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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 2017
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 5 to 13 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 14 to 15 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 16 to 35 of this circular.

A notice convening a SGM to be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Tuesday, 7 March 2017 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, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, 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 and in any event not later 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 and, in such event, the relevant form of proxy shall be deemed to be revoked.

17 February 2017

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DEFINITIONS

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

“1 st 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
“1 st Extension Circular”	the Company’s circular dated 21 February 2011 in relation to, among other matters, the 1 st Extension
“2 nd Deed of Amendment”	the 2 nd 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
“2 nd Extension”	the extension of the Maturity Date of the Convertible Bond for 36 months from the 1 st Extension, together with the Conversion Period which was also extended for 36 months to 13 March 2017 pursuant to the 2 nd Deed of Amendment
“2 nd Extension Circular”	the Company’s circular dated 13 February 2014 in relation to, among other matters, the 2 nd Extension
“3 rd Deed of Amendment”	the 3 rd 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
“3 rd Extension”	the further extension of the Maturity Date of the Convertible Bond for 36 months from the 2 nd Extension, together with the Conversion Period which will also be further extended for 36 months to 13 March 2020 pursuant to the 3 rd Deed of Amendment
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors

DEFINITIONS

“Company”	Nan Nan Resources Enterprise Limited (stock code: 1229), a company incorporated in Bermuda with limited liability, and the Shares of which are listed on the Stock Exchange
“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder(s)”	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
“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
“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 PRC
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors to advise the Independent Shareholders on the 3 rd Extension

DEFINITIONS

“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 3 rd Extension
“Independent Shareholders”	the Shareholders of the Company, other than the Subscriber and its associates
“Latest Practicable Date”	15 February 2017, 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 144 months from the date of issue of the Convertible Bond certificate, unless previously converted, i.e. 13 March 2020
“PRC”	the People’s Republic of China (for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“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 3 rd Extension
“Share(s)”	ordinary share(s) of HK\$0.10 each 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

DEFINITIONS

“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, which is wholly-owned by China Sonangol International Limited a company incorporated in Hong Kong with limited liability
“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 2 nd Deed of Amendment
“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 Xiheishan Mining Area



**NAN NAN RESOURCES
ENTERPRISE LIMITED**
南南資源實業有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1229)

Executive Directors:

Ms. Lo Fong Hung (*Chairman and Managing Director*)
Mr. Wang Xiangfei
Mr. Kwan Man Fai

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

Mr. Wong Man Hin, Raymond
Mr. Lam Ka Wai, Graham
Mr. Chan Yiu Fai, Youdey

Principal place of business:

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

17 February 2017

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 2017**

1. INTRODUCTION

References are made to the announcement of the Company dated 28 January 2008 in relation to the subscription of the Convertible Bond, the Subscription Circular, the announcement of Company dated 11 February 2011 in relation to the 1st Extension and the 1st Extension Circular, the announcements of the Company dated 21 January 2014 and 28 January 2014 and the 2nd Extension Circular in relation to the 2nd Extension, and the announcement of the Company dated 25 January 2017 in relation to the 3rd Extension.

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

LETTER FROM THE BOARD

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 a Deed of Amendment to extend the maturity date and the conversion period of the Convertible Bond for 36 months to 13 March 2014. Accordingly, the maturity date of the Convertible Bond 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 of the Convertible Bond for 36 months to 13 March 2017. Accordingly, all outstanding Convertible Bond is going to mature on 13 March 2017.

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

The purposes of this circular is to provide you with, among other things, (i) further information on the 3rd Deed of Amendment and the 3rd 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 3rd Deed of Amendment and the 3rd Extension.

2. 3rd DEED OF AMENDMENT

On 25 January 2017, the Company and the Subscriber entered into the 3rd Deed of Amendment, pursuant to which the maturity date of the Convertible Bond will be extended for 36 months from the 2nd Extension and the conversion period will accordingly be extended for 36 months to 13 March 2020. Save for the maturity date and the conversion period, all terms of the Convertible Bond remain unchanged.

The 3rd 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 resolution to ratify and approve the 3rd Deed of Amendment and the 3rd Extension;
- (b) the Stock Exchange having approved the 3rd 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 3rd Extension having been obtained.

LETTER FROM THE BOARD

None of the above conditions precedent could be waived by the parties to the 3rd Deed of Amendment. The 3rd Deed of Amendment shall have no effect unless and until all the conditions precedent set out above are fulfilled. The effective date of the 3rd Deed of Amendment shall be on the date when all its conditions precedents are fulfilled.

As at the Latest Practicable Date, the Stock Exchange has approved the 3rd Extension in accordance with Rule 28.05 of the Listing Rules. Save as disclosed, none of the above conditions have 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 and the 3rd 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 144 months from the date of issue of the Convertible Bond certificate, unless previously converted, i.e. 13 March 2020.
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.

LETTER FROM THE BOARD

Conversion Price

HK\$0.20 per Conversion Share, 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;
- (ii) any issue of Shares (other than in lieu of a cash dividend) by way of capitalization of profits or reserves;
- (iii) any capital distribution to holders of the Shares or grant to such holders rights to acquire assets of the Group for cash;
- (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;
- (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;
- (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; 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.

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.

