Notice, several coal mines, including the Kaiyuan Mine, were requested to conduct coal production and at the same time implement the environmental protection remedial works.

Upon discussion with the relevant government departments, Kaiyuan Company was confirmed that the Kaiyuan Mine could resume normal production while fulfilling the requirements of conducting the environmental protection remedial works.

The Kaiyuan Mine has resumed production according to the Notice and the Emergency Notice. Although the production at the Kaiyuan Mine was suspended for around one month, it did not create material financial impact on the Group since Kaiyuan Company continued to sell its inventory of slack coal during the production suspension period. So far as the Company is aware, Kaiyuan Company has not received any claims arising from non-supply of coal during the production suspension period. Meanwhile, Kaiyuan Company will cooperate with the relevant government departments to complete the requested environmental protection remedial works, and it is expected that such works will complete before June 2018 if no complication arises.

Major Events *(Continued)*

(B) Suspension of Production and Production Resumption at Kaiyuan Mine and Demolishment of Gas Station (Continued)

3. Demolishment of Gas Station

On 21 September 2017, Kaiyuan Company received an "Administrative Enforcement Document of Production Safety* (安全生產行政執法文書)" dated 21 September 2017 from the Production Safety Supervision and Administration Bureau* (安全生產監督管理局) of the Administration Committee of Xinjiang Zhundong Economy and Technology Development Area* (新疆准東經濟技術開發區管委會) (the "Document"), alleging that there were illegal storage and use of diesel at the Kaiyuan Mine and the gas station constructed therein was not in compliance with the "Regulations on Design and Construction of Gas Station* (加油站設計與施工規範)". Kaiyuan Company was requested to cease usage of the gas station immediately and demolish the gas station before 6 October 2017.

The gas station at the Kaiyuan Mine was constructed long time ago to supply diesel to the facilities and transportation vehicles at the Kaiyuan Mine. Demolishment of the gas station will not affect the operation of the Kaiyuan Mine seriously but may affect the production efficiency at the Kaiyuan Mine since staff of the Kaiyuan Mine will need to go to gas station about 30 km away to buy diesel regularly. Upon receipt of the Document, the management of Kaiyuan Company has negotiated with the relevant government departments, which on 22 September 2017, verbally allowed Kaiyuan Company to use up all the diesel remained in the gas station first and then demolish such station thereafter. The management of Kaiyuan Company is also now looking for other effective means to supply diesel to the facilities and transportation vehicles at the Kaiyuan Mine. Kaiyuan Company will select a contractor for the renovation of the gas station once the design is approved by the relevant government departments.

Prospects

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

Being cognizant of the impact of coal mining operations on the environment, we are committed to the implementation of environment management in compliance with laws and regulations. As coal mining inevitably generates emissions, the Group will increase investment in upgrading eco-friendly equipment, striving to mitigate dust dispersion in the production and storage process.

Prospects *(Continued)*

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

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

Save as otherwise disclosed, there were neither significant investments held as at 30 September 2017 nor material acquisitions and disposals of subsidiaries during the Reporting Period.

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

Liquidity and Financial Resources

As at 30 September 2017, the Group had:

- net current assets of approximately HK$344,082,000 (31 March 2017: approximately HK$334,244,000).

- bank balances and cash of approximately HK$372,190,000 (31 March 2017: approximately HK$331,606,000) which were the major components of the Group's current assets of approximately HK$410,015,000 (31 March 2017: approximately HK$395,046,000).

- current liabilities of approximately HK$65,933,000 (31 March 2017: approximately HK$60,802,000) which comprised mainly trade and other payables of approximately HK$59,090,000 (31 March 2017: approximately HK$56,524,000).

- non-current liabilities of approximately HK$239,303,000 (31 March 2017: approximately HK272,335,000) which comprised mainly deferred tax liability of approximately HK$2,629,000 (31 March 2017: approximately HK$7,917,000) and convertible bond designated as financial liabilities at fair value through profit or loss of approximately HK$233,760,000 (31 March 2017: approximately HK$261,616,000).

The Group's gearing ratio was approximately 1.62 (31 March 2017: approximately 2.27). The computation is based on total debt (convertible bond designated as financial liabilities at fair value through profit or loss) divided by total equity.

Capital Structure

The capital of the Group comprises only ordinary shares.

As at 30 September 2017, there were 765,373,584 ordinary shares of the Company in issue.

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

Charges on Group's Assets

As at 30 September 2017, none of the Group's assets was under charges (2016: Nil).

Foreign Exchange Exposure

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

Treasury Policies

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

Contingent Liabilities and Capital Commitments

The Group did not have any material contingent liabilities and capital commitments.

Employees

As at 30 September 2017, the Group had 74 employees (31 March 2017: 74) spreading among Hong Kong and the PRC. Total staff costs (excluding directors' emoluments) for the Reporting Period amounted to approximately HK$4,847,000 (2016: approximately HK$4,684,000). Employment relationship has been well maintained by the Group with its employees. The Group has adopted an extensive training policy for its employees. It has also sponsored senior executives for higher education programmes.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the Reporting Period (2016: Nil).