LETTER FROM THE BOARD

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.
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.
Public float requirement	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.
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 aggregate of 1,000,000,000 Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Bond in full, which was granted on 11 March 2008.</p>

4. REASONS FOR THE 3rd EXTENSION

The 3rd Extension effectively allows the Group to refinance the debts under the Convertible Bond under the same terms for a further 36 months. As at the Latest Practicable Date, the Company has sufficient funds to fully repay the Convertible Bond. However, the Board is of the view that the 3rd Extension will enable the Company to retain the funds for potential investments or opportunities.

LETTER FROM THE BOARD

According to the management accounts as at 31 December 2016 of the Group, the Group had cash and cash equivalents of approximately HK\$334.2 million, which shall be sufficient to fully repay the outstanding Convertible Bonds. However, the Directors are of the view that full redemption of the Convertible Bond will substantially decrease the cash balance and liquidity of cash resources of the Group which may impose negative impact on the cash position to the Group.

As disclosed in the 2016 interim report of the Company, the Group owns one mining right and one exploration right in Xinjiang, which are Kaiyuan Mine and Zexu Mine respectively. According to the Updated Optimization and Upgrading Plan, the Company has submitted the proposals in relation to the Kaiyuan Mine and Zexu Mine to the working group head office for coal industry structural upgrade work of Xinjiang Uygur Autonomous Region for consideration and approval, including (i) the Company's Kaiyuan Mine would be restructured and upgraded, and the exploration right in the Zexu Mine granted to the Company would be terminated; and (ii) the mining area of the Kaiyuan Mine, where the Company is now conducting mining activities, was proposed to be increased.

As at the Latest Practicable Date, the Company has still not yet received any written notification from the relevant Xinjiang government department in respect of the approval of the Updated Optimization and Upgrading Plan. In the event that the Updated Optimization and Upgrading Plan is approved, the Group could apply the retained funds to set up new production facilities and processing plants to meet the increase in the production capacity and capital expenditure.

The Company will continue to identify any potential investments or opportunities, save as disclosed above, the Company does not have any concrete plans regarding any investments as at the Latest Practicable Date.

The Company has considered other financing alternatives to raise funds to repay the Convertible Bond over the 3rd Extension, including but not limited to, bank borrowing and equity financing. However, the management of the Company is of the view that any bank borrowing which will incur interest expenses to the Company may adversely affect the financial position of the Group. 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 Company considered that other financing alternatives are not the most appropriate means to refinance the Convertible Bonds at the moment.

Since the Convertible Bond is zero coupon, it will not incur any interest burden for the Group for the next 3 years. Further, all terms and conditions of the Convertible Bond remain unchanged save for the Maturity Date and the Conversion Period.

Accordingly, the Board^{Note 1} (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 3rd Deed of Amendment are fair and reasonable and the 3rd Extension is in the interests of the Company and the Shareholders as a whole. The Directors are of the view that the 3rd Extension will not pose any significant impact on the operations of the Group.

Note 1: As Ms. Lo Fong Hung and Mr. Wang Xiangfei have material interest in the transaction, they have abstained from voting on the board resolution in relation to the 3rd Extension.

LETTER FROM THE BOARD

5. INFORMATION ON THE GROUP AND THE SUBSCRIBER

The principal activities of the Group are investment holding, mining, sales and distribution of coal.

The Subscriber is an investment holding company. Save for holding the 74.42% shareholding in the Company and the Convertible Bond, the Subscriber does not have any other significant business activities.

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 3rd Deed of Amendment pursuant to Rule 28.05 of the Listing Rules and the Stock Exchange has approved the proposed amendments subject to the approval of the Independent Shareholders at the SGM.

As at the Latest Practicable Date, the Subscriber holds 74.42% of the issued share capital of the Company and hence a Controlling Shareholder and connected person of the Company under the Listing Rules. The 3rd Extension to be effected by the 3rd Deed of Amendment between the Company and the Subscriber constitutes a connected transaction of the Company under the Listing Rules, therefore, the 3rd Extension is subject to the requirements for reporting, announcement and Independent Shareholders' approval at the SGM by way of poll.

The executive Directors of the Company, Ms. Lo Fong Hung and Mr. Wang Xiangfei, both having a material interest in the transaction, have abstained from voting on the board resolution in relation to the 3rd Extension. Ms. Lo Fong Hung has material interest in the transaction by virtue of her 30% equity interest in New Bright International Development Limited, which in turn holds 70% equity interest in China Sonangol International Limited, which is a holding company of the Subscriber. Mr. Wang Xiangfei has material interest in the transaction by virtue of him being the spouse of Ms. Lo Fong Hung.

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 3rd Deed of Amendment and the 3rd Extension.

LETTER FROM THE BOARD

8. SGM AND PROXY ARRANGEMENT

A SGM will be held for the Independent Shareholders to consider and, if thought fit, approve among other things, the 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd Extension). The SGM will be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Tuesday, 7 March 2017 at 11:30 a.m. The notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular. The voting on such resolution will be conducted by way of poll in accordance with Rule 13.39(4) of the Listing Rules.

As at the Latest Practicable Date, since the Subscriber has a material interest in the transaction contemplated under the 3rd Deed of Amendment, the Subscriber and his associates, will abstain from voting on the resolution to approve the 3rd Deed of Amendment and the 3rd Extension.

An announcement on the results of the SGM will be made by the Company following the SGM in accordance with the Listing Rules.

A form of proxy for use at the SGM is enclosed with this circular and such form of proxy is also published on the website of the Stock Exchange (www.hkex.com.hk). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and return, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority at the office of the Company's branch share registrar and transfer office in Hong Kong, 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 and 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 delivery of the form of proxy will not preclude you from attending and voting at the SGM if you so wish.

9. RECOMMENDATION

The Directors (excluding three 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 3rd 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 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd Extension).

LETTER FROM THE BOARD

10. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 14 to 15 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 16 to 35 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.

By Order of the Board
Nan Nan Resources Enterprise Limited
Kwan Man Fai
Executive 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)

17 February 2017

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 2017**

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 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd 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 16 to 35 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 3rd 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 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd Extension) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend that you vote in favour of the ordinary resolution to be proposed at the SGM to approve and/or ratify the 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd Extension).

Yours faithfully,

For and on behalf of

Independent Board Committee

Lam Ka Wai, Graham

Wong Man Hin, Raymond

Chan Yiu Fai, Youdey

Independent Non-Executive Directors

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 Committees and the Independent Shareholders, in respect of the terms of the 3rd Deed of Amendment and the 3rd Extension of the maturity date of the Convertible Bond which have been prepared for the purpose of inclusion in this circular.



17 February 2017

*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 2017

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 3rd Extension is in the interests of the Company and the Shareholders as a whole and whether terms of the 3rd 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 17 February 2017 (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 25 January 2017, the Company and the Subscriber entered into the 3rd Deed of Amendment to further extend the maturity date of the Convertible Bond for 36 months to 13 March 2020, subject to the fulfillment of the conditions precedent under the 3rd Deed of Amendment. Save for the maturity date and the conversion period, all other terms and conditions of the Convertible Bond remain unchanged.

As at the Latest Practicable Date, the Subscriber holds 74.42% of the issued share capital of the Company and is therefore a Controlling Shareholder and connected person of the Company under the Listing Rules. The 3rd Extension to be effected by the 3rd Deed of Amendment between the Company and the Subscriber constitutes a connected transaction of the Company under the Listing Rules and therefore, the 3rd Extension is subject to the reporting, announcement and the Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The Subscriber and his

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

associates, will abstain from voting in respect of the relevant resolution(s) approving the 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd Extension) at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lam Ka Wai, Graham, Mr. Wong Man Hin, Raymond and Mr. Chan Yiu Fai, Youdey, has been established to advise the Independent Shareholders as to whether the 3rd Extension and the terms of the 3rd 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 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd 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 3rd Deed of Amendment pursuant to Rule 28.05 of the Listing Rules and the Stock Exchange has approved the proposed amendments subject to the approval of the Independent Shareholders at the SGM.

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 3rd Extension and the terms of the 3rd Deed of Amendment and the transactions contemplated thereunder.

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,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 3rd Extension and the terms of the 3rd 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 mining, sales and distribution of coal.

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.

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On 21 January 2014, the Company and the Subscriber entered into the 2nd 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. As at the Latest Practicable Date, the Convertible Bond with an aggregate amount of HK\$200,000,000 held by the Subscriber is still outstanding.

The following table summarises the financial information of the Group for the years ended 31 March 2015 and 2016 and the six months ended 30 September 2015 and 2016 as extracted from the annual report of the Company for the year ended 31 March 2016 (the “**2016 Annual Report**”) and the interim report of the Company for the six months ended 30 September 2016 (the “**2016 Interim Report**”) respectively.

	For the years ended		For the six months ended	
	31 March		30 September	
	2015	2016	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	124,463	59,841	15,729	25,772
Gross profit	55,166	24,532	3,919	8,506
Profit/ (loss) before tax	7,136	(73,540)	(21,719)	28,926
Profit/(loss) for the year/period	(5,519)	(79,608)	(23,166)	25,887
				As at
				As at 31 March
	2015	2016		30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
	(audited)	(audited)		(unaudited)
Non-current assets	89,618	62,770		56,660
Current assets	385,624	393,415		391,163
Current liabilities	61,077	373,935		341,484
Non-current liabilities	255,354	9,363		10,353
Net current assets	324,547	19,480		49,679
Net assets	158,811	72,887		95,986
Cash and cash equivalents	334,151	343,587		330,185

For the years ended 31 March 2015 and 2016

The revenue of the Group decreased from approximately HK\$124.5 million for the year ended 31 March 2015 to approximately HK\$59.8 million for the year ended 31 March 2016. As stated in the 2016 Annual Report, such decrease was mainly attributable to the decrease in sales volume as the market demand for coal had been persistently decreasing due to decrease in large scale industrial and infrastructure projects and 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 impacts

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on selling price of coals generally. Loss for the year ended 31 March 2016 increased to approximately HK\$79.6 million from approximately HK\$5.5 million for the year ended 31 March 2015. The increase in loss was mainly due to (i) the decrease in gross profit of approximately HK\$30.6 million; (ii) the increase in loss on change in fair value of the Convertible Bond of approximately HK\$34.5 million; and (iii) the impairment loss on intangible assets and property, plant and equipment of approximately HK\$12.0 million due to amount of impairment loss recognised in respect of the mining rights and the related fixed assets of the Kaiyuan Open Pit Coal Mine (the “**Kaiyuan Mine**”). The Group has recorded net current assets of approximately HK\$19.5 million and net assets of approximately HK\$72.9 million respectively as at 31 March 2016.