Directors' and Chief Executives' Interests and Short Positions

As at 30 September 2017, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Interests in shares of an associated corporation of the Company

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

(L) denotes as long position

Notes:

1. *Ms. Lo, an executive director of the Company, 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 International Limited ("China Sonangol"). China Sonangol is the holding company of Ascent Goal Investments Limited ("Ascent Goal"), the controlling shareholder of the Company. The shareholding interests of Ascent Goal in the Company is set out in the section headed "Substantial Shareholders' Interests" of this report.*

2. *Mr. Wang Xiangfei is the husband of Ms. Lo and is deemed to be interested in 3,000 shares of New Bright under the SFO.*

Save as disclosed above, as at 30 September 2017, none of the directors or chief executives of the Company, had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Save for those disclosed under the headings "Directors' and Chief Executives' Interests and Short Positions" above and "Share Option Scheme" below, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company (including their spouses and children under the age of 18) to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Share Option Scheme

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 30 September 2017.

Substantial Shareholders' Interests

As at 30 September 2017, the following persons (other than directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares or underlying shares of the Company

Name of shareholder	*Notes*	Nature of interest	Number of shares held	Number of underlying shares held	Total number of shares and underlying shares held	Approximate percentage of the total number of shares of the Company in issue *(Note 6)*
Ascent Goal	*1,4*	Beneficial owner	569,616,589	1,000,000,000	1,569,616,589	205.08%
China Sonangol	*2,4*	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
New Bright	*2,4*	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Ms. Fung Yuen Kwan Veronica	*3,4*	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Mr. Lev Leviev	*5*	Beneficial owner	1,000,000	–	1,000,000	0.13%
	5	Interests of controlled corporation	66,542,000	–	66,542,000	8.69%

Substantial Shareholders' Interests *(Continued)*

Notes:

1. *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.*

2. *Since Ascent Goal is a wholly-owned subsidiary of China Sonangol which is beneficially owned as to 70% by New Bright, the interests of Ascent Goal is deemed to be the interests of China Sonangol and in turn the interests of New Bright under the SFO.*

3. *Ms. Fung Yuen Kwan Veronica is deemed to have interests in the shares and underlying shares through her 70% interests in New Bright.*

4. *The 569,616,589 shares and 1,000,000,000 underlying shares under the Convertible Bond represent 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").*

5. *For the shares held by Mr. Lev Leviev, of these shares, 37,580,000 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.; 28,962,000 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.*

6. *The approximate percentage of shareholdings is based on 765,373,584 shares as at 30 September 2017, not the enlarged number of issued shares of the Company upon full conversion of the Convertible Bond.*

Save as disclosed above, the directors of the Company are not aware of any other persons who, as at 30 September 2017, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

Corporate Governance

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

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive ("CE") should be separate and should not be performed by the same individual. During the Reporting Period, the Company did not have any officer with CE title. Mr. Kwan Man Fai, the chairman and managing director of the Company, also carried out the responsibility of CE during the Reporting Period. In view of the size of operation of the Group, the Board considered that this structure is more suitable for the Company as it can promote the efficient formulation and implementation of the Company's strategies.

Change in Director's Information

Change in the information of the directors of the Company that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2017 annual report of the Company is set out below:

(1) Mr. Wong Man Hin Raymond has been appointed as an independent non-executive director of Tak Lee Machinery Holdings Limited (stock code: 8142) on 30 June 2017 and Zhejiang United Investment Holdings Group Limited (stock code: 8366) on 26 July 2017, companies whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

(2) Mr. Wong Sze Wai has been appointed as the alternate director of Mr. Wang Xiangfei, the executive director of the Company with effect from 18 July 2017.

(3) Mr. Lam Ka Wai Graham retired as an independent non-executive director with effect from the conclusion of the annual general meeting of the Company held on 7 September 2017 and ceased to be the chairman of the audit committee and a member of the remuneration committee and nomination committee of the Company.

(4) Mr. Pak Wai Keung Martin has been appointed as an independent non-executive director, the chairman of audit committee, a member of each of remuneration committee and nomination committee of the Company with effect from 19 September 2017.

Model Code for Securities Transactions by Directors

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

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive directors, namely Mr. Pak Wai Keung Martin as the chairman of the Audit Committee, Mr. Wong Man Hin Raymond and Mr. Chan Yiu Fai Youdey. The Audit Committee together with the management and external auditor of the Company have reviewed the accounting principles and practices adopted by the Group and discussed and reviewed the unaudited condensed consolidated interim financial information of the Group for the Reporting Period. The review conducted by the external auditor of the Company was in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

This report is made by the order of the Board, save for Ms. Lo who could not be contacted as at the date of this report.

By Order of the Board
Kwan Man Fai
Chairman and Managing Director

Hong Kong, 21 November 2017

* *English name for identification purpose only.*