For the six months ended 30 September 2015 and 2016

The revenue of the Group increased from approximately HK\$15.7 million for the six months ended 30 September 2015 to approximately HK\$25.8 million for the six months ended 30 September 2016. According to the 2016 Interim Report, such increase in revenue was mainly attributable to the increase in sales of coal as a result of the increase demand for small-medium sized, middle and slack coals. For the six months ended 30 September 2016, the Group recorded profit of approximately HK\$25.9 million, representing an increase of approximately HK\$49.1 million as compared with the loss of approximately HK\$23.2 million for the six months ended 30 September 2015. Although there was an increase in the gross profit from operation due to the factors mentioned above, the increase in profit was mainly due to the change in fair value of the Convertible Bond of approximately HK\$34.2 million as compared with a loss of approximately HK\$18.8 million for the six months ended 30 September 2015. Further, the Group recorded net current assets of approximately HK\$49.7 million (with cash and cash equivalent of approximately HK\$330.2 million) and net assets of approximately HK\$96.0 million as at 30 September 2016

As disclosed in the 2016 Interim Report, the Group owns one mining right and one exploration right in Xinjiang, which are Kaiyuan Mine and Zexu Open Pit Coal Mine (the “**Zexu Mine**”) respectively. Pursuant to the instructions from the National Development and Reform Commission of the PRC, the Department of Land and Resources of Xinjiang Uygur Autonomous Region (the “**Xinjiang Land Department**”) had to plan for a management restructuring of seven different coal mines (including the Zexu Mine) in the Xiheishan Mining Area (the “**Optimization and Upgrading Plan**”), consolidating some smaller mines together so as to increase the size efficiency. 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 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, the Updated Optimization and Upgrading Plan included (i) restructure and upgrade the Kaiyuan Mine and terminate the exploration right in the Zexu Mine; and (ii) increase the mining area of the Kaiyuan Mine, where the Company is now conducting mining

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activities, from 1.1596 square kilometers to 4.12 square kilometers, with the estimated coal resources of approximately 131.18 million tonnes. As at the Latest Practicable Date, the Company has still not yet received any written notification from the relevant Xinjiang government department in respect of the approval of the Updated Optimization and Upgrading Plan. As set out in the Letter from the Board, in the event that the Updated Optimization and Upgrading Plan is approved, the Group could apply the retained funds to set up new production facilities and processing plants to meet the increase in the production capacity and capital expenditure. The Company will continue to identify any potential investments or opportunities, save as disclosed above, the Company does not have any concrete plans regarding any investments as at the Latest Practicable Date.

Prospects

As mentioned in the 2016 Interim Report, although the financial performance of the Group started to improve during the six months ended 30 September 2016 as compared to the corresponding period in 2015, the Board considers that the coal business is full of challenges. Regarding the mining business of the Group, the Company is still waiting for the written notification from the relevant Xinjiang government department in respect of the approval of the Updated Optimization and Upgrading Plan. In addition, it is noted that the Company has obtained a renewal exploration permit of Zexu Mine from 5 April 2016 to 5 April 2017, however, no development or production activity has been taking place in the Zeux Mine and the Board currently has no existing plan to apply for the mining permit of Zexu Mine. Nevertheless, as advised by the management of the Company, it is the intention of the Company to renew the exploration permit of Zexu Mine prior to the aforesaid expiry date despite the fact that no written notification regarding the approval of the Updated Optimization and Upgrading Plan has been received as at the Latest Practicable Date. The Company will continue to follow up the updated status of the approval process of the Updated Optimization and Upgrading Plan in order to protect the interests of the Company in Kaiyuan Mine and Zexu Mine.

2. Reasons for and benefits of the 3rd Extension

As stated in the Letter from the Board, the Convertible Bond will be due on 13 March 2017. According to the terms of the Convertible Bond, the Company shall redeem all outstanding Convertible Bond on the maturity date (i.e. 13 March 2017), which amounted to HK\$200,000,000 as at the Latest Practicable Date. By entering into of the 3rd Deed of Amendment, the 3rd Extension can relieve the imminent need of the Company to repay the Convertible Bond, which in turn, can enable the Company to retain the funds for potential investments or opportunities of the Group.

Financial position of the Group

We noted that the Group had cash and cash equivalents of (i) approximately HK\$330.2 million as at 30 September 2016 according to the 2016 Interim Report; and (ii) approximately HK\$334.2 million as at 31 December 2016 according to the latest management accounts of the Group, which shall be sufficient to fully repay the outstanding principal amount of the Convertible Bond (being HK\$200 million).

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However, we noted that full repayment of the Convertible Bond will substantially decrease the cash balance of the Group to approximately HK\$134.2 million (based on the latest cash and cash equivalent balance as at 31 December 2016), which may impose negative impact on the Group's liquidity. In view of the substantial decrease in the Group's liquidity, there is no certainty that adequate cash resources will be available to the Group to maintain its current business operation and development after redemption.

Potential investment and development plan

In addition, as mentioned in the section headed "Background information" above, the Updated Optimization and Upgrading Plan proposed by the People's Government of Mulei Kazak Autonomous Country to the Changji Administrative Bureau include (i) restructure and upgrade the Kaiyuan Mine and terminate the exploration right in the Zexu Mine; and (ii) increase the mining area of the Kaiyuan Mine, where the Company is now conducting mining activities. It is also stated that the production capacity of the Kaiyuan Mine will significantly increase after expansion. The Updated Optimization and Upgrading Plan is subject to further approval from the relevant Xinjiang government department. In the event that the Updated Optimization and Upgrading Plan materialized, subject to the approval from the relevant Xinjiang government department, the Group might have to set up new production facilities and processing plants to meet the increase in the production capacity and hence a timely considerable amount of capital expenditure would then be incurred. In this regard, we have discussed with the management of the Company and understand that, based on a preliminary estimation and assuming that the existing Updated Optimization and Upgrading Plan is implemented after approval has been obtained, the amount of capital expenditure to be incurred would be not less than approximately HK\$100 million (the "Preliminary Estimation"). The management of the Company further advised that a reasonable estimation in respect of the aforesaid capital expenditure could not be made given that (i) the Updated Optimization and Upgrading Plan has not been finalised as at the Latest Practicable Date and hence the structural upgrade work of Xinjiang Uygur Autonomous Region could be adjusted subject to further approval from the relevant Xinjiang government department; and (ii) in the event that the existing Updated Optimization and Upgrading Plan is approved, certain early stage of works are required to be carried out prior to setting up new production facilities and processing plants such as obtaining additional exploration permits and/or mining permits or conducting technical valuations in respect of the new coal mining area so as to estimate the expected coal resources.

In addition, as disclosed in the announcement of the Company dated 7 May 2009 in relation to the acquisition of 51% equity interest (and further acquired the remaining 49% equity interest in 2010) in a company with mining interests and conducting selling of coal in Xinjiang Province, the PRC in which the mining resources included the Kaiyuan Mine and the Zexu Mine, we noted that the estimated proved coal reserves of Kaiyuan Mine was approximately 17.63 million tonnes as of 29 March 2009. As advised by the management of the Company, we are given to understand that approximately HK\$33.1 million was incurred in respect of the capital expenditure relating to the establishment of the current production

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facilities and processing plants after the said acquisition. Based on the above and after taking into account the additional estimated coal resources of approximately 131.18 million tonnes for the mining area of Kaiyuan Mine under the Updated Optimization and Upgrading Plan, we are of the view that the Preliminary Estimation is fair and reasonable.

Should the Company repay the Convertible Bond in full, not only the Company would miss the financial capability to take advantage of such opportunity, but also the Group might not have sufficient cash resources due to the Preliminary Estimation for setting up new production facilities and processing plants upon implementation of the relevant project. Given the challenges faced by the Group's coal business and the funding needs of the Updated Optimization and Upgrading Plan as discussed above, we are of the view that the 3rd 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 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. In addition, due to the unsatisfactory financial performance of the Group as it has recorded continuous loss for the past four financial years from 2013 to 2016, it is unlikely for the Group to obtain additional bank borrowings at favorable terms. With regard to equity financing, in view of the unsatisfactory financial performance of the Group, 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 3rd Extension is the most appropriate means to refinance the Convertible Bond.

Having considered that the 3rd Extension would (i) 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) 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 challenges faced by the Group's coal business and the funding needs of the Updated Optimization and Upgrading Plan in respect of the estimated capital expenditure to be incurred upon implementation of the relevant project; (iv) the 3rd Extension is the most

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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 3rd Extension and the entering into of the 3rd Deed of Amendment is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Convertible Bond

On 25 January 2017, the Company and the Subscriber entered into the 3rd Deed of Amendment, pursuant to which the maturity date of the Convertible Bond will be extended for 36 months from the 2nd Extension and the conversion period will accordingly be extended for 36 months to 13 March 2020. Save for the maturity date and the conversion period, all terms of the Convertible Bond remain unchanged.

The 3rd 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 resolution to ratify and approve the 3rd Deed of Amendment and the 3rd Extension;
- (b) the Stock Exchange having approved the 3rd 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 3rd Extension having been obtained.

None of the above conditions precedent could be waived by the parties to the 3rd Deed of Amendment. The 3rd Deed of Amendment shall have no effect unless and until all the conditions precedents set out above are fulfilled. The effective date of the 3rd Deed of Amendment shall be on the date when all its conditions precedents are fulfilled.

As at the Latest Practicable Date, the Stock Exchange has approved the 3rd Extension pursuant to Rule 28.05 of the Listing Rules. Save as disclosed, none of the above conditions have 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 2nd Deed of Amendment and the 3rd 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.

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- 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 144 months from the date of issue of the Convertible Bond certificate, unless previously converted, i.e. 13 March 2020.
- 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 and, in summary, an adjustment may be made in the event of:
- (i) any consolidation or sub-division of the Shares;
 - (ii) any issue of Shares (other than in lieu of a cash dividend) by way of capitalization of profits or reserves;
 - (iii) any capital distribution to holders of the Shares or grant to such holders rights to acquire assets of the Group for cash;
 - (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;
 - (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;

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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; 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.

- 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.
- 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.
- Public float requirement : 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.
- 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.

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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 aggregate of 1,000,000,000 Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Bond in full, which was granted on 11 March 2008.

(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 2016 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 trading volume (Shares)	Discount of the conversion price to the average closing price per share
2016			
January	0.568	192,800	64.79%
February	0.526	314,776	61.98%
March	0.665	145,905	69.92%
April	0.630	480,950	68.25%
May	0.686	153,000	70.85%
June	0.669	66,286	70.10%
July	0.603	66,450	66.83%
August	0.577	32,818	65.34%
September	0.584	561,905	65.75%
October	0.561	584,105	64.35%
November	0.513	260,091	61.01%
December	0.462	123,160	56.71%

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	Average closing price per share (HK\$)	Average trading volume (Shares)	Discount of the conversion price to the average closing price per share
2017			
January	0.485	230,000	58.76%
February (up to and including the Latest Practicable Date)	0.522	328,182	61.69%
Average	0.575	252,888	64.74%

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\$0.462 to HK\$0.686 during the Review Period. As such, the Conversion price of HK\$0.20 per Conversion Share represents a discount of approximately 56.71% to the lowest average monthly closing price of HK\$0.462 and a discount of approximately 70.85% to the highest average monthly closing price of HK\$0.686. The Conversion Price was lower than the average closing price of the Shares during the entire Review Period.

Furthermore, we noted that the average trading volume of the Shares ranged from approximately 32,818 Shares to 584,105 Shares during the Review Period, representing approximately 0.004% to 0.08% 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 impacts 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 25 January 2017, being the date of the 3rd Deed of Amendment (the “**Comparable Period**”) and identified an exhaustive and complete list of 30 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

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bonds/notes for fund raising purposes 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/ date of agreement <i>(Approximate %)</i>	Interest rate <i>(% p.a.)</i>	Term to maturity <i>(Number of years)</i>	Remarks
1	China Household Holdings Limited	0692	24-Jan-2017	(17.40)	2.00	2.00	
2	Daisho Microline Holdings Limited	0567	24-Jan-2017	(43.97)	8.00	3.00	
3	LT Commercial Real Estate Limited	0112	22-Jan-2017	0.52	8.00	3.00	
4	Ping An Securities Group (Holdings) Limited	0231	20-Jan-2017	5.49	5.00	2.00	<i>Note 1</i>
5	China U-Ton Holdings Limited	6168	18-Jan-2017	16.30	8.00	2.00	<i>Note 1</i>
6	Tesson Holdings Limited	1201	17-Jan-2017	45.45	3.00	19.50	<i>Note 2</i>
7	China Huarong Energy Company Limited	1101	16-Jan-2017	16.28	7.00	2.00	
8	Standard Chartered PLC	2888	12-Jan-2017	(9.89)	7.75	perpetual	<i>Note 3</i>
9	Automated Systems Holdings Limited	0771	12-Jan-2017	(36.84)	0.00	3.00	
10	Ernest Borel Holdings Limited	1856	5-Jan-2017	13.64	10.00	2.00	
11	China Trends Holdings Limited	8171	30-Dec-2016	117.65	1.00	3.00	
12	Dingyi Group Investment Limited	0508	23-Dec-2016	14.86	7.00	3.00	
13	Silverman Holdings Limited	1616	22-Dec-2016	4.31	5.00	2.00	
14	Sino Energy International Holdings Group Limited	1096	16-Dec-2016	(3.03)	7.50	1.83	<i>Note 4</i>

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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/ date of agreement <i>(Approximate %)</i>	Interest rate <i>(% p.a.)</i>	Term to maturity <i>(Number of years)</i>	Remarks
15	Blue Sky Power Holdings Limited	6828	16-Dec-2016	8.06	4.80	3.00	
16	China Public Procurement Limited	1094	16-Dec-2016	4.45	7.00	2.00	
17	Pa Shun Pharmaceutical International Holdings Limited	0574	15-Dec-2016	17.65 135.29	4.00 4.00	2.00 2.00	<i>Note 5</i> <i>Note 5</i>
18	Longrun Tea Group Company Limited	2898	11-Dec-2016	(12.90)	5.50	2.00	
19	North Mining Shares Company Limited	0433	8-Dec-2016	(15.25)	10.00	2.00	
20	China Railway Construction Corporation Limited	1186	8-Dec-2016	25.00	1.50	5.00	
21	China Ocean Industry Group Limited	0651	6-Dec-2016	0.00	2.00	2.00	<i>Note 6</i>
22	Viva China Holdings Limited	8032	5-Dec-2016	20.00	5.00	5.00	
23	C&D International Investment Group Limited	1908	4-Dec-2016	(7.07)	4.00	perpetual	
24	Beijing Capital Juda Limited	1329	25-Nov-2016	(23.91)	0.01	perpetual	
25	Lamtex Holdings Limited	1041	21-Nov-2016	0.00	2.00	2.00	
26	The United Laboratories International Holdings Limited	3933	21-Nov-2016	15.00	4.50	5.00	<i>Note 7</i>
27	Asia Allied Infrastructure Holdings Limited	0711	20-Nov-2016	1.41	10.00	1.00	
28	LVGEM (China) Real Estate Investment Company Limited	0095	6-Nov-2016	13.10	5.50	2.00	
29	AVIC Joy Holdings (HK) Limited	0260	3-Nov-2016	2.90	4.00	2.00	
30	Kiu Hung International Holdings Limited	0381	28-Oct-2016	(13.39)	8.00	2.00	
			Min	(43.97)	0.00	1.00	
			Max	135.29	10.00	perpetual	
			Mean	9.35	5.19	3.11	<i>Note 8</i>
			The Company	(63.64)	0.00	3.00	

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The convertible bond was issued with a term to maturity of two years and three years respectively. It was treated as two transactions for the purpose of the comparable analysis.
2. The term to maturity of 19.50 years is estimated based on the maturity date of 30 June 2036.
3. The conversion price discount is calculated based on the conversion price of USD 7.732 (equivalent to HK\$59.923 based on exchange rate of HKD:USD 7.75) and closing price of HK\$66.5 as at 12 Jan 2017.
4. The term to maturity of 1.83 years is estimated based on the maturity of 22 months.
5. Two series of convertible bonds were issued with the conversion price of HK\$0.6 and HK\$1.2 per conversion share respectively. It was treated as two transactions for the purpose of comparable analysis.
6. The conversion price was set as 100% of the volume weighted average price of the shares as traded on the Stock Exchange on the trading day immediately preceding the date of delivery of the relevant conversion notice by the noteholders to the company, but not be lower than minimum conversion price, which is subject to adjustments.
7. The conversion price is subject to reset mechanism as mentioned in the announcement dated 21 November 2016. Conversion price was reset on 13 December 2016.
8. "Perpetual" items in the table have not been taken into consideration in calculating the average.

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 43.97% to a premium of approximately 135.29%, where the Conversion Price represents a discount of approximately 63.64% to the closing price of the Shares on the date of 3rd Deed of Amendment. Although the discount rate of the Conversion Price to the closing price of Shares on the date of 3rd Deed of Amendment is out of the lower bound of that of Comparables, we are of the view that, after taking into account (i) the 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 as described above; (ii) the generally low liquidity of the Shares during the Review Period in which the Subscriber might not be able to realize his shareholdings in the market after the conversion of the Convertible Bond; (iii) it is difficult for the Company to conduct other fund arising activities given the unsatisfactory financial performance of the Group during the past few financial years (please refer to the paragraph headed "Other financing alternatives" under the section headed "Reasons for the benefits of the 3rd Extension" above for detail analysis); (iv) the business prospects of the Company remain uncertain regarding the Updated Optimization and Upgrading Plan of the two coal mines of the Company; and (v) the Convertible Bond has zero coupon payable by the Company to the Subscriber for a period of three years, which is a loan much preferable than the market rate for commercial loans offered by financial institutions in Hong Kong, we consider that the Conversion Price is still acceptable so far as the Independent Shareholders are concerned.

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For the avoidance of doubt, the adjustment events in respect of the Convertible Bond are not being amended by the 3rd Deed of Amendment and no adjustment has been taken place since the 2nd Extension.

(ii) Interest rate

As shown in Table 1 above, the interest rates of the Comparables range from nil to 10.00%, with an average of approximately 5.19%. The Convertible Bond is non-interest bearing and at the bottom of the range of interest rates of the Comparables.

(iii) Term to maturity

The terms to maturity of the Comparables range from a minimum of 1.0 year and up to perpetual term, with an average term of approximately 3.11 years. The 3rd Extension pursuant to the 3rd 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 3rd Extension as described above, we are of the view that the principal terms of the 3rd 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 3rd Deed of Amendment

When assessing the financial impacts of entering into of the 3rd Deed of Amendment, we have taken into account the following four main aspects:

Net asset value

According to the 2016 Interim Report, the net assets of the Group was approximately HK\$96.0 million as at 30 September 2016. Upon the completion of the 3rd 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 2016 Interim Report, the net current assets and the cash and cash equivalents of the Group as at 30 September 2016 were approximately HK\$49.7 million and HK\$330.2 million respectively. In addition, according to the latest management accounts of the Group, the cash and cash equivalents of the Group as at

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

31 December 2016 was approximately HK\$334.2 million. If the 3rd 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 substantially decrease the cash balance to approximately HK\$134.2 million (based on the latest cash and cash equivalent balance as at 31 December 2016) and reduce the liquidity of the Group. As such, the entering into of the 3rd Deed of Amendment is expected to maintain the liquidity and working capital of the Group and have positive impacts on the current ratio of the Group.

Earning

Upon the 3rd 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 3rd 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 3rd Extension will not have any immediate material changes to the gearing position of the Group and the gearing position would improve upon the exercise of the conversion rights attaching to the Convertible Bond. It should be noted that, however, the full repayment of the Convertible Bond would also 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 3rd Extension will not have any immediate material changes to the gearing position of the Group, after taking into consideration of the liquidity position and the expected positive impacts on the current ratio of the Group as discussed above, we are of the view that the 3rd Extension and the entering into of the 3rd 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 3rd Deed of Amendment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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
Convertible Bond	—	—	1,000,000,000	56.65
Sub-total	569,616,589	74.42	1,569,616,589	88.91
Existing public Shareholders	195,756,995	25.58	195,756,995	11.09
Total	765,373,584	100.00	1,765,373,584	100.00

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 be 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 impacts on the funding ability and credibility of the Group.

RECOMMENDATION

Having considered the principal factors and reasons described above, we are of the opinion that the terms of the 3rd Deed of Amendment and the 3rd 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 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd Extension).

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Gary Mui
Chief Executive Officer

Mr. Gary Mui 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). He has over 18 years of experience in the finance and investment banking industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company 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 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 or chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have 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 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	Nature of Interest	Number of Shares interested	Approximate percentage of the issued share capital of the associated corporation
Ms. Lo Fong Hung	1, 3	New Bright International Development Limited	Interests of controlled corporation	3,000 (L)	30%
Mr. Wang Xiangfei	2	New Bright International Development Limited	Interests of controlled corporation	3,000 (L)	30%

(L) denotes as long position

Notes:

1. Ms. Lo Fong Hung (“**Ms. Lo**”), an executive Director of the Company, is interested in 3,000 shares in New Bright International Development Limited (“**New Bright**”), representing 30% of the issued share capital of New Bright, which currently owns 70% shareholding interests in China Sonangol International Limited (“**China Sonangol**”). China Sonangol is the holding company of Ascent Goal Investments Limited (“**Ascent Goal**”), the Controlling Shareholder of the Company.
2. Mr. Wang Xiangfei is the husband of Ms. Lo and is deemed to be interested in 3,000 shares of New Bright under the SFO.
3. Ms. Lo owns 30% of the issued share capital of New Bright which in turn is interested in 70% of China Sonangol. China Sonangol is the holding company of Ascent Goal. Thus, Ms. Lo has an attributable interest in 569,616,589 Shares and a HK\$200,000,000 convertible bond giving rise to an interest in 1,000,000,000 underlying shares of the Company.

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) Substantial Shareholders’ interests

So far as is known to any Director or the chief executives of the Company, as at the Latest Practicable Date, Shareholders who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the

Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Long positions in shares or underlying shares of the Company

Name of Shareholder	Notes	Nature of Interest	Number of shares held	Number of underlying shares held	Total number of shares and underlying shares held	Approximate percentage of the issued share capital of the associated corporation (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%
Africa Israel Investments Ltd.	5	Beneficial owner	45,000,000	–	45,000,000	5.88%
Mr. Lev Leviev	5	Beneficial owner	1,000,000	–	1,000,000	0.13%
	5	Interests of controlled corporation	74,000,000	–	74,000,000	9.67%

Notes:

- Ascent Goal was directly interested in 569,616,589 Shares and a further 1,000,000,000 underlying shares which may be fully allotted and issued if the Convertible Bond are converted at the conversion price of HK\$0.20 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 74.42% and 130.66% of the existing issued share capital of the Company respectively, thus the total of 569,616,589 Shares and 1,000,000,000 underlying Shares represent 205.08% of the existing issued share capital of the Company. The conversion rights attaching to the Convertible Bond will not be exercised and the Company will not issue the conversion shares if, immediately following the conversion, the Company would be unable to meet the public float requirement under the Listing Rules.
5. For the Shares held by Mr. Lev Leviev, of these Shares, 45,000,000 Shares were held by Africa Israel Investments Ltd., a company controlled by Mr. Lev Leviev through his 74.89% interests in Africa Israel Investments Ltd.; 29,000,000 Shares were held by Memorand Management (1998) Ltd., a company controlled by Mr. Lev Leviev through his 99% interests in Memorand Ltd.; and 1,000,000 Shares were held by Mr. Lev Leviev directly.
6. The approximate percentage of shareholdings is based on 765,373,584 Shares as at 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 Ms. Lo Fong Hung and Mr. Wang Xiangfei, who are the executive Directors of the Company and the directors of the Subscriber, China Sonangol and New Bright respectively, as at the Latest Practicable Date, none of the Directors is 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 at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2016, 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, none of the Directors nor their respective associates is interested in any business which competes or is likely to compete, either directly or indirectly with the Group's business.

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 2016, 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 any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation.)

7. LITIGATION

As at the Latest Practicable Date, as far as the Directors are aware, none of the members of the Group is 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

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 in the form and context in which it appears.

The following are the qualifications of the experts who have given opinions or advice which are contained or referred to in this circular:

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

9. EXPERTS' INTERESTS

As at the Latest Practicable Date, Lego Corporate Finance 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 2016, 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. MISCELLANEOUS

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda. 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.
- (b) The Company's branch share registrar and transfer office 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.
- (c) The English text of this circular, the accompanying form of proxy and the notice of SGM shall prevail over the Chinese text 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 annual reports of the Company for the two financial years ended 31 March 2015 and 2016;
- (c) the interim report of the Company for the six months ended 30 September 2016;
- (d) the letter from the Board, the text of which is set out on pages 5 to 13 of this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 14 to 15 of this circular;

- (f) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 35 of this circular;
- (g) the written consent of Lego Corporate Finance;
- (h) the Subscription Agreement dated 15 January 2008 and the terms and conditions of the Convertible Bond;
- (i) the Deed of Amendment dated 11 February 2011;
- (j) the 2nd Deed of Amendment dated 21 January 2014 (as amended and supplemented by the Supplemental Deed dated 28 January 2014);
- (k) the 3rd Deed of Amendment dated 25 January 2017; and
- (l) 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 Tuesday, 7 March 2017 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 17 February 2017 (the “**Circular**”).

ORDINARY RESOLUTION

“THAT:

the entry into of the 3rd 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 3rd Extension) and the execution of the 3rd 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 3rd Deed of Amendment and the transactions contemplated thereunder (including the 3rd Extension) or otherwise in relation to the 3rd Deed of Amendment and the matters and the transactions contemplated thereunder (including the 3rd Extension).”

By Order of the Board
Nan Nan Resources Enterprise Limited
Kwan Man Fai
Executive Director

Hong Kong, 17 February 2017

NOTICE OF SGM

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy or, if a member is a holder of more than one share, proxies to attend and vote instead of him/her. 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 was 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 thereof, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, 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 holding of the meeting or adjourned meeting.
4. Completion and return of the form of proxy will not preclude a member from attending and voting at the meeting (or any adjournment thereof) if he/she/it so wish and in such event, his/her/its form of proxy will be deemed to have been revoked.
5. The ordinary resolution as set out above will be voted by way of poll.
6. If a tropical cyclone warning signal no. 8 or above, or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at 9:00 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 and on the HKExnews website at www.hkexnews.hk to notify the members of the Company of the date, time and place of the adjourned meeting thereof.

